

# **THE LAW OF THE REPUBLIC OF AZERBAIJAN ON THE NATIONAL BANK OF THE REPUBLIC OF AZERBAIJAN**

**(Amendments dated April 17, 2007; October 9, 2007; November 6, 2007)**

This law determines the legal status of the National Bank of Azerbaijan Republic, its purposes, functions, responsibilities, including administration and organizational structure, and regulates the relations between the Central Bank, other state authorities, and other legal entities.

## **Chapter I. General Provisions**

### **Article 1. The National Bank of the Republic of Azerbaijan**

1.1. The National Bank of the Republic of Azerbaijan (hereinafter referred to as the “National Bank”) is the Central Bank of the Republic of Azerbaijan.

1.2. In accordance with Article 19, paragraph 2 of the Constitution of the Republic of Azerbaijan, the National Bank shall be in exclusive ownership of the state.

1.3. The objectives, functions, and powers of the National Bank shall be determined by the Constitution of the Republic of Azerbaijan and this Law. The National Bank shall, in the course of its activities, be governed by other legislation acts of the Republic of Azerbaijan and international treaties to which the Republic of Azerbaijan is a party.

1.4. The central body of the National Bank shall be located in the city of Baku.

### **Article 2. Legal Status of the National Bank**

2.1. The National Bank is an official state entity and has a seal with the national emblem of the Republic of Azerbaijan and its name.

2.2. The National Bank shall have an independent balance sheet, authorized capital, and other property as defined by legislation. The National Bank shall, in accordance with the laws on real estate, regulate the ownership, use, and disposal of the property on its books. It is not permitted to alienate the capital and the property of the National Bank without its consent unless exclusively stated exemptions listed on this law exist.

### **Article 3. National Bank Territorial Branches**

The National Bank may open its territorial branches within the Republic of Azerbaijan.

### **Article 4. Goals of the National Bank's Activities**

4.1. The principal goal of the National Bank's activities is to ensure stability of the national currency.

4.2. The purpose of the National Bank's activities shall also be to ensure the development and strengthening of the banking and payment systems.

4.3. Profit making shall not be the main goal of the National Bank.

## **Article 5. Functions of the National Bank**

5.0. In order to achieve its goals, the National Bank shall:

5.0.1. Determine and implement state monetary policy;

5.0.2. Regulate cash circulation, in accordance with Article 19, paragraph 2 of the Constitution and this Law, and issue banknotes, and put them into and remove them from circulation;

5.0.3. Determine and announce the official exchange rate of the manat;

5.0.4. Implement foreign currency regulation and control;

5.0.5. Maintain and manage the gold and foreign currency reserves at its disposal;

5.0.6. Manage the drafting of the report on balance of payments and participate in the reporting of the country's projected balance of payments;

5.0.7. License, regulate, and supervise banking activities of banks in accordance with the Republic of Azerbaijan Law on Banks, this Law, and any other legal regulatory acts (regulations) adopted pursuant thereto;

5.0.8. Determine, coordinate and regulate activities of payment systems and execute these systems in accordance with the law;

5.0.9. Implement other functions stipulated by this Law and any other relevant legislation.

## **Article 6. Independence of the National Bank**

The National Bank shall be independent in discharging its responsibilities and exercising its powers prescribed by the Constitution and laws of the Republic of Azerbaijan, and no state authority or self-administration body, individual, or legal entity may directly or indirectly, for any reason, violate, illegally influence, or interfere with its activities.

## **Article 7. Reporting of the National Bank**

7.1. The National Bank shall report solely to the President of the Republic of Azerbaijan for its operations.

7.2. The reporting of the National Bank of Azerbaijan to the President of the Azerbaijan Republic shall consist of the following:

7.2.1. In accordance with Article 109, paragraph 9 of the Constitution of the Republic of Azerbaijan, on the appointment or dismissal of members of the National Bank Administrative Executive Board;

7.2.2. In accordance with Article 109, paragraphs 9 and 32 of the Constitution of the Republic of Azerbaijan, on the appointment and dismissal of the National Bank Administrative Executive Board Chairman and his deputies;

7.2.3. In accordance with paragraph 58 of this Law, on the appointment of an auditor to audit the National Bank activities and, if necessary, to conduct external audits;

7.2.4. Reporting by the Chairman of the Executive Board of the National Bank to the President of the Republic of Azerbaijan twice a year on the implementation of major objectives and functions of the National Bank, on the state of the banking system, and submission of a report to the President on the final annual financial statement confirmed by auditor's opinion and operational budget.

7.3. The Chairman of the Executive Board of the National Bank must report before the National Parliament of the Republic of Azerbaijan on the state monetary policy for the upcoming year.

## **Article 8. The National Bank's Legal Regulatory Acts**

8.1. The National Bank shall independently develop and issue legal regulatory acts within its official authority; these acts shall be binding on all banks, non-banking credit institutions, and other persons.

8.2. Legal regulatory acts of the National Bank shall be subject to state regulation in the manner specified by legislation.

8.3. Regulations relating to the National Bank's authorities and responsibilities, specified in this Law, as well as financial, prudential and statistical reporting formats established by the National Bank shall not be subject to state registration.

