

THE LAW OF THE REPUBLIC OF AZERBAIJAN ON

THE CENTRAL BANK OF THE REPUBLIC OF AZERBAIJAN

(with amendments and additions of 21 October 2005, 17 April 2007, 9 October 2007, 6 November 2007, 26 May 2009, 19 June 2009, 30 June 2009, 30 September 2010, 24 June 2011, 28 October 2014, 15 May 2015, 20 October 2015, 4 March 2016, 14 October 2016 and 25 April 2017)

The present law determines the legal status of the Central Bank of the Republic of Azerbaijan, its purposes, functions and responsibilities, as well as its administration and organizational structure and regulates relations with other public authorities and other persons as the central bank of the country.

Chapter I GENERAL PROVISIONS

Article 1. The Central Bank of the Republic of Azerbaijan

1.1. The Central Bank of the Republic of Azerbaijan (hereinafter referred to as the "Central Bank") is the central bank of the Republic of Azerbaijan.

1.2. In accordance with Item II of Article 19 of the Constitution of the Republic of Azerbaijan, the Central Bank shall be in exclusive ownership of the state.

1.3. Objectives, functions and authorities of the Central Bank shall be determined by the Constitution of the Republic of Azerbaijan and the present Law. The Central Bank shall, in the course of its activities, be as well governed by other legislative acts of the Republic of Azerbaijan and international treaties the Republic of Azerbaijan is a party to.

1.4. The Headquarters of the Central Bank shall be located in the city of Baku.

Article 2. Legal Status of the Central Bank

2.1. The Central Bank is a *legal entity under public law*, has a seal with the national emblem of the Republic of Azerbaijan and its name on it.

2.2. The Central Bank shall have an independent balance sheet, a charter *fund* and other property. The Central Bank shall, in accordance with the Civil Code of the Republic of Azerbaijan, own, use and dispose of the property on its books. The *fund* and other property of the Central Bank may not be alienated without its consent except for the cases specified in the legislation.

Article 3. Regional offices of Central Bank

The Central Bank may open regional offices in the Republic of Azerbaijan.

Article 4. Goals of the Central Bank

4.1. The primary goal of the Central Bank's activity is to ensure price stability within the authorities as defined herein.

4.2. *The goal of the Central Bank's activity shall also be to organize and ensure operation of centralized interbank and other unlicensed payment systems, as well as support the stability of the banking system.*

4.3. The primary goal of the Central Bank shall not be profit making.

Article 5. Functions of the Central Bank

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

5.0.1. establish and implement the country's monetary and foreign exchange policy;

5.0.2. organize cash circulation, issue banknotes to and withdraw from circulation according to Item II of Article 19 of the Constitution and the present Law;

5.0.3. regularly set and announce an official exchange rate of Manat;

5.0.4. regulate and control the foreign currency in accordance with the Law of the Republic of Azerbaijan on Currency Regulation;

5.0.5. maintain and manage international gold and foreign exchange reserves in its charge;

5.0.6. develop a reporting balance of payments and participate in development of the projected balance of payments of the country;

5.0.6-1. develop the country's consolidated (public and non-public) foreign debt statistics and international investment balance, summarize and disseminate data;

~~**5.0.7.** license and regulate banking activities and provide banking supervision in accordance with the Laws of the Republic of Azerbaijan on Banks and on Post Offices, the present law and other Regulations adopted pursuant thereto;~~

5.0.8. organize, coordinate, regulate activities of and oversee *centralized interbank and other unlicensed* payment systems;

5.0.9. Discharge other functions stipulated by the present Law and other laws.

Article 6. Independence of the Central Bank

The Central Bank shall be independent in discharge of its responsibilities and exercise of its authorities prescribed by the Constitution and laws of the Republic of Azerbaijan, and no public authority or self-administration body, individuals or legal entities may directly or indirectly by any reason constrain, illegally influence or interfere with its activities.

Article 7. Accountability of the Central Bank

7.1. The Central Bank shall be solely accountable to President of the Republic of Azerbaijan on its activities.

7.2. Accountability of the Central Bank to President of the Republic of Azerbaijan shall consist of the following:

7.2.1. In accordance with Item 9 of Article 109 of the Constitution of the Republic of Azerbaijan, appoint or dismiss members of the Management Board of the Central Bank;

7.2.2. In accordance with Items 9 and 32 of Article 109 of the Constitution of the Republic of Azerbaijan appoint or dismiss the Chairman of the Management Board of the Central Bank - Governor of the Central Bank (hereinafter – the Chairman of the Management Board of the Central Bank) and his/her deputies;

7.2.3 In accordance with Article 58 of the present Law, appoint an external auditor to review the Central Bank activities and, if necessary, to conduct extraordinary audits;

7.2.4 Delivery of the report by the Chairman of the Management Board of the Central Bank to President of the Azerbaijan Republic twice a year on implementation of major objectives and functions of the Central Bank, as well as audited financial statements and reporting operational budget.

7.3. The Chairman of the Management Board of the Central Bank shall advise the Milli Majlis of the Republic of Azerbaijan on key directions of monetary policy for the upcoming year during draft budget discussions.

