

Law on the NBA

THE LAW OF THE REPUBLIC OF AZERBAIJAN ON THE NATIONAL BANK OF THE REPUBLIC OF AZERBAIJAN (10.12.2004)

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

Chapter I GENERAL PROVISIONS

Article 1. National Bank of the Republic of Azerbaijan

- 1.1. 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 of the Constitution of Azerbaijan Republic, the National Bank shall be in exclusive ownership of the state.
- 1.3 Objectives, functions and powers of the National Bank shall be determined by the Constitution of Azerbaijan Republic and this Law. The National Bank shall in the course of its activities, be governed by other legislation acts of Azerbaijan Republic and international treaties the Republic of Azerbaijan is a party to.
- 1.4 Central body of the National Bank shall be located in the city of Baku.

Article 2. Legal status of the National Bank

- 2.1. National Bank is a legal entity, has a seal with the national emblem of the Republic of Azerbaijan and its name.
- 2.2. National Bank shall have an independent balance sheet, authorized capital and other property as defined by legislation. National Bank shall, in accordance with the legislation, own, use and dispose of the property on its books. It is not permitted to alienate the capital and the property of the National Bank without its consent.
- 2.3. The objective of the National Bank shall not be profit making.

Article 3. Territorial Divisions and representative offices of the National Bank

National Bank may open its territorial branches within the Republic of Azerbaijan, and representative offices abroad.

Article 4. Goals of the National Bank’s activity

- 4.1. The principal goal of the National Bank’s activity is to ensure stability of the national currency.
- 4.2. The purpose of the National Bank’s activity, 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 monetary policy;

5.0.2 organise cash circulation, in accordance with 2 paragraph of article 19 of the Constitution and this Law issue, put into, and withdraw banknotes from circulation;

5.0.3 determine and announce the official exchange rate of manat;

5.0.4 implement foreign currency regulation and control;

5.0.5 maintain and manage the gold and foreign currency reserves in its charge;

5.0.6 manage the drawing up of the reporting balance of payments and participate in the drawing-up of the projected balance of payments of the country;

5.0.7 license, regulate and supervise banking activities of banks in accordance with the law of Azerbaijan Republic on "Banks", this law and other normative legal acts adopted pursuant thereto;

5.0.8 determine, coordinate and regulate activities of payment systems;

5.0.9 implement other functions stipulated by the legislation.

Article 6. Independence of the National Bank

6.1. National 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 state authority or self-administration body, physical person or legal entity may directly or indirectly by any reason, illegally influence or interfere with its activities. In case of any restrictions of the NBA's activity, interference with the affairs of the National Bank or any influence on the NBA senior management, the Chairman shall inform the President of the Azerbaijan Republic.

6.2. National Bank shall report only to the President of the Republic of Azerbaijan.

Article 7. Reporting of the National Bank

7.1The National Bank shall report to the President of the Azerbaijan Republic only.

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

7.2.1In accordance with paragraph 9 of article 109 of the Constitution of the Azerbaijan Republic, providing by the President of the Azerbaijan Republic of recommendations to the Parliament on appointment or dismissal of members of the NBA Management Board;

7.2.2In accordance with this Law, appointment and dismissal by the President of the Azerbaijan Republic of the Chairman of the NBA Management Board, and his deputies;

7.2.3 In accordance with this Law, appointment by the President of the Azerbaijan Republic, of the auditor to check the NBA activities and if necessary to conduct extraordinary audits;

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

7.2 The Chairman of the NB must make a report before the national parliament of the Azerbaijan Republic on the state budget for the upcoming year.

Article 8. National Bank's regulations

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

8.2. Normative legal acts of the National Bank shall be subject to state registration in the order specified by legislation.

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

Article 9. International cooperation

9.1. Pursuant to the legislation of Azerbaijan Republic and the international treaties acceded to 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 NBA responsibilities.

9.2. 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 agencies, on its own behalf and on behalf of the Republic of Azerbaijan, if appropriately empowered.

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

Chapter II

NATIONAL BANK'S CAPITAL

Article 10. Capital of the National Bank

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

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

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

Article 11. Profit of the National Bank

11.1 National Bank's profits shall be calculated by deducting expenditures from revenues in compliance with the IFRS.

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 shall be carried out after being confirmed by auditor's opinion.

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

The difference resulting from the revaluation of assets and liabilities that are held in gold and foreign currency because of changes in the rate of the Manat and the value of gold is reflected in the capital reserves of the NB and shall not be taken into consideration in calculation of normative specified in article 10.3.