## **Article 9. International Cooperation**

9.1. Pursuant to laws of the Republic of Azerbaijan and the international treaties adopted by the Republic of Azerbaijan, the National Bank shall represent the Republic of Azerbaijan in relations with the central banks of foreign states, as well as international financial and credit institutions in matters relating to the National Bank's responsibilities.

9.2. The National Bank may conclude agreements on cooperation with the central banks of foreign countries concerning various areas of its activities. It may also conclude clearing and settlement agreements and other agreements with foreign public and private clearing (processing) agencies, on its own behalf and on behalf of the Republic of Azerbaijan, if appropriately authorized.

9.3. The National Bank may participate in the capital and activity of international and regional organizations for the purpose of cooperation in monetary, foreign exchange, and banking areas.

## **Chapter II. Capital of the National Bank**

### **Article 10. Capital of the National Bank**

10.1. The National Bank's capital consists of its authorized capital and reserves.

10.2. The authorized capital of the National Bank is 50 billion manats.

10.3. The National Bank's capital reserves make up 15 percent of the national currency in cash put into circulation by the National Bank, and these reserves are formed by allocations from the reporting year profit.

### **Article 11. Profit of the National Bank**

11.1. The National Bank's profits shall be calculated by deducting expenditures from revenues in compliance with the International Financial Regulation Standards.

11.2. Profit of the National Bank shall, in accordance with this Law, be formed from the income gained from its activity and from other resources obtained from other sources not prohibited by law.

### **Article 12. Distribution of the National Bank's Profit**

12.1. Reporting year profit shall, at first turn, in accordance with the norm specified in Article 10.3 of this Law, be used to form capital reserves of the National Bank.

12.2. Excess of the real profit of the National Bank after the reserves are formed shall be transferred to the state budget.

12.3. The transfer of the excess of the real profit of National Bank to reduce the state budget shall be carried out after being confirmed by the auditor's opinion.

### **Article 13. Revaluation of Assets and Liabilities Held in Foreign Exchange and Gold**

The difference resulting from the revaluation of assets and liabilities that are held in gold and foreign exchange because of changes in the rate of the manat and the value of gold is

reflected in the capital reserves balance of the National Bank and shall not be taken into consideration in calculation of the norm specified in Article 10.3.

#### **Article 14. Financial Stability of the National Bank**

14.1. The National Bank may not declare bankruptcy.

14.2. If the National Bank's assets fall below the level of its liabilities, the resultant capital deficit shall be covered by the state.

### **Chapter III. Relations of the National Bank with Government Authorities**

#### **Article 15. Basis of the National Bank's Relations with the Government**

15.1. The National Bank and the state shall not be responsible for each other's liabilities, unless they elect to assume such responsibility, with the exception of the case explained in Article 14 herein.

15.2. The National Bank shall be the Azerbaijan government's bank. The National Bank can act as a financial agent of Azerbaijan.

15.3. The National Bank shall, within its powers, support the government's economic policy that corresponds to its objectives determined by this law.

#### **Article 16. National Bank's Loans to the State**

16.1. The National Bank shall not loan to the state directly for the purposes of funding the state budget deficit.

16.2. In the event of a short-term liquidity gap in the state budget, the National Bank may extend a 6-month loan to the government under an agreement with the appropriate executive power against collateral of interest-bearing government securities and on condition of repayment by the state budget for the current year. The total amount of the loans issued and of their unpaid part cannot be higher than 3 percent of state budget average revenues for the past three years.

16.3. The purchase of securities issued by the Azerbaijan government by the National Bank is considered as an issue of credits to the state. Such transactions can be made in the secondary market only and conditions of Article 16.2 of this law shall be applicable to them.

16.4. In cases relating to the implementation of monetary policy, the provisions of Article 16.2 of this Law shall not apply, provided that government securities trading activities are carried out in the secondary market.

#### **Article 17. The National Bank as the Government's Bank**

17.1. The National Bank may service the state treasury accounts under an agreement with the appropriate executive power.

17.2. When it is required to implement monetary policy, the National Bank may get time deposits from the state on conditions agreed upon with the relevant executive power.

17.3. The National Bank can serve the bank accounts of Azerbaijan Republic government bodies, state agencies, as well as non-budgetary state agencies.

#### **Article 18. The National Bank as the Government's Consultant**

18.1. The appropriate executive authorities of the Azerbaijan Republic shall consult with the National Bank on their budget-tax and price-tariff setting measures, as well as on issues concerning the amounts and administration of the domestic and foreign debts of the state.

18.2. The National Bank shall comment on draft regulations by the Parliament, President and Cabinet of Ministers of the Republic of Azerbaijan concerning finance and banking.

#### **Article 19. The National Bank as a Financial Agent of the State**

The National Bank can carry out the financial agent functions of the state as agreed upon with the relevant executive power. As a financial agent the National Bank can serve the state debt and carry out other operations with them by locating state debt securities and paying rates for them.

### **Chapter IV. Organizational Structure of the National Bank and Its Management**

#### **Article 20. Organizational Structure of the National Bank**

20.1. The organizational structure of the National Bank shall consist of the Executive Board, the central apparatus, its territorial divisions and representative offices. The central office of the National Bank consists of the structural divisions determined by the Executive Board as well as the Internal Audit Department.