Article 8. Regulations of the Central Bank

8.1. The Central Bank shall independently adopt regulations on the issues under its authority binding for all banks, non-bank credit institutions, as well as other persons.

8.2. Regulations of the Central Bank shall be included in the State Registry of Legal Acts of the Republic of Azerbaijan in the order specified by the Constitutional Law of the Republic of Azerbaijan on Normative Acts of Legal Nature by a relevant executive body.

Article 9. International cooperation

9.1. Pursuant to the legislation of the Republic of Azerbaijan and the international treaties seconded by the Republic of Azerbaijan, the Central Bank shall represent the Republic of Azerbaijan in mutual relations with central banks of foreign states, as well as at international financial-credit institutions in matters relating to its responsibilities.

9.2. The Central Bank may enter into cooperative agreements with central banks of foreign countries on various areas of its activities, as well as sign clearing and settlement agreements and other agreements with foreign public and private clearing (processing) agencies on its own behalf (taking into consideration the requirements of Para 4 of Article 119 of the Constitution of the Republic of Azerbaijan).

9.3. The Central Bank shall participate in the capital and activity of cooperative international and regional organizations on the *monetary and foreign exchange policy* in the order specified by the legislation.

Chapter II CENTRAL BANK CAPITAL

Article 10. Capital of the Central Bank

10.1 The Central Bank capital consists of its charter *fund* and capital reserves.

10.2 The charter *fund* of the Central Bank equals to AZN 500 million.

10.3 The Central Bank's capital reserves shall be formed up through deductions from the profit of the reporting year provided that they shall not fall below its charter *fund*.

Article 11. Profit of the Central Bank

11.1 Central Bank's profit shall be calculated by deducting expenditures from revenues in compliance with the International Financial Reporting Standards.

11.2 Revenue of the Central Bank shall, in accordance with the present Law, be formed from the income generated from its activity and receipts from other sources not confronting the legislation.

Article 12. Distribution of the Central Bank's profit

12.1 Reporting year profit shall, in the first place, be directed to formation of capital reserves of the Central Bank in accordance with the norm set in article 10.3 herein.

12.2 Upon formation of capital reserves and approval of Central Bank's annual financial statements by the auditor's opinion, a clear balance of realized gains shall be transferred to the state budget.

12.3 Deleted.

Article 13. Revaluation of assets and liabilities held in foreign currency and gold

13.1. The difference resulting from revaluation of assets and liabilities that are held in gold and foreign currency due to changes in the exchange rate of Manat and the value of gold over the reporting year is recognized in capital reserves of the Central Bank.

13.2. Losses, resulting from revaluation of assets and liabilities in foreign currency and gold at the yearend shall be covered at the expense of capital reserves of the Central Bank.

Article 14. Financial reliability of the Central Bank

14.1. Central Bank may not be declared bankrupt.

14.2. Capital shortfall resulting from Central Bank's activity shall be covered at the expense of securities issued by the state, being deferred by one fiscal year.

Chapter III RELATIONS OF THE CENTRAL BANK WITH PUBLIC AUTHORITIES

Article 15. Basis of the Central Bank's relations with the Government

15.1 The Central Bank and the state shall not be responsible for each other's liabilities, other than the case specified in Article 14 herein.

15.2 The Central Bank shall be the Azerbaijani state bank. The Central Bank may act as a financial agent of Azerbaijan.

15.3 The Central Bank shall assist in pursuing the economic policy of the country according to the goals specified herein.

Article 16. Loans of the Central Bank to the state

16.1 The Central Bank shall not issue loans to the state to directly fund the state budget deficit.

16.2 In the event of short-term funds shortfall in the state budget, the Central Bank may extend a 6 month loan to the Government under an agreement with the appropriate executive power against pledged interest bearing Government securities and provided to be repaid in the national currency (Manat) in the current year. Total amount of repaid and outstanding portion of such loans may not exceed 3 percent of average yield of the state budget for the previous three years.

16.3 Purchase of debt securities issued by the Azerbaijani Government by the Central Bank shall be deemed to be granting of loans to the state. Such transactions shall be made in the secondary market only ~~except for the cases specified in Article 49 1.2 herein~~ and provisions of Article 16.2 herein shall apply to them.

16.4 In cases related to implementation of the monetary policy, provisions of Article 16.2 herein shall not apply, provided that Government securities shall be traded in the secondary market.

Article 17. The Central Bank as the state bank

17.1. The Central Bank shall serve the state treasury accounts under an agreement with the appropriate executive power.

17.2. Where it is required to implement the monetary policy, the Central Bank shall receive term deposits from the state under terms and conditions agreed upon with the relevant executive power.

17.3. The Central Bank may serve bank accounts of public entities of the Republic of Azerbaijan, as well as state and non-budgetary state funds.

Article 18. Mutual relations of the Central Bank with public authorities

18.1 The Central Bank may deliver proposals to relevant executive powers of the Republic of Azerbaijan on key directions of the country's economic policy, including budget-tax, price-tariff measures, as well as the volume and management of internal and external debt of the state.

18.2 In the event a normative act of legal nature includes normative guidelines and (or) assignments with respect to the Central Bank, as well as the banking system and banking activities, the draft in question shall be agreed with the Central Bank prior to submitting to the norm-setting authority .