Article 14. Financial Stability of the National Bank

14.1 National Bank may not be declared bankrupt.

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

CHAPTER III

RELATIONS OF THE NB WITH THE STATE AUTHORITIES

Article 15. Basis of the National Bank's relations with the government

15.1 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 case explained in Article 14 of this law.

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

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

Article 16. Loans of the National Bank to the state

16.1 National Bank shall not give a loan to the state directly for funding the state budget deficit.

16.2 In even 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% of state budget average revenues for the past three years.

16.3 The purchase of securities issued by the Azerbaijani government by the NBA is considered as an issue of credits to the state. Such transactions can be made in the secondary market only and conditions of this article of this law shall apply to them.

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

Article 17. National Bank as the government's bank

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

17.2. Where it is required to implement monetary policy, the NB can get time deposits from the state on conditions agreed upon with the relevant executive power.

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

Article 18. National Bank as the government's consultant

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

18.2 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 NB as a financial agent of the state

The NB can carry out the financial agent functions of the state as agreed upon with the relevant executive power. As a financial agent the NB 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 Management Board, central apparatus, its territorial divisions and representative offices. The central office of the National Bank consists of the structural divisions determined by the Board as well as 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 Board.

Article 21. Management Board of the National Bank

21.1 The National Bank shall be managed by the Management Board. The Board shall consist of 7 persons. The Board shall be composed of the Chairman of the NBA Management Board, 4 inside and 2 outside persons.

21.2 Citizens of the Republic of Azerbaijan who have higher economic and legal education, as well as professional experience in economics, law and finance or banking and have not been convicted, and especially for grave crimes, shall be eligible for membership of the 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 with the National Bank's Board.

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

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

21.6 Chairman of the NBA Board shall be appointed by the President of the Republic of Azerbaijan from among the Board members for a period equal to the term of office of its member.

21.7 First Deputy Chairman of the National Bank and other deputies shall be appointed by the President of the Republic of Azerbaijan from among the Board members for periods equal to the respective terms of office of these members.

21.8 Members of the NBA Management Board during the period of employment with the NBA may not be engaged in any other remunerated activity, including entrepreneurial activity, except for scientific, pedagogical and creative work. Except for the cases stipulated by the legislation, members of the NBA Management Board working full time at the NBA may not hold positions with government bodies, as well as with the corporate bodies of legal entities.

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

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

21.11 Remuneration to the Chairman of the National Bank's Board and his deputies shall be determined in the order specified by paragraph 32 of the article 109 of the Constitution of the Republic of Azerbaijan.

21.12. Remunerations of Deputies to the Chairman and other members of the Board shall be determined by the Board after taking into consideration the remuneration of the Chairman of the Board. Remunerations of other members of the NBA Board working full time shall be determined by the NBA Board taking into consideration the remuneration of the Chairman and his deputies.

Article 22. Authorities of the National Bank's Board

22.1. Board of the National Bank shall:

22.1.1 determine and approve the monetary policy for each year;

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

22.1.3. decide on introducing bank notes of new type in circulation and withdrawing bank notes of old type;

22.1.4 approve the currency regulation and control policy, as well as the procedures for setting the exchange rate of the Manat against other currencies;

22.1.5 approve and modify the budget of the National Bank

22.1.6 set procedures for establishing and utilizing capital reserves of the National Bank;

22.1.7 approve the annual financial report of the National Bank;

22.1.8 determine the rules of holding and strategy for managing international gold and currency reserves;

22.1.9 make decision on granting or abolishing licence to commercial banks;

22.1.10 set economic (prudential) normatives (ratios) for credit institutions;

22.1.11 decide on appointment of temporary conservator for credit institutions, and termination of their conservatorship activities;

22.1.12 take decision to establish and participate in other legal entities and in their capital;

22.1.13 determine the organizational structure and internal management procedures of the National Bank;

22.1.14 approve the recruitment and evaluation of personnel policy for the National Bank, determine the positions under the jurisdiction of the Board of the National Bank, and relevant appointments to, and dismissals from such positions;

22.1.15. 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;

22.1.16 taking into account official remunerations of NB Chairman and his deputies which are determined by the President of the Azerbaijan Republic determine the form and amount of remuneration;

22.1.17 approve the National Bank's normative legal acts;

22.1.18 solve any other issues the Board of the National Bank is charged with hereunder.

Article 23. 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 Management Board who is authorised to replace him in his absence.