20.2. Divisions and sub-divisions within the National Bank's central office shall operate in conformity with relevant regulations approved by the Executive Board.

#### **Article 21. Executive Board of the National Bank**

21.1. The National Bank shall be managed by its Executive Board. The Executive Board shall consist of 7 members. The Executive Board shall be comprised of the Chairman of the National Bank Executive Board and 4 internal and 2 external members.

21.2. Citizens of the Republic of Azerbaijan who attain higher economic and legal education, as well as professional experience in economics, law and finance or banking, and have not

been convicted, especially for any criminal offenses, including murder charges, shall be eligible for membership on the Executive Board.

21.3. Members of the Parliament of the Republic of Azerbaijan, members of the Parliament of the Nakhichevan Autonomous Republic, members of the Cabinet of Ministers of the Republic of Azerbaijan and the Cabinets of Ministers of the Nakhichevan Autonomous Republic, as well as elected members of municipal bodies, as well as persons employed at the state executive authorities or municipalities shall not be eligible for membership on the National Bank Executive Board.

21.4. Members of the National Bank Executive Board shall be appointed and dismissed in accordance with Article 109, paragraph 10, Article 95, paragraph 1, clause 15 and paragraph 2 of the Constitution of the Republic of Azerbaijan.

21.5. Members of the National Bank Executive Board shall be appointed for 5-year terms.

21.6. The Chairman of the National Bank Executive Board shall be appointed in accordance with Article 109, paragraph 32 of the Constitution of the Republic of Azerbaijan, to be selected from among the Executive Board members for a period equal to the member's term of office.

21.7. The First Deputy Chairman of the National Bank Executive Board and other deputies shall be appointed in accordance with the with Article 109, paragraph 32 of the Constitution of the Republic of Azerbaijan, to be selected from among the Executive Board members for periods equal to the respective terms of office of these members.

21.8. During the period of employment with the National Bank, members of the National Bank Executive Board may not be engaged in any other remunerated activity, including entrepreneurial activity, except for scientific, pedagogical and innovative studies. Except for the cases stipulated by the laws, members of the National Bank Executive Board working full time at the National Bank may not hold management positions with the private corporate bodies of legal entities.

21.9. Members of the National Bank Executive Board as well as their family members (including spouse, parents, in-laws, grandparents, children, adopted children, brothers, and sisters) may not hold qualifying holding positions in institutions over which the National Bank has oversight.

21.10. Board members may not be members of political parties or hold positions in public organizations.

21.11. Rescinded.

21.12. Rescinded.

## **Article 22. Powers (or Functions) of the Executive Board of the National Bank**

22.0. The Executive Board of the National Bank shall:

22.0.1. Determine and approve the monetary policy for each year;

22.0.2. Decide on instruments of monetary policy, including setting the discount rate, interest rates on its own operations, and terms of open market transactions;

22.0.3. Decide on introducing new design banknotes into circulation and withdrawing older design banknotes;

22.0.4. Approve the currency regulation and control policy, as well as the procedures for setting the exchange rate of the manat against other currencies;

22.0.5. Approve and modify the National Bank's budget;

22.0.6. Set procedures for establishing and utilizing the National Bank's capital reserves;

22.0.7. Approve the National Bank's annual financial report;

22.0.8. Determine the rules of holding and strategy for managing international gold and currency reserves;

22.0.9. Make decisions on granting or rescinding licenses to credit institutions' banking operations;

22.0.10. Set economic (prudential) standards (ratios) for credit institutions;

22.0.11. Decide on the appointment of temporary administrator rights for credit institutions, and termination of their administrative activities;

22.0.12. Determine limits of external capital contribution to the Republic of Azerbaijan banking system;

22.0.13. Determine the National Bank's organizational structure and internal management procedures;

22.0.14. Approve the recruitment and evaluation of personnel policy for the National Bank and determine the positions under the jurisdiction of the Executive Board of the National Bank, and relevant appointments to, and dismissals from such positions;

22.0.15. Consent to the appointment to and dismissal from the office of the Director of the National Bank's Division in the Nakhichevan Autonomous Republic by the Chairman of the Parliament of the Nakhichevan Autonomous Republic;



22.0.16. Determine the forms and amounts of remuneration by taking into account comparable remunerations in the banking system of the Republic of Azerbaijan;

22.0.17. Approve the National Bank's legal regulatory acts;

22.0.18. Resolve any other issues arise from the authority of the National Bank Executive Board.

### **Article 23. Executive Board Meetings**

23.1. Board meetings shall be held not less than once a month.

23.2. Board meetings shall be chaired by the Chairman of the National Bank or a member of the Executive Board who is authorized to replace him in his absence.

23.3. The Chairman of the National Bank shall convene the Executive Board meetings. Meetings may be convened at request of at least two other members of the Executive Board.

23.4. Board members shall be notified of a Board meeting at least three days in advance, and the notice shall inform them of the venue, time and agenda of the meeting.

23.5. A Board meeting shall be deemed valid if more than half of the members are present, one of whom must be the Chairman or his assigned designee.

23.6. When an issue is included on the agenda of the session that meets the interests of a particular member, that member must provide detailed information on his interests in the issue, but must not participate in its discussion. That member shall abstain from voting, and his presence shall not be counted towards a quorum.