Article 19. Central Bank as a financial agent of the state

The Central Bank may carry out the country's financial agent functions as agreed upon with the relevant executive power. As a financial agent the Central Bank may serve the state debt through placement of Government debt securities and conduction of other operations thereof, as well as carry out other financial operations in the cases and the order specified herein.

Chapter IV

ORGANIZATIONAL STRUCTURE AND MANAGEMENT OF THE CENTRAL BANK

Article 20. Organizational structure of the Central Bank

20.1. The Organizational structure of the Central Bank shall include a Management Board, a central administrative body and regional offices. The central administrative body of the Central Bank shall consist of an internal audit department as well as other structural units established by the Management Board.

20.2. All structural units and structures included to the Central Bank's central administrative office shall operate in conformity with relevant statutes approved by the Management Board.

Article 21. The Management Board of the Central Bank

21.1 The Central Bank shall be governed by the Management Board. The Management Board shall consist of 7 persons. The Management Board shall be composed of Governor of the Central Bank, 4 permanent members and 2 outsiders.

21.2 Citizens of the Republic of Azerbaijan with a higher economic and legal education, as well as a professional experience in economics, law and finance or banking and not convicted against property, for economic activities, for job abuse as well as for crimes, especially for grave crimes, with no commitments before foreign states shall be eligible for membership of the Management Board.

21.3 Members of the Milli Majlis of the Republic of Azerbaijan, members of the Parliament of the Nakhchivan Autonomous Republic, members of the Cabinet of Ministers of the Republic of Azerbaijan and the Cabinet of Ministers of the Nakhchivan Autonomous Republic, as well as elected members of municipal bodies, as well as persons employed with state executive authorities or municipalities shall not be eligible for membership with the Central Bank's Management Board.

21.4 Members of the Central Bank's Management Board shall be appointed and dismissed in accordance with Item 10 of Article 109, clause 15 of Item 1 and Item 2 of the Constitution of the Republic of Azerbaijan.

21.5 Members of the Management Board shall be appointed for a 5 year term.

21.6 The Chairman of the Central Bank Management Board shall be appointed from among the Board members for a period equal to the term of office of its member according to Item 32 of Article 109 of the Constitution of the Republic of Azerbaijan.

21.7 The First Deputy Chairman and other deputies of the Management Board of the Central Bank shall be appointed from among the Board members for periods equal to the respective terms of office of these members according to Item 32 of Article 109 of the Constitution of the Republic of Azerbaijan.

21.8 Members of the Central Bank Management Board during the period of employment with the Central Bank may not be engaged in any other remunerated activity, including entrepreneurship, except for scientific, pedagogical and creative work. Except for the cases stipulated by the legislation, members of the Central Bank

Management Board employed full time with the Central Bank may not hold positions with the corporate bodies of legal entities.

21.9 Members of the Central Bank Management Board as well as their family members (including spouses, parents, in-laws, grandparents, children, adopted children, brothers and sisters) may not hold qualifying holding in the institutions over which the Central Bank and *the financial markets supervisory authority* exercise supervision.

21.10 Board members may not be members of political parties and hold positions with public organizations.

Article 22. Authorities of the Central Bank's Management Board

22.0. The Management Board of the Central Bank shall:

22.0.1. establish and approve an annual monetary and foreign exchange policy of the state;

22.0.2. decide on monetary policy instruments, including setting of a refinancing rate, interest rates on its own operations and terms and conditions of open market transactions;

22.0.3. decide on issuance of new series of banknotes to and withdrawal of banknotes of old series from circulation;

22.0.4. approve foreign exchange regulation and control, as well as procedures to set exchange rate of the Manat against other currencies;

22.0.5. approve and modify the budget of the Central Bank *upon coordination with the relevant executive authority*;

22.0.6. set procedures for establishing and utilizing capital reserves of the Central Bank;

22.0.7. approve an annual financial statement of the Central Bank;

22.0.8. set rules of maintaining and the strategy for managing international gold and foreign exchange reserves *upon coordination with the relevant executive authority*;

~~**22.0.9.** take decisions on granting licenses to credit institutions to provide banking activities~~

~~and terminating licenses thereof;~~

~~**22.0.10.** set economic (prudential) norms for credit institutions;~~

~~**22.0.11.** decide on appointment of temporary administrators for banks, and termination of their authorities as specified in the Law of the Republic of Azerbaijan on Banks;~~

~~**22.0.12.** set limits on participation of foreign capital in the banking system of the Republic of Azerbaijan;~~

22.0.13. establish Central Bank's organizational structure and governance procedures *upon coordination with the relevant executive authority*;

22.0.14. approve regulations on recruitment and evaluation of staff for the Central Bank, as well as determine the positions under the jurisdiction of the Management Board of the Central Bank, and approve relevant appointments to, and dismissals from such positions;

- 22.0.15. consent to appointment to and dismissal from the office of the Director of the Central Bank's Division in the Nakhchivan Autonomous Republic by the Chairman of the Parliament of the Nakhchivan Autonomous Republic;
- 22.0.16. establish the form and amount of remuneration at the Central Bank given the relevant payment level in the banking system of the Republic of Azerbaijan *upon coordination with the relevant executive authority*;
- 22.0.17. approve the Central Bank's regulations;
- 22.0.18. settle any other issues the Management Board of the Central Bank is charged with hereunder.