23.3 Chairman of the National Bank shall convene Board meetings. Meetings may be convened upon demand of at least 2 other members of the Board.

23.4 Board members shall be notified of a Board meeting at least 3 days in advance, and the notice shall inform them on 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, of which one must be the Chairman or his substitute.

23.6 When an issue is included in the agenda of the session that meets the interests of a particular member, that member must provide for elaborate information on his interests in the issue, but must not participate in its discussion. That member doesn't participate in the voting and his participation is not taken into consideration when the quorum is set.

23.7 Decisions of the Board shall be adopted by a simple voting majority of the Board members. In

case of a tie, the chairperson shall cast the final vote. In event of disagreement by a Board member with a decision taken by the Board, such a member may submit his written commentary with the reasoning for the objection.

23.8 Meetings of the NBA Board shall be protocolled. The protocol shall be signed by chairman of the meeting and secretary of the Board.

23.9 Secretary of the Board shall be appointed by the Chairman of the Board among officers that are not Board members.

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

24.1. Chairman of the National Bank's Board shall organize the work of the Management Board and at the same time head the executive structure of the National Bank.

24.2 Chairman of the National Bank's Board shall have the following authorities:

24.2.1 represent the National Bank in the Azerbaijan Republic and abroad without a power of attorney in the order specified by legislation;

24.2.2 signs off normative legal acts approved by the Board;

24.2.3 issue decrees and directives binding on all employees of the National Bank;

24.2.4 appoint and dismiss persons under the jurisdiction of the Board;

24.2.5 carry out a duty division among the Deputy Chairman 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 Board's jurisdiction.

24.2.7 carries out other authorities 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 Board as per the procedures set by the Chairman of the National Bank.

Article 25. Premature termination of Board membership

25.1. Chairman and other members of the National Bank's Board may be released from office prior to expiry of their respective terms of office in the order specified by paragraph 10 of article 109 of the Constitution of the Azerbaijan Republic 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 when failure to discharge his/her responsibilities within a period of over 6 months due to an illness, which can be evidenced by an appropriate medical confirmation, provided the Board of the National Bank duly petitions the President of the Republic of Azerbaijan;

25.1.3 when considered unable 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 the job descriptions in Article 22 hereof have been defaulted.

25.2 A board member who disagrees with his/her earlier termination from the office can apply to court as determined by the legislation

Article 26. Resignation of Board members

26.1 Decisions to accept or reject the resignation of the Chairman of the National Bank and any other member of the Board 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 and any other member of the 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 original resignation letter, provided that this person

filed another resignation letter within 2 weeks from the date of the decision to reject his original resignation letter.

Article 27. Internal audit

27.1. The internal audit division of the NBA carries out the following:

27.1.1. Assesses the control mechanisms and adequate procedures for the management of risks in the NBA, controls their implementation;

27.1.2. with the purpose of providing observance of the existing legislation it carries out the audit of structural divisions of the NBA.

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

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

27.2. The internal audit division is under subordination of the chairman of the Management Board only.

Chapter V

MONETARY POLICY

Article 28. Monetary policy

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

28.2 When making the major directions of the monetary policy available for general public, the National Bank shall indicate the finals of the monetary policy for the current year, as well as goals and objectives of the next year's monetary policy, and other criterias of implementation of the monetary policy which depend and do 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 implementation of open market transactions;

29.1.2 fixing of interest rates;

29.1.3 setting of required reserve requirements for credit institutions;

29.1.4 refinancing of credit institutions;

29.1.5 implementation of deposit transactions;

29.1.6 restriction of bank transactions;

29.1.7 other instruments of monetary policy accepted in the international practice.

29.2. National Bank shall use its own discretion as to utilization of any of the instruments specified in paragraph 1 above, along the lines of the goals and objective of the monetary policy.

Article 30. Open market transactions

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

30.1.1 trade in, and other transactions with government securities, pursuant to Article 16 hereof; trade in, and other transactions with its own securities;

30.1.2. trade in, and other transactions with foreign currency.

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 legislation;

Article 31. Fixing of interest rates

- 31.1.** National Bank shall fix rates and interest rates on its own transactions.
- 31.2** When fixing rates, applied in the 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 standpoint 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 registered at auctions.
- 31.4.** National Bank shall publicize fixed rates and interest rates on its own transactions.

Article 32. Setting of required reserves

- 32.1** 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 Board of the National Bank shall fix amounts of, procedures for calculating and maintaining required reserves.
- 32.2** In event of failure by a bank 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 Offences Code of Azerbaijan Republic.