23.7. Decisions of The Executive Board shall be adopted by a simple voting majority of the Executive Board members. In the event of a tie in voting, the chairman of the meeting shall have the final decision authority on that issue.

23.8. National Bank Executive Board meetings shall have minutes take. These minutes shall be signed by the chairman of the meeting and the secretary of the Executive Board.

23.9. The secretary of the Executive Board shall be appointed by the Chairman of the National Bank Executive Board from among officers that are not Executive Board members.

### **Article 24. Chairman of the National Bank Executive Board**

24.1. The Chairman of the National Bank Board shall organize the work of the Executive Board and at the same time head the executive structure of the National Bank.

24.2. The Chairman of the National Bank Executive Board shall have the following authority:

- 24.2.1. Without a need for power of attorney, represent the National Bank of the Republic of Azerbaijan abroad as specified by the legislation;
- 24.2.2. Signature authority for legal regulatory acts approved by the Executive Board;
- 24.2.3. Issue decrees and directives binding on all employees of the National Bank;
- 24.2.4. Appoint and dismiss persons that are not part of the Executive Board;
- 24.2.5. Assign duties among the Deputy Chairmen and other executive officers of the National Bank;
- 24.2.6. Address any other issues relating to the National Bank's activities that do not fall under the Executive Board's jurisdiction.
- 24.2.7. Carry out other authorized actions specified in this Law.

24.3. In the absence of the Chairman of the National Bank, his powers shall be delegated to his first deputy. In the absence of the first deputy, these powers shall be delegated to another deputy or member of the Executive Board as per the procedures set by the Chairman of the National Bank.

## **Article 25. Early Termination of Executive Board Membership**

25.1. The Chairman and other members of the National Bank Executive Board may be released from the office prior to the expiration of their respective terms of office as specified by Article 109, paragraph 10 of the Constitution of the Republic of Azerbaijan in the following cases:

- 25.1.1. If a resignation letter has been submitted to the President of the Republic of Azerbaijan;
- 25.1.2. Failure to fulfill his/her responsibilities within a period of over 6 months due to an illness, provided there is a petition to the President of the Republic of Azerbaijan by the National Bank Executive Board;
- 25.1.3. When considered unable or unwilling to work with the decision of the court;
- 25.1.4. If an effective court ruling has been adopted that recognizes the person concerned guilty of felony;
- 25.1.5. Requirements and limitations as imposed under Article 21 of this Law have been defaulted.

25.2. A board member who disagrees with the Executive Board's decision on early termination from office can appeal to the court as specified by the laws.

#### **Article 26. Resignation of Executive Board Members**

26.1. Decisions to accept or reject the resignation of the Chairman of the National Bank Executive Board and/or any of its other members shall be taken within 2 months from the date a relevant application was filed. If no decision is made within this period, the person requesting resignation shall be deemed to have resigned after 3 months from the date the application was filed.

26.2. If a decision is made to reject a resignation request of the Chairman of the National Bank Executive Board and/or any of its other members, the person who filed this application shall be deemed to have resigned after 1 month from the date of the decision to reject his original resignation letter, provided that this person filed another resignation letter within 2 weeks from the date of the rejection decision.

#### **Article 27. Internal Audit**

27.1. The Internal Audit Division of the National Bank carries out the following:

27.1.1. Assesses the control mechanisms and adequate procedures for the management of risks in the National Bank and monitors their implementation;

27.1.2. For the purpose of carrying out the existing legislation, audits the structural divisions of the National Bank.

27.1.3. Provides recommendations to the relevant structural divisions and Governing Board on permanent control procedures and mechanisms, the elimination of the drawbacks (problems) it determines during the audit.

27.1.4. Carries out other powers specified by the National Bank Executive Board.

27.2. The Internal Audit Division is under subordination of the chairman of the Executive Board only.

### **Chapter V. Monetary Policy**

#### **Article 28. Monetary Policy**

28.1. The National Bank shall report on the major directions of the monetary policy for the upcoming year to the President of the Republic of Azerbaijan not later than October 1 and shall make the report available to the general public by December 31 of the current year.

28.2. When making major decisions on the monetary policy and reporting them to the general public, the National Bank shall indicate the final results of the monetary policy for the

current year, as well as goals and objectives of the next year's monetary policy, and other criteria of implementation of the monetary policy which may or may not depend on the National Bank.

#### **Article 29. Instruments of Monetary Policy**

29.1. The following instruments shall be used to implement monetary policy:

29.1.1. Implementing open market transactions;

29.1.2. Determining interest rates;

29.1.3. Setting reserve requirements for credit institutions;

29.1.4. Refinancing credit institutions;

29.1.5. Implementing deposit transactions;

29.1.6. Restricting bank transactions;

29.1.7. Other instruments of monetary policy commonly accepted in the international practice.

29.2. The National Bank shall use its own discretion as to the utilization of any of the instruments specified in Article 29.1 above, along with the goals and objective of the monetary policy.