Article 23. Management Board meetings

- 23.1 Management Board meetings shall be held no less than once a month.
- 23.2 Management Board meetings shall be chaired by the Chairman of the Management Board of the Central Bank, or a member of the Management Board, who is authorized to substitute him/her in his/her absence.
- 23.3 The Chairman of the Management Board of the Central Bank shall convene Management Board meetings. Meetings may be convened upon demand of at least 2 other members of the Management Board.
- 23.4 Management Board members shall be notified of a Management Board meeting, timing and venue and issues on the agenda at least 3 days prior to the meeting.
- 23.5 A Management Board meeting shall be deemed valid if more than half of the members are present, of which one must be the Chairman or his/her substitute.
- 23.6 When an issue on the agenda of the session shall conflict with interests of a particular member, the member in question should provide in-depth information on the case and not participate in its discussion. That member shall not participate in voting and his/her participation shall not be considered when the quorum is set.
- 23.7 Decisions of the Management Board shall be adopted by a simple voting majority of the Management Board members. In case of a tie, the chairperson shall cast the final vote. If a Management Board member disagrees with the decision taken by the Management Board, he/she may pronounce his/her relevant substantiated opinion.
- 23.8 Minutes of Central Bank's Management Board meetings shall be developed and signed by the chairman of the meeting and the secretary of the Management Board.
- 23.9 The Secretary of the Management Board shall be appointed by the Chairman of the Management Board among officers that are not Management Board members.

Article 24. Chairman of the Management Board of the Central Bank

- 24.1. The Chairman of the Central Bank's Management Board shall organize work of the Management Board and at the same time head the executive structure of the Central Bank.
- 24.2. The Chairman of the Central Bank's Management Board shall:
- 24.2.1 represent the Central Bank in the Republic of Azerbaijan and abroad without a power of attorney in the order specified by the legislation;
- 24.2.2 sign off regulations approved by the Management Board;

- 24.2.3** issue decrees and directives binding for all employees of the Central Bank;
 - 24.2.4** appoint and dismiss persons not under the jurisdiction of the Management Board;
 - 24.2.5** segregate duties and responsibilities among the Deputies and other officials of the Central Bank;
 - 24.2.6** address any other issues related to the Central Bank's activities that do not fall under the Management Board jurisdiction.
 - 24.2.7** carry out other authorities specified herein.
- 24.3** In the absence of the Chairman of the Management Board of the Central Bank, his/her powers shall be delegated to his/her first deputy. In the absence of the first deputy, his/her powers shall be delegated to another deputy or member of the Management Board as per the procedures set by the Chairman of the Management Board of the Central Bank.

Article 25. Premature termination of the Management Board membership

25.1. The Chairman and other members of the Central Bank's Management Board shall be released from his/her office prior to expiry of their respective terms of office in the order specified by Item 10 of Article 109 of the Constitution of the Republic of Azerbaijan and if:

- 25.1.1** a resignation letter has been submitted to President of the Republic of Azerbaijan;
- 25.1.2** he/she fails to discharge his/her responsibilities within a period of over 6 months due to an illness, under an appropriate medical confirmation, provided the Management Board of the Central Bank duly submits a petition to President of the Republic of Azerbaijan;
- 25.1.3** considered unfit for work or with limited work ability by the court decision;
- 25.1.4** an effective court ruling has been adopted that recognizes the person concerned guilty of crime;
- 25.1.5** requirements and limitations specified in Article 21 herein have been defaulted.

25.2 A board member who disagrees with his/her earlier termination from the office may apply to court as determined by the Administrative Procedural Code of the Republic of Azerbaijan.

Article 26. Resignation of Management Board members

26.1 Decisions on the resignation of the Chairman of the Management Board of the Central Bank and any other member of the Management Board shall be taken within 2 months upon the date the relevant application was filed. If no decision is made within this period, the person requesting resignation shall be deemed to have resigned upon 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 Management Board of the Central Bank and any other member of the Management Board, the person who filed this application shall be deemed to have resigned after 1 month from the date of the decision to reject his/her original resignation letter, provided

that he/she filed another resignation letter within 2 weeks from the date of the decision to reject his/her original resignation letter.

Article 27. Internal audit

27.1. The internal audit division of the Central Bank shall:

27.1.1. assess the status of control mechanisms and adequate procedures for risk management in the Central Bank, and control their permanent implementation;

27.1.2. audit structural units of the Central Bank in line with the existing legislation;

27.1.3. issue recommendations to the Management Board of the Central Bank and structural units on elimination of drawbacks detected during the audit as well as accounting and reporting, permanent control procedures and mechanisms.

27.1.4. exercise other powers established by the Central Bank's Management Board.

27.2. The internal audit division is directly accountable to the Chairman of the Management Board of the Central Bank.

Chapter V THE MONETARY POLICY

Article 28. The Monetary policy

28.1. The Central Bank shall report to President of the Republic of Azerbaijan on key directions of the country's monetary policy for the upcoming year no later than by October 1 and make it public by December 31.