Article 33. Refinancing of credit institutions

- 33.1.** National Bank shall refinance credit institutions with purposes of implementing monetary policy. Loans shall be extended against collateral of government securities, guarantees and warranties issued by the government and other reliable issuers, foreign currency, gold, precious metals of different formats and other assets. Such loans shall be extended for a term not exceeding 6 month and, if necessary, this term may be renewed for 3 more month.
- 33.2.** Board of the National Bank shall be responsible for fixing the format, procedures and conditions 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 accept deposits from credit institutions on its own terms.

Article 35. Restriction of banking operations

Except for cases with the purpose of monetary policy, the National Bank in emergency, may temporarily suspend individual operations implemented by credit institutions, and determine more higher or lower rates on 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 Azerbaijan Republic, 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 bank notes and coins.
- 36.2** In accordance with the third part of article 19 of the Constitution of the Azerbaijan Republic, use of a monetary unit other than manat on the territory of Azerbaijan Republic is prohibited.
- 36.3** Bank notes issued by the National Bank, including anniversary and commemorative notes shall be accepted for any payment, deposition and money transfer in the Republic of Azerbaijan.
- 36.4** No official correlation shall be defined between the Manat and gold or other precious metals. Bank notes issued shall be the National Bank's debt obligations secured with all of its assets.

36.5 Persons engaged in counterfeiting and sale of counterfeit money shall be taken to responsibility in accordance with the relevant legislation of the Republic of Azerbaijan.

36.6 National Bank shall make qualified review to identify whether bank notes are counterfeit.

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

Article 37. Organization of money circulation

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

37.0.1 identify the demand for bank notes;

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

37.0.3 create bank note 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 bank notes unfit for circulation and determine procedures for replacement of such notes.

Article 38. Issuance of bank notes into circulation

38.1 The Board of the National Bank shall decide on issuing bank notes of new types into circulation. National Bank shall be responsible for determining denominations, sizes, design, security features, as well as other artificial and technical features of bank notes issued into circulation.

38.2 Board of the National Bank may decide to issue anniversary and commemorative notes. 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, the National Bank, with approval from the relevant state authorities, may decide to issue new bank notes (denomination).

Article 39. Withdrawal of bank notes from circulation

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

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

39.3 No limitation may be imposed on the amounts or subjects of replacement when bank notes are replaced by newly issued notes. Notes 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. Notes shall be changed by the National Bank after this period on an on-going basis.

39.4 The Board of the National Bank shall decide on withdrawal, termination of the bank noted and procedures for taking appropriate actions.

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 which are considered as legal tender

40.1 National Bank shall change notes which are considered as legal tender with no limitation. Notes that are not counterfeit, 60 % of the surface of which is preserved or if 100% of the torn peaces of one note is preserved these notes shall be considered as legal tender. Belonging of torn peaces to one note may be determined by the National Bank only.

40.2 Value of notes that are not legal tender shall not be refunded.

Article 41. Destruction of bank notes

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

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

Chapter VII

ADMINISTRATION OF FOREIGN CURRENCY RESERVES [international reserves]

Article 42. Foreign currency reserves

42.1 The National Bank shall, within the framework of the strategy set by the Board, maintain and manage foreign currency reserves with purpose of implementation of NBA 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 Board, maintain and manage foreign currency reserves composed of the following assets in accordance with the procedures determined by the Board:

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 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 Board services of financial institutions specialized in management of foreign currency reserves.

42.4 In case of decrease of the foreign currency reserves to a level which by the judgment of the National Bank is dangerous for implementing monetary policy, timely execution of settlements on international commitments of the state or in case of such possibility, 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

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

Chapter VIII

ORGANIZATION OF PAYMENT SYSTEMS

Article 44. Authorities in payment systems

44.1 For the purpose of ensuring the stable work of the national payment system, including clearing (processing) systems, the National Bank shall organize, coordinate, regulate and monitor their activities.

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

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

44.5 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 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

National Bank shall organize settlements among credit institutions by means of correspondent accounts in national currency (manat), opened by credit organizations 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 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, Laws of the Republic of Azerbaijan on Banks, and Credit Unions, National Bank's regulations as well as internationally accepted practices of effective banking supervision.

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

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

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

46.5 National Bank may disclose information on the operations of credit institutions obtained through discharge of its functions only when permitted by the applicable laws.