#### **Article 30. Open Market Transactions**

30.1. The National Bank may engage in the following open market transactions:

30.1.1. Trades and other transactions on government securities pursuant to Article 16 hereof;

30.1.2. Trades and other transactions on foreign exchange.

30.2. For purposes of implementing the monetary policy, procedures for issuing and putting its own debt securities in circulation shall be determined by the laws;

#### **Article 31. Setting Interest Rates**

31.1. The National Bank shall set internal and external interest rates at its own transactions.

31.2. When setting interest rates to be applicable in the domestic economy, the National Bank shall consider the existing macroeconomic conditions in the country and the state of the financial market.

31.3. Taking into account the interest rate on its own transactions and the liquidity situation of the money markets, the National Bank shall set its refinancing, deposit and open market transaction interest rates, or shall define them based on demand and supply.

31.4. The National Bank shall publicize fixed rates and interest rates on its own transactions.

### **Article 32. Setting Required Reserves**

32.1. The National Bank shall compel credit institutions to maintain required reserves. Such reserves shall be calculated in percentage proportion to each bank's deposit base and maintained at the National Bank. The National Bank Executive Board shall determine procedures for calculating and maintaining required reserves.

32.2. In the event a bank fails to meet the required reserve requirements, the National Bank may impose an official penalty to such banking institution and its senior management pursuant to Administrative Offenses Code of the Republic of Azerbaijan.

### **Article 33. Refinancing Credit Institutions**

33.1. The National Bank shall provide refinancing to credit institutions for the purposes of implementing its monetary policy. Loans shall be extended against collateral of government securities, guarantees and warranties issued by the government and other external resources such as, foreign exchange, gold, precious metals of different formats and other assets. Such loans shall be extended for a term not to exceed 6 months and, if necessary, this term may be renewed for additional 3 months.

33.2. The National Bank Board shall be responsible for determining the format, procedures, and terms of refinancing.

33.3. Loans shall be extended exclusively to the head offices of credit institutions and solely in national currency (manat).

### **Article 34. Deposit Transactions**

National Bank may only accept deposits from credit institutions on its own terms.

### **Article 35. Restrictions on Banking Operations**

Except for cases with the purpose of monetary policy, the National Bank in an emergency may temporarily suspend individual operations implemented by credit institutions, and determine to increase or decrease rates for these operations.

## **Chapter VI. Organization of Cash Circulation**

### **Article 36. Monetary Unit**

36.1. In accordance with the first part of Article 19 of the Constitution of the Republic of Azerbaijan, the monetary unit of the Republic of Azerbaijan is the manat. One manat consists of 100 kopecks. Money shall be issued in the form of banknotes and coins.

36.2. In accordance with the third part of Article 19 of the Constitution of the Republic of Azerbaijan, use of a monetary unit other than the manat on the territory of Azerbaijan Republic is prohibited.

36.3. Banknotes issued by the National Bank, including anniversary and commemorative notes, shall be accepted for any payments, deposits and money transfers in the Republic of Azerbaijan territories.

36.4. No official correlation shall be defined between the manat and gold or other precious metals. Banknotes issued shall be the National Bank's debt obligations secured with all of its assets.

36.5. Persons engaged in counterfeiting and the sale of counterfeit currency shall be prosecuted in accordance with the relevant laws of the Republic of Azerbaijan.

36.6. The National Bank shall make qualified review to identify whether banknotes are counterfeit.

36.7. Counterfeit banknotes shall be surrendered to the National Bank upon completion of the court decision on money counterfeiting.

### **Article 37. Organization of Money Circulation**

37.0. The National Bank shall take the following actions to provide money circulation in the Republic of Azerbaijan:

37.0.1. Determine the demand for banknotes;

37.0.2. Arrange or order production, and provide transportation and storage of banknotes;

37.0.3. Create banknote reserves and dispose of these reserves;

37.0.4. Determine procedures for keeping and physical transportation of cash for the National Bank and credit institutions;

37.0.5. Determine procedures for carrying out of cash transaction for the National Bank and credit institutions;

37.0.6. Identify signs of banknotes unfit for circulation and determine procedures for replacement of such notes.

## **Article 38. Issuance of Banknotes into Circulation**

38.1. The National Bank Executive Board shall decide on issuing banknotes of new design into circulation. The National Bank shall be responsible for determining denominations, dimensions, design, security features, as well as other artificial and technical features of the banknotes newly issued into circulation.

38.2. The National Bank Executive Board may decide to issue anniversary and commemorative notes. The National Bank shall arrange for sale of anniversary and commemorative notes under relevant procedures defined and at values determined.

38.3. In connection with price changes (denomination), the National Bank, with approval from the relevant state authorities, may decide to issue new banknotes.

## **Article 39. Withdrawal of Banknotes from Circulation**

39.1. Except for cases of denomination, the National Bank may decide to replace banknotes and coins in circulation with banknotes of new design.

39.2. The National Bank shall publicize its decision on replacement of banknotes in circulation, as well as the description of new banknotes and procedures for replacement of banknotes.

39.3. No limitation may be imposed on the amounts or subjects of replacement when banknotes are replaced by newly issued notes. Banknotes subject to replacement shall be deemed legal tender for payments during a period to be determined by the National Bank, provided that this period is not less than 1 year. Older banknotes shall be exchanged by the National Bank after this period on an on-going basis.