28.2 When disclosing main directions of the monetary policy the Central Bank shall indicate results of the monetary policy for the current year, as well as goals and objectives of the next year's monetary policy, and ways of their implementation, reflecting factors dependable and non-dependable on the Central Bank.

Article 29. Monetary policy instruments

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

29.1.1 conduction of open market transactions;

29.1.2 setting interest rates;

29.1.3 setting reserve requirements for credit institutions;

29.1.4 refinancing of credit institutions;

29.1.5 maintenance of deposit transactions;

29.1.6 ~~restriction of bank transactions;~~

29.1.7 other monetary policy instruments accepted in the international practice.

29.2. The Central Bank shall use its own discretion as to use of any of the instruments specified in Article 29.1 herein, in line with the goals and objectives specified herein.

Article 30. Open market transactions

30.1. The Central Bank shall engage in the following open market transactions:

30.1.1 trade in and other transactions with government securities, pursuant to Article 16 herein;

- 30.1.2. trade in, and other transactions with its own securities;
- 30.1.3. trade in and other transactions in a foreign currency.
- 30.2. Issuance and circulation of debt securities of the Central Bank designated to implement the monetary policy shall be established by the legislation;

Article 31. Setting interest rates

- 31.1. The Central Bank shall set the refinancing rate and interest rates on its own transactions.
- 31.2. When setting the refinancing rate, the Central Bank shall consider existing macroeconomic conditions in the country and the standing of the financial market.
- 31.3. The Central Bank shall set interest rates on its own transactions taking into account the liquidity position of money markets by specifying its refinancing, deposit and open market transaction interest rates, or defining them by demand and supply at auctions.
- 31.4. The Central Bank shall publish the refinancing rate and interest rates on its own transactions.

Article 32. Setting reserve requirements

- 32.1. The Central Bank shall compel credit institutions to maintain required reserves. Reserves shall be set in percentage proportion to the deposit base and maintained at the Central Bank. The Management Board of the Central Bank shall set norms of, procedures for calculating and maintaining required reserves *by coordinating with the financial markets supervisory authority*.
- 32.2. In the event of failure to meet the reserve requirements, the Central Bank shall impose administrative fines and penalties on such a credit institution and its administrators pursuant to the Code of Azerbaijan Republic on Administrative Offences.

Article 33. Refinancing of credit institutions

- 33.1. The Central Bank shall refinance credit institutions to implement the monetary policy. At that, loans shall be backed by Government securities, guarantees and warranties issued by the Government and other reliable issuers, foreign currency, gold, precious metals of different types and other assets.
- 33.2. The Management Board of the Central Bank shall establish the type, procedures and provisions of refinancing.
- 33.3. Loans shall be extended to head offices of credit institutions.

Article 34. Deposit transactions

The Central Bank shall accept deposits from and place deposits with credit institutions under its own terms and conditions and built upon the mutual agreement.

Article 35. ~~Restriction of banking operations~~

~~The Central Bank may temporarily contain individual operations conducted by credit institutions, including setting the interest rate corridor floor and ceiling under the legislation in exceptional cases in order to implement the monetary policy.~~

Chapter VI ORGANIZATION OF CASH CIRCULATION

Article 36. Monetary unit

36.1 The monetary unit of the Republic of Azerbaijan is the Manat in line with Item 1 of Article 19 of the Constitution of the Republic of Azerbaijan. One Manat consists of 100 (hundred) gepiks. Monetary units shall be issued to circulation in the form of banknotes and coins.

36.2 In accordance with Item 3 of Article 19 of the Constitution of the Republic of Azerbaijan, use of any monetary unit other than Manat in the territory of the Republic of Azerbaijan is prohibited.

36.3 Banknotes issued by the Central Bank, including anniversary and commemorative notes should be accepted without fail for any payment, deposition and money transfers in the Republic of Azerbaijan at their face values.

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

36.5 Persons engaged in counterfeiting and sale of counterfeit money shall be taken responsible in accordance with the Criminal Code of the Republic of Azerbaijan.

36.6 The Central Bank shall make a qualified review to identify whether bank notes are counterfeit.

36.7 Counterfeit bank notes shall be surrendered to the Central Bank upon completion of a trial on money counterfeit.

Article 37. Organization of money circulation

37.0. To provide money circulation in the Republic of Azerbaijan the Central Bank shall:

37.0.1 determine demand for bank notes;

37.0.2 arrange or order production, and provide transportation and storage of bank notes;

37.0.3 create and dispose of bank note reserves;

37.0.4 establish procedures for storage and physical transportation of cash by the Central Bank and credit institutions;

37.0.5 establish procedures to carry out cash transactions at the Central Bank ~~and credit institutions~~;

37.0.6 define signs of banknotes unfit for circulation and determine procedures for their replacement.

Article 38. Issuance of bank notes to circulation

38.1 The Management Board of the Central Bank shall decide on issuing bank notes of new series into circulation. The Central Bank shall determine denominations, sizes, design, security features, as well as other graphic and technical features of banknotes issued to circulation.

38.2 The Management Board of the Central Bank shall decide to issue anniversary and commemorative notes to circulation. The Central Bank shall arrange sale of anniversary and commemorative notes in the order defined and at values determined.

38.3 The Central Bank shall decide on issuance of new series of banknotes to circulation due to changes in price scales (denomination) upon coordination with the relevant executive authority.