Article 47. Licensing

47.1 National Bank shall have the exclusive right to grant and revoke 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 National Bank shall determine the format and contents of banking licenses and permits.

Article 48. Regulation and supervision

48.1 National Bank shall fulfil the following to regulate and supervise activities of credit institutions:

48.1.1 to adopt banking regulations;

48.1.2 to determine the rules of application of prudential ratios, as well as the methods of their calculation;

48.1.3 to 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 to evaluate financial conditions of credit institutions on the basis of reports and inspection results and, in result of such reviews, to issue binding directives to credit institutions to make changes to financial statements;

48.1.5 to 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, to conduct inspections at credit institutions, and their subsidiaries;

48.1.7 to raise issues with the authorized body to prevent monopolistic behaviour at the banking market;

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

48.1.9 to 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, to determine special conditions of fulfilment of credit commitments to the National Bank under financial rehabilitation program for banks;

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

48.1.12 to undertake appropriate statutory measures with respect to banks and domestic branches of foreign banks whose licenses were revoked;

48.1.13 to 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

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 exceeding 6 months, and if necessary their term may be prolonged for 6 more month.

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 working groups involving representatives of banks and their social unions (associations) to hold consultations on important banking issues and to design appropriate actions.

Article 51. Cooperation with off-site regulatory and supervisory bodies

51.1 For the purpose of effective discharge of its licensing, regulation and supervisory responsibilities, the National Bank may, in the order specified by 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

National Bank may, in the order specified by legislation, lead 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 discharge of its licensing, regulatory and supervisory functions shall be settled through relevant courts. Filing of complaint shall not be ground 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 jewellery;

54.1.2 sale and acquisition of foreign currency, as well as payment documents and obligations denominated in foreign currency;

54.1.3 issuing guarantees and warranties;

54.1.4 opening of accounts with banks, including deposit accounts;

54.1.5 settlements, cash and deposit transactions, and receipt of securities and other valuables for safe-keeping 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.

54.2 National Bank may charge fees for its banking services.

54.3 National Bank may render banking services to personnel of the National Bank, as well as public and social funds in accordance with the applicable laws.

54.4 National Bank may, with the purpose of supporting settlement and clearing (processing operations) open bank accounts for banks which carry out these operations.

54.5 National Bank may render banking services to governments, central banks and monetary authorities of foreign states, as well as international organizations the National Bank itself or the Republic of Azerbaijan are members of.

54.6 National Bank may acquire liquid debt securities issued by reliable issuers.

54.7 National Bank may conclude other civil – legal contracts not prohibited by the law.

Article 55. Prohibited activities

55.0. 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

A 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 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, in accordance with paragraph 32 of article 109 of the Constitution of the Azerbaijan Republic, once a year only by the auditor appointed by the President of the Republic of Azerbaijan for a period of one or more years.

58.2 The President of the Republic of Azerbaijan may appoint an extraordinary audit, if necessary, in accordance with paragraph 32 of article 109 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 out of audit shall be paid by the National Bank.

58.4 Audited annual financial report shall be submitted to the President of the Republic of Azerbaijan..

58.5 Annual financial statement approved by the audit report shall be published in the press not later than in one month after the audit of financial report is completed

Chapter XII FINAL PROVISIONS

Article 59. National Bank's personnel

59.1 Labour relations between the National Bank and its personnel shall be governed by the Labour 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 activities, except for scientific, tutorial and creative work.

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

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

59.5 National Bank employees shall be provided with the same pension system as state servicemen.

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

Article 60. Confidentiality

Members of the 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 secret, 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 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 on Banks unless it is shown that the act or omission was in bad faith.

Article 62. Security

National Bank shall take appropriate actions to secure its activities. National Bank's divisions engaged in safe transportation of cash and other valuables in the Republic of Azerbaijan shall be equipped with armoured vehicles, 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 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 standing of the banking system, financial standing of the National Bank and its operational budget.

64.2 National Bank shall issue information bulletins concerning conditions of money and financial markets not less than once a month.

64.3 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 press each 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. Effect of the Law

66.1 This Law shall take effect as of the publication date.

66.2 From the date this law takes effect, the National Bank shall increase its authorised capital up to the level stipulated in article 10.2 of this Law from its profit, where the profit is insufficient for that then the NB shall increase its capital from the capital reserves.

66.3 Upon effect of this Law, the Law of the Republic of Azerbaijan, No.118 IQD, on the National Bank of the Republic of Azerbaijan dated June 10, 1996, and all related amendments and additions, shall become void.