39.4. The National Bank Executive Board shall decide on withdrawal and termination of the banknotes and procedures for taking appropriate actions.

39.5. The value of counterfeit notes shall not be paid, and they are subject to confiscation. This provision shall also apply to counterfeit foreign currency notes.

## **Article 40. Exchange of Banknotes**

The National Bank shall exchange banknotes which are considered as legal tender with no limitation. For notes that are not counterfeit, the face value shall be exchanged if at least 60 percent of the banknote is preserved or if 100 percent of the torn pieces of a single banknote is preserved; these notes shall be considered legal tender. Whether all the torn pieces of the banknote belong to one banknote may be determined only by the National Bank.

## **Article 41. Destruction of Banknotes**

41.1. Except for counterfeit notes, banknotes withdrawn from circulation shall be destroyed in accordance with the procedures specified by the relevant executive authorities.

41.2. The National Bank shall destroy moulds and stamps used for coinage of notes withdrawn from circulation.

## **Chapter VII. Administration of Foreign Currency Reserves**

### **Article 42. Foreign Currency Reserves**

42.1. The National Bank shall, within the framework of the strategy set by the Executive Board, maintain and manage foreign currency reserves for purposes of implementation of National Bank monetary policy and timely execution of international liabilities settlement.

42.2. The National Bank shall, within the framework of the strategy and rules set by the Executive Board, maintain and manage foreign currency reserves composed of the following assets in accordance with the procedures determined by the Executive Board:

42.2.1. Gold and other precious metals and precious stones;

42.2.2. Hard foreign currency in the form of paper or coinage;

42.2.3. Foreign exchange reserves of the National Bank on the accounts at central banks of foreign countries or other financial institutions;

42.2.4. Special drawing rights of the International Monetary Fund and the reserve position with the International Monetary Fund;

42.2.5. Debt securities issued or pledged by foreign countries, central banks, or international financial institutions;

42.2.6. Other assets internationally accepted as eligible for inclusion in reserves.

42.3. The National Bank may procure within the strategy set by the Executive Board services of financial institutions specialized in management of foreign exchange reserves.

42.4. In the event of a decrease in foreign exchange reserves to a level which by the judgment of the National Bank it poses a threat for monetary policy implementation, timely execution of settlements on international commitments of the state or in case of such possibility, the National Bank shall report to the relevant executive authorities, indicating the causes of such a decrease or a possible decrease of the reserves and submits reasonable recommendations and offers.

### **Article 43. Information on Foreign Gold-Currency Reserves**



The National Bank shall periodically, but not less than once a quarter, publicize through the media the total amount of foreign gold-currency reserves.

## **Chapter VIII. Organization of Payment Systems**

### **Article 44. Powers (or Functions) in Payment Systems**

44.1. For the purpose of ensuring the stable operation of the national payment system, including but not limited to clearing (processing) systems, the National Bank shall organize, coordinate, regulate and monitor these activities.

44.2. The National Bank shall permit and supervise activities of clearing and processing institutions pursuant to applicable laws and regulations.

44.3. The National Bank shall determine the rules and conditions of non-cash settlements and money transfers through credit institutions in the country as well as the form and contents of the payment documents in accordance with the Civil Code of the Republic of Azerbaijan.

44.4. In accordance with the legislation, the National Bank shall determine types of bank accounts, procedures for opening, and closing bank accounts in accordance with the Civil Code and other legal regulatory acts of the Republic of Azerbaijan.

44.5. The National Bank may set minimum requirements for automated settlements and money transfers as well as the reliability and security of the clearing systems used by credit institutions to ensure protection of banking information in the same systems.

44.6. The National Bank shall exercise other powers in the area of settlements in accordance with the applicable laws.

### **Article 45. Organization of Settlements among Credit Institutions**

The National Bank shall organize settlements among credit institutions by means of correspondent accounts in national currency (manat), opened by credit institutions operating in Azerbaijan territories at the National Bank or by any other methods adopted by the National Bank in accordance with the international practices and standards.

## **Chapter IX. Relations with Credit Institutions**

### **Article 46. Basic Principles of Relations with Credit Institutions**

46.1. The National Bank shall be responsible for bank licensing, regulation and supervision in order to ensure stable operation of the banking system and to protect interests of bank creditors and depositors in the Republic of Azerbaijan in accordance with this law, the Republic of Azerbaijan Law on Banks and the Law on Credit Unions, National Bank regulations, as well as internationally accepted practices of effective banking supervision.

46.2. The National Bank shall not interfere in daily operations of credit institutions, unless otherwise provided by the applicable laws.

46.3. The National Bank and credit institutions shall not be responsible for each other's respective commitments.

46.4. In cases specified by this Law, the National Bank may be the last resort lender for credit institutions.

46.5. The National Bank may disclose information on the operations of credit institutions obtained through discharge of its functions only when permitted by the applicable laws and only for the purposes of monetary function and policy implementation.

#### **Article 47. Licensing**

47.1. The National Bank shall have the exclusive right to grant and revoke *special banking* licenses to credit institutions and to their branch offices in order to implement banking activities and issue and revoke appropriate permits to representative offices, as well as domestic offices of foreign banks in order to fulfill representative capacity in the Republic of Azerbaijan.