Article 39. Withdrawal of banknotes from circulation

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

39.2 The Central Bank shall publicize its decision on replacement of banknotes in circulation, as well as description of new banknotes and procedures for replacement thereof on mass media.

39.3 No limitation may be imposed on the amounts or subjects of replacement when bank notes are replaced due to issuance of new banknotes. Notes subject to replacement shall be deemed legal tender for payments within the period to be determined by the Central Bank,

provided that this period is no less than 1 year. Notes shall be changed by the Central Bank upon this period on an on-going basis.

39.4 The Management Board of the Central Bank shall decide on withdrawal, destruction of counterfeit banknotes and procedures for taking appropriate actions thereof.

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

Article 40. Interchange of notes

The Central Bank shall change notes, fit for circulation without any limitation. Notes that are not counterfeit, with 60 percent of the surface preserved or with 100 percent of torn pieces of one note preserved shall be remunerated by the Central Bank without limitation. Belongings of torn pieces to one and the same note shall be determined by the Central Bank only.

Article 41. Destruction of banknotes

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

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

Chapter VII MANAGEMENT OF GOLD-FOREIGN EXCHANGE RESERVES

Article 42. International gold-foreign exchange reserves

42.1 The Central Bank shall, within the framework of the strategy set by the Management Board, maintain and manage gold-foreign exchange reserves with the purpose of implementation of the country's monetary policy and timely execution of settlements on international liabilities.

42.2 The Central Bank shall, within the framework of the strategy and regulations set by the Management Board, maintain and manage gold-foreign exchange reserves composed of:

42.2.1 gold, other precious metals and precious stones;

42.2.2 hard foreign currency in the form of paper or coinage;

42.2.3 foreign currency reserves of the Central Bank on the accounts with 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 reserve assets internationally accepted.

42.3 The Central Bank may employ services of financial institutions specialized in management of gold-foreign exchange reserves within the strategy set by the Management Board.

42.4 In case of decrease of gold-foreign exchange reserves to the level which by the judgment of the Central Bank is threatening to implement the monetary policy, timely execute settlements on country's international liabilities or in case of such a possibility, the Central Bank shall submit a report on the position of gold-foreign exchange reserves and justified proposals to the relevant executive authorities previously indicating the reasons for such decrease or a possible decrease of the reserves.

Article 43. Information on international gold-foreign exchange reserves

The Central Bank shall periodically, but no less than once a quarter, publicize in media total amount of international gold-foreign exchange reserves.

Chapter VIII ORGANIZATION OF PAYMENT SYSTEMS

Article 44. Authorities in payment systems

44.1 To maintain a stable operation of *centralized interbank and other unlicensed payment systems it has created*, ~~including clearing (processing) systems~~, the Central Bank shall organize, coordinate, regulate and oversee their activities.

44.2 ~~The Central Bank shall issue permits for and oversee activities of clearing (processing) institutions pursuant to applicable regulations.~~

44.3 *The Central Bank shall establish rules and terms and conditions for non-cash settlements in centralized interbank and other unlicensed payment systems it has created as well as the form and content of used payment documents.*

~~**44.4** The Central Bank shall determine types of bank accounts, procedures on opening, maintenance, and closing of bank accounts in accordance with the Civil Code and other regulations of the Republic of Azerbaijan.~~

~~**44.5** The Central Bank may set minimum requirements for electronic settlements and remittances used by credit institutions, reliability and security of clearing (processing) systems as well as ensuring protection of banking information.~~

~~**44.6** The Central Bank shall exercise other powers on organization of payment systems in accordance with applicable laws.~~

Article 45 Organization of settlements among credit institutions

The Central Bank shall organize settlements among credit institutions by means of correspondent accounts in the national currency (Manat), opened by credit organizations with the Central Bank or by any other methods adopted by the Central Bank in accordance with international practices.

Chapter IX

RELATIONS WITH CREDIT INSTITUTIONS

Article 46. Main principles of relations with credit institutions

~~**46.1** The Central Bank shall provide bank licensing, regulation and supervision in order to ensure stable operation of the banking system and protect interests of bank creditors and depositors in the Republic of Azerbaijan in accordance with the present Law, Laws of the Republic of Azerbaijan on Banks, and on Post Offices, on Non bank Credit Institutions and Regulations of the Central Bank on Credit Unions, and by laws of the Central Bank.~~

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

46.3 The Central Bank and credit institutions shall not be responsible for each other's liabilities.

46.4 In the cases specified herein, the Central Bank shall be the Lender of Last Resort for banks.

46.5 The Central Bank may disclose information on operations of credit institutions obtained through discharge of its functions only when permitted by the laws of the Republic of Azerbaijan on the Right to Obtain Information, and on Freedom of Information.

Article 47. Licensing

~~**47.1** The Central Bank shall have the exclusive right to grant and revoke special permissions (licenses) to credit institutions and permits to their branches and~~

departments, as well as representative offices of domestic and foreign banks to provide representative capacity, special permit (license) to the national operator of postal communication to deliver financial services in the Republic of Azerbaijan.