47.2. The National Bank shall determine the format and contents of banking licenses and permits.

#### **Article 48. Regulation and Supervision**

48.1. The National Bank shall perform the following to regulate and supervise activities of credit institutions:

48.1.1. Adopt legal regulatory acts for banking regulations;

48.1.2. Determine the rules of application of prudential ratios, as well as the methods of their calculation;

48.1.3. Determine procedures for calculation and creation of loss provisions for loans and other assets established on expenses accounts of banks, domestic branches of foreign banks and non-bank credit institutions;

48.1.4. Evaluate financial conditions of credit institutions on the basis of reports and auditing results and, in result of such reviews, to issue binding directives to credit institutions to make changes to financial statements;

48.1.5. Set forth corporate governance requirements for banks and domestic branches of foreign banks and to oversee their implementation;

48.1.6. In cases and in the order specified by law, conduct audit inspections at credit institutions and their subsidiaries;

48.1.7. Raise issues with the authorized body to prevent monopolistic behavior at the banking market;

48.1.8. Impose, in cases and in the order specified by legislation, statutory corrective actions (influence measures) and sanctions to credit institutions and their administrators;

48.1.9. Attend meetings of corporate organs of credit institutions and to hold consultations with administrators of credit institutions, when this required by results of supervision measures which are conducted pursuant to legislation;

48.1.10. In cases specified by law, under the financial rehabilitation program framework for banks, determine special conditions of fulfillment of credit commitments to the National Bank;

48.1.11. In cases specified by law, appoint temporary administrators for banks and domestic branches of foreign banks, and petition the court for a moratorium of a bank's obligations, when necessary;

48.1.12. Undertake appropriate statutory measures with respect to banks and domestic branches of foreign banks with revoked licenses;

48.1.13. Exercise other powers specified in the legislation.

48.2. When setting prudential ratios for credit institutions, the National Bank may determine different ratios and calculation methods given the types of credit institutions.

#### **Article 49. Last Resort Lending**

The National Bank may extend fully secured loans to banks facing short-term liquidity problems on its terms and conditions, in order to protect interests of creditors and depositors. These loans shall be extended for a term not to exceed 6 months, and if necessary their term may be extended for an additional 6 months.

#### **Article 50. Cooperation with Credit Institutions**

For the purpose of mutual activity with the credit institutions, the National Bank may set up uncompensated councils and workgroups involving representatives of banks and their social unions (associations) to hold consultations on important banking issues and to draw up appropriate actions.

#### **Article 51. Cooperation with Off-Site Regulatory and Supervisory Bodies**

51.1. For the purposes of effective discharge of its licensing, regulatory and supervisory responsibilities, the National Bank may, in the order specified by the legislation, conclude treaties concerning banking supervision and cooperate with bank regulators of foreign countries.

51.2. This cooperation may include exchange of information between the National Bank and bank regulators of foreign countries on existing or proposed credit institutions and joint supervision, provided that the recipient bank regulator shall keep any information received confidential.

## **Article 52. Exchange of Information**

The National Bank may, in the manner specified by law, conduct and exchange of information on institutions subject to regulation and supervision on mutual cooperation basis with government authorities executing regulatory and supervision of other segments of financial sector, providing parties ensure confidentiality of received information and use it exclusively for supervisory purposes.

## **Article 53. Settlement of Disputes**

Any dispute arising in association with the National Bank's decisions related to the discharge of its licensing, regulatory and supervisory functions shall be settled through relevant courts. Filing of a complaint shall not be grounds for non-execution of the decision.

## **Chapter X. Contracts and Transactions**

### **Article 54. Contracts and Transactions of the National Bank**

54.1. In order to accomplish its objectives, the National Bank may engage in the following contracts and transactions with credit institutions of the Republic of Azerbaijan and foreign states involving:

54.1.1. Acquisition, sale, and storage of government securities, as well as checks, notes, precious metals and gems, including items made of such metals and jewelry;

54.1.2. Sale and acquisition of foreign currency, as well as payment documents and obligations denominated in foreign exchange;

54.1.3. Issuing guarantees and warranties;

54.1.4. Opening bank accounts, including deposit accounts;

54.1.5. Settlements, cash and deposit transactions, and receipt of securities and other valuables for safekeeping and management purposes;

54.1.6. Submission of checks and notes in any currency for payment;

- 54.1.7. Implementation of other banking transactions and operations as defined hereunder and accepted in the international banking practices and not prohibited by the Republic of Azerbaijan laws.
- 54.2. The National Bank may charge fees for its banking services.
- 54.3. The National Bank may render banking services to its personnel in accordance with the applicable laws.
- 54.4. The National Bank, for the purpose of supporting settlement and clearing (processing) operations, may open bank accounts on behalf of those banks to carry out these operations.
- 54.5. The National Bank may render banking services to governments, central banks and monetary authorities of foreign states, as well as international organizations of which the National Bank itself or the Republic of Azerbaijan are members.
- 54.6. The National Bank may acquire liquid debt securities issued by reliable issuers.
- 54.7. The National Bank may conclude other civil-legal contracts not prohibited by the law.