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

Article 48. Regulation and supervision

48.1 The Central Bank shall implement the following to regulate and supervise activities of credit institutions and the national operator of postal communication:

48.1.1 adopt regulations *on issues related to its authorities under the applicable law*;

48.1.2 establish prudential ratios, as well as methods for their calculation and application;

48.1.3 determine procedures for calculation and creation of loan loss provisioning and other assets established by banks, domestic branches of foreign banks and non bank credit institutions;

48.1.4 evaluate financial standing of credit institutions on the basis of reports and inspection findings and issue binding instructions for credit institutions to make relevant changes to financial statements on that ground;

48.1.5 set forth corporate governance standards for banks and domestic branches of foreign banks and supervise their implementation;

48.1.6 in cases and in the order specified by the law, conduct inspections at credit institutions, as well as their subsidiaries by coordinating with the *financial markets supervisory authority*;

48.1.6-1 supervise compliance of credit institutions with the requirements of the Law of the Republic of Azerbaijan on Prevention of Legalization of Criminally Obtained Funds or other Property and the Financing of Terrorism.

48.1.7 raise issues with the authorized body to prevent monopolistic behavior in the banking market;

48.1.8 impose, in cases and in the order specified by the laws of the Republic of Azerbaijan on Banks, on Non Banking Credit Institutions, and on Postal Service, statutory corrective actions (enforcement measures) and sanctions on credit institutions and their administrators;

48.1.9 attend meetings of governance structures of and hold consultations with administrators of credit institutions, when required by findings of supervisory measures conducted pursuant to the law;

48.1.10 in cases specified in the Law of the Republic of Azerbaijan on Banks, establish special conditions of fulfillment of credit commitments before the Central Bank under financial rehabilitation measures for banks;

48.1.11 in cases specified in the Law of the Republic of Azerbaijan on Banks, appoint temporary administrators for banks and domestic branches of foreign banks, and submit petition to the court for a moratorium of bank's obligations, when necessary;

48.1.12 take appropriate measures, commensurate with the Law of the Republic of Azerbaijan on Banks, with respect to banks and domestic branches of foreign banks whose licenses were revoked;

~~48.1.13 exercise other powers specified in the legislation;~~

~~48.2 When setting prudential ratios for credit institutions and the national operator of postal communication, the Central Bank may set different ratios and calculation methods given the types of credit institutions.~~

Article 49. Lender of Last Resort

The financial markets supervisory authority may apply to the Central Bank to grant a loan with up to 6 (six) month maturity in the event of banks' short-term insolvency and liquidity shortfall. The Central Bank shall take a relevant decision whether to extend a loan no later than 2 (two) bank days based upon the appeal of the financial markets supervisory authority.

Article 49-1. Targeted lending to credit institutions

~~49-1.1. The Central Bank may extend targeted loans to banks built on the state guarantee in order to fund socio-economic projects, as well as provide financial support for the real sector of the economy. The Management Board of the Central Bank shall determine types, rules and provisions of such loans.~~

~~49-1.2. In the event of the necessity to cover debt commitment on the targeted loan through the state guarantee and in the event of full or partial coverage of this commitment through debt securities issued by the state at the consent of the Central Bank, the Central Bank shall acquire the securities in question at the primary market in compliance with terms of issuance.~~

Article 50. Cooperation with credit institutions

To mutually cooperate with credit institutions the Central Bank may hold consultations on critical banking issues, launch uncompensated councils and working groups by involving representatives of banks and their public unions (associations).

Article 51. International cooperation

The Central Bank may cooperate with international organizations and relevant institutions of foreign states on issues attributed to its authorities under the applicable law.

Article 52. Exchange of Information

The Central Bank may provide exchange of information on institutions subject to regulation and supervision on mutual cooperation basis with *the financial markets supervisory authority*, provided that 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 Central Bank's decisions related to discharge of its ~~licensing~~, regulatory and supervisory functions shall be settled at relevant courts. Filing of complaint shall not be ground for non-execution of the decision.

Chapter X TRANSACTIONS AND OPERATIONS

Article 54. Transactions and operations of the Central Bank

54.1 In order to accomplish its objectives, the Central Bank shall be entitled to conduct the following operations with domestic and foreign credit institutions:

54.1.1 acquire, sell and store checks, notes, precious metals and precious stones, including items made thereof;

54.1.2 acquire and sell foreign currency, as well as payment orders and obligations denominated in foreign currency;

54.1.3 issue guarantees and warranties;

54.1.4 open accounts with banks, including deposit accounts;

54.1.5 maintain settlements, cash and deposit transactions, and receive securities and other valuables for safe keeping and management;

54.1.6 submit checks and notes in any currency for payment;

54.1.7 implement other banking transactions and operations accepted in the international practice, not contradicting the legislation of the Republic of Azerbaijan.

54.2 The Central Bank shall be entitled to charge fees for banking services.

54.3 The Central Bank may render banking services to the staff of the Central Bank, as well as funds in accordance with the applicable laws.

54.3-1. The Central Bank may issue government backed loans to the Azerbaijan Deposit Insurance Fund under Article 17.2 of the Law of the Republic of Azerbaijan on Deposit Insurance.

54.4 The Central Bank may, in order to support settlement and clearing (processing) operations, open bank accounts for the institutions which carry out these operations.