## **Article 55. Prohibited Activities**

55.0. The National Bank may not:

- 55.0.1. Engage in banking transactions with legal entities and individuals other than persons specified herein;
- 55.0.2. Engage in manufacturing, trade, insurance and, unless otherwise specified herein, in any other commercial activity;
- 55.0.3. Purchase, sell or acquire in any other fashion full or partial ownership of real estate for purposes other than to sustain the activities of the National Bank itself and to meet social needs of the National Bank's personnel.

## **Chapter XI. Financial Records and Reporting of the National Bank**

### **Article 56. Reporting Year of the National Bank**

The reporting year of the National Bank shall last from January 1 through December 31.

### **Article 57. Financial Records and Reporting**

57.1. Financial records and reporting of the National Bank shall conform to the International Financial Reporting Standards.

57.2. Annual financial report of the National Bank shall consist of the balance sheet and income/loss statement, cash flow statement, and supporting explanatory notes.

## **Article 58. Audit of the National Bank**

58.1. Activities of the National Bank shall be audited annually, in accordance with Article 109, paragraph 32 of the Constitution of the Republic of Azerbaijan, only by an auditor appointed for one or two year terms by the President of the Republic of Azerbaijan.

58.2. If deemed necessary, the President of the Republic of Azerbaijan may appoint an extraordinary audit, in accordance with Article 109, paragraph 32 of the Constitution of the Azerbaijan Republic.

58.3. The audit of the National Bank shall be conducted in accordance with the International Auditing Standards. Expenses arising from the audit shall be paid by the National Bank.

58.4. The audited annual financial report approved, by the auditor, along with the Bank's operating budget shall be submitted to the President of the Republic of Azerbaijan.

58.5. Annual financial statements, approved by the auditor, shall be published in the media not later than in one month after the completion of the financial report audit.

## **Chapter XII. Final Provisions**

### **Article 59. National Bank Personnel**

59.1. Labor relations between the National Bank and its personnel shall be governed by the Labor Code of the Republic of Azerbaijan, with due consideration of the provisions hereof.

59.2. National Bank's employees may not engage in any other remunerated (financial) activities, except for scientific, tutorial, and innovative work.

59.3. Members of the Executive Board of the National Bank and officers holding positions determined by the Executive Board may be granted loans solely from the National Bank. Such employees shall inform the Executive Board of the National Bank of any credit card acquired from credit institutions for approval.

59.4. Employees holding positions determined by the Executive Board of the National Bank may not be founders and shareholders of credit institutions and their subsidiaries, or members of their corporate units.

59.5. *National Bank employees shall be provided with a pension system benefit in compliance with the Republic of Azerbaijan Laws on "Public Retirement Pension Systems".*

59.6. The National Bank may take additional actions in order to ensure social security of its staff.

## **Article 60. Confidentiality**

Members of the Executive Board and other employees of the National Bank may not disclose job-related information obtained through discharge of their official responsibilities, including information that constitutes or relates to state and bank secrets, during or after termination of their employment with the National Bank other than in cases permitted by the law.

## **Article 61. Immunity from Suit**

No person shall be liable in damages for anything done or omitted while a member of the Executive Board of the National Bank, or while an officer, employee or agent of the National Bank, or a conservator or receiver in the discharge or purported discharge of the functions of the National Bank under this Law, unless it is shown that the act or omission was in bad faith.

## **Article 62. Security**

The National Bank shall take appropriate actions to secure its activities. The National Bank's divisions engaged in safe transportation of cash and other valuables in the Republic of Azerbaijan shall be equipped with armored vehicles with special structured compartments, and the relevant staff members shall be equipped with weapons (firearms), munitions and special clothing.

## **Article 63. Data Acquisition**

For purposes of implementing its functions, the National Bank may request and obtain necessary statistical information from government bodies, legal entities and individual entrepreneurs in a format and within a timeframe to be determined by the National Bank.

## **Article 64. Publications**

64.1. The National Bank shall publish its annual report. The annual report by the National Bank shall reflect the macroeconomic situation in the country, finals of monetary policy which is being implemented in the country, as well as the status of the banking system, financial standing of the National Bank and its operational budget.

64.2. The National Bank shall issue information bulletins concerning conditions of its currency and financial markets at a frequency not less than once a month.

64.3. The National Bank may publish statistical summaries on the banking system, as well as other information it deems appropriate and relevant.

64.4. Consolidated balance sheet of the National Bank shall be published in media every month.

## **Article 65. Exemptions**

Pursuant to the Tax Code of the Republic of Azerbaijan, the National Bank shall be eligible for tax exemptions and shall be exempt from all kinds of state duties and levies.

## **Article 66. Effective Date of the Law**

66.1. This Law shall take effect on the date of its publication.

66.2. Beginning with the effective date of this law, the National Bank shall increase its authorized capital up to the level stipulated in Article 10.2 of this Law from its profits, or where the profits are not sufficient then the National Bank shall increase its capital from the capital reserves.

66.3. On the effective date of this law, the Law of the Republic of Azerbaijan on the National Bank of the Republic of Azerbaijan (The Law Articles of the Republic of Azerbaijan, No. 3, Article 172, dated 1997) and all related amendments and additions, shall become void.

**President of the Republic of Azerbaijan**

**Ilham ALIYEV**

**City of Baku, December 10, 2004**

**No: 802-IIQ**