54.5 The Central Bank may render banking services to governments, central banks and monetary authorities of foreign states, as well as international organizations the Central Bank or the Republic of Azerbaijan is the member of.

54.6 The Central Bank shall be entitled to acquire liquid debt securities issued by reliable issuers.

54.7 The Central Bank may conclude civil - legal contracts not prohibited by the Civil Code of the Republic of Azerbaijan.

Article 55. Prohibited activities

55.0. The Central 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 other commercial activity, except for manufacturing, trade, insurance and other cases specified herein;

55.0.3 purchase, sell or otherwise acquire full or partial ownership over real estate for purposes other than to sustain the activities of the Central Bank itself, implement commitments before the Central Bank as well as meet social needs of the Central Bank staff.

Chapter XI

FINANCIAL ACCOUNTING AND REPORTING OF THE CENTRAL BANK

Article 56. The reporting year of the Central Bank

A reporting year of the Central Bank shall last from January 1 to December 31.

Article 57. Financial accounting and reporting

57.1 Financial accounting and reporting of the Central Bank shall conform to the International Financial Reporting Standards.

57.2 Annual financial statements of the Central Bank shall consist of the balance sheet and income statement, cash flow statement and supporting explanatory notes.

Article 58. Audit of the Central Bank

58.1 Activities of the Central Bank shall be audited, in accordance with Item 32 of Article 109 of the Constitution of the Republic of Azerbaijan, once a year only by the auditor appointed for a period of one or more years.

58.2 An extraordinary audit review may be appointed, if necessary, in accordance with Item 32 of Article 109 of the Constitution of the Republic of Azerbaijan.

58.3 The Central Bank shall be audited in accordance with the International Auditing Standards. Audit related expenses shall be covered by the Central Bank.

58.4 Audited annual financial statements as well as reporting operational budget shall be submitted to President of the Republic of Azerbaijan.

58.5 Annual financial statements approved by the audit opinion shall be published in the media no later than one month upon the audit of financial statements is completed.

Chapter XII FINAL PROVISIONS

Article 59. Central Bank staff

59.1 Labor relations between the Central Bank and its staff shall be governed by the Labor Code of the Republic of Azerbaijan, with due consideration of the provisions herein.

59.2 Central Bank's employees may not engage in any other remunerated activities, except for scientific, tutorial and creative work.

59.3 Members of the Central Bank's Management Board and officers holding positions determined by the Management Board may obtain loans from the Central Bank only. Such employees shall inform the Management Board of the Central Bank on any credit card acquired from credit institutions in the order determined by the Management Board.

59.4 Employees holding positions determined by the Management Board of the Central Bank may not be founders and shareholders of credit institutions and their subsidiaries, and members of their governance structures.

59.5 Central Bank employees shall be provided with the pension system according to the Law of the Republic of Azerbaijan on Labor Pensions.

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

Article 60. Confidentiality

Members of the Management Board and other employees of the Central Bank may disclose job-related information obtained through discharge of their official responsibilities, including information that constitutes or relates to state and banking secrecy, during or after termination of their employment with the Central Bank solely in the cases specified in the laws of the Republic of Azerbaijan on State Secret and on Banks.

Article 61. Immunity from claims

No person shall be liable for damages, for anything done or omitted while a member of the Management Board or an employee of the Central Bank in the discharge or purported discharge of the functions of the Central Bank under the present Law unless it is shown that the act or omission was in bad faith.

Article 62. Security

The Central Bank shall take appropriate actions to secure its activities. Central Bank's structural units engaged in safe transportation of cash and other valuables in the Republic of Azerbaijan shall be equipped with armored vehicles, and relevant staff members shall be equipped with special clothing, as well as weapons (firearms) and munitions in the order specified in the Law of the Republic of Azerbaijan on Service and Civilian Weapons.

Article 63. Data acquisition

In order to implement its functions, the Central Bank shall obtain statistical information from government bodies, local self-executive bodies, *the financial markets supervisory authority*, legal entities and individual entrepreneurs.

Article 64. Publications

64.1 The Central Bank shall publish its annual report. The annual report by the Central Bank shall reflect the macroeconomic situation in the country, results of the monetary policy implemented in the country, as well as standing of the banking system, financial standing of the Central Bank and results of its operational budget.

64.2 The Central Bank shall issue information bulletins concerning conditions of the money and financial markets no less than once a month.

64.3 The Central Bank shall publish statistical summaries on the banking system, as well as other information it deems appropriate and relevant *by coordinating with the financial markets supervisory authority*.

64.4 Summary balance sheet of the Central Bank shall be published in press on a monthly basis.

Article 65. Exemptions

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

Article 66. Effect of the Law

66.1 The present Law shall take effect as of the publication date.

66.2 From the date the present Law takes effect, the Central Bank shall raise its charter *fund* up to the level stipulated in article 10.2 herein through its profit, where the profit is insufficient, from its capital reserves.

66.3 Upon effect of the present Law, the Law of the Republic of Azerbaijan on the Central Bank of the Republic of Azerbaijan (Collection of Legislation of the Republic of Azerbaijan, 1997, #3, Article 172) and all related amendments and additions, shall become void.

President of the Republic of Azerbaijan

Ilham Aliyev,

City of Baku,

10 December 2004 #

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