

THE LAW OF THE REPUBLIC OF AZERBAIJAN

ON

THE CENTRAL BANK OF THE REPUBLIC OF AZERBAIJAN

(with amendments and additions of 17 April 2007, 9 October 2007, 6 November 2007, 26 May 2009, 19 June 2009, 30 June 2009, 30 September 2010, 24 June 2011 and 28 October 2014)

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

Chapter I General Provisions

Article 1. Central Bank of the Republic of Azerbaijan

1.1. 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. Central body of the Central Bank shall be located in the city of Baku. *Article*

2. Legal status of the Central Bank

2.1. Central Bank is a state authority, has a seal with the national emblem of the Republic of Azerbaijan and its name on it.

2.2. Central Bank shall have an independent balance sheet, authorized capital and other property. Central Bank shall, in accordance with the Civil Code of the Republic of Azerbaijan, own, use and dispose of the property on its books. It is not permitted to alienate the capital and the property of the Central Bank without its consent.

Article 3. Regional offices of Central Bank

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 ensure stability and development of the banking and payment systems.

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

Article 5. Functions of the Central Bank

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

5.0.1. determine and implement monetary and foreign exchange policies;

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 determine and announce an official exchange rate of manat;

5.0.4. provide foreign currency regulation and control 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;

5.0.7. 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 (acts of normative character) adopted pursuant thereto;

5.0.8. determine, coordinate and regulate activities of and provide oversight of payment systems;

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

Article 6. Independence of the Central Bank

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 state authority or self-administration body, physical persons 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 solely report to the President of the Republic of Azerbaijan on its activities.

7.2. Accountability of the Central Bank to the 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 CBA;

7.2.2. In accordance with Item 9 and Item 32 of Article 109 of the Constitution of the Republic of Azerbaijan appoint or dismiss Chairman of Management Board of the Central Bank - Governor of the Central Bank (hereinafter - 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 external auditor to review the Central Bank activities and if necessary to conduct extraordinary audits;

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

7.3. The Governor of the Central Bank shall advise the Milli Majlis of the Republic of Azerbaijan on key directions of monetary policy for the upcoming year.

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

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

Chapter II Central Bank Capital

Article 10. Capital of the Central Bank

10.1 Central Bank capital consists of its authorized capital and capital reserves.

10.2 The authorized capital of the Central Bank equals to 10 million manats.

10.3 Central Bank's capital reserves shall make up 15 per cent of the cash national currency issued to circulation by the Central Bank and is formed up through deductions from the profit of the reporting year.

Article 11. Profit of the Central Bank

11.1 Central Bank's profit shall be calculated through 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 funds in flow from other sources not contradicting 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 of the present Law.

12.2 Upon formation of capital reserves undistributed profit of the Central Bank shall be transferred to the state budget.

12.3 Undistributed profit shall be transferred to the state budget upon approval of annual financial report of the Central Bank through auditor opinion.

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

The difference resulting from revaluation of assets and liabilities that are held in gold and foreign currency due to changes in exchange rate of the manat and the value of gold is recognized in capital reserves of the Central Bank and shall not be considered in calculation of the norm set in article 10.3 thereof.

Article 14. Financial reliability of the Central Bank

14.1. Central Bank may not be declared bankrupt.

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

Chapter III Relations of the Central Bank with state authorities

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

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

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

15.3 Central Bank shall assist in pursuing the economic policy of the country according to the goals specified by the present Law.

Article 16. Loans of the Central Bank to the state

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

16.2 In the event of the funds short-term 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 collateral of 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 past three years.

16.3 Purchase of securities issued by the Azerbaijani government by the Central Bank is considered as an issue 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 of the present Law and provisions of Article 16.2 thereof shall apply to them.

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

Article 17. Central Bank as the state bank

17.1. 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 time deposits from the state under terms 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 state structures

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

18.2 In the event the 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 very draft 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 financial agent functions of the state 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 cases and the order specified in the Law.

Chapter IV

Organizational Structure and management of the Central Bank

Article 20. Organizational structure of the Central Bank

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

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

Article 21. 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 the Governor of the Central Bank, 4 permanent members and 2 outsiders.

21.2 Citizens of the Republic of Azerbaijan with higher economic and legal education, as well as 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, 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 Nakhichevan Autonomous Republic, members of the Cabinet of Ministers of the Republic of Azerbaijan and the Cabinet of Ministers of the Nakhichevan 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 Article 95 of the Constitution of the Republic of Azerbaijan.

21.5 Members of the Management Board shall be appointed for 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 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 CBA Management Board during the period of employment with the CBA 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 CBA 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 exercises 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. determine and approve monetary policy of the state for each year;

22.0.2. decide on instruments of monetary policy, including setting of refinancing rate, interest rates on its own operations and terms 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 budget of the Central Bank

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

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

22.0.8. determine rules of maintaining and the strategy for managing international gold and foreign exchange reserves;

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 organizational structure and governance procedures of the Central Bank;

22.0.14. approve regulations on recruitment and evaluation of personnel 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. determine the form and amount of remuneration at the Central Bank given relevant payment level in the banking system of the Republic of Azerbaijan;

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 not less than once a month.

23.2 Management Board meetings shall be chaired by the Governor of the Central Bank, or a member of the Management Board who is authorized to substitute him/her in his/her absence.

23.3 Governor 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 Governor 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 should 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. In the event of disagreement by a Management Board member with the decision taken by the Management Board, such a member may submit his/her written comment with the reasoning for the objection.

23.8 Minutes of meetings of the Management Board of the Central Bank shall be developed and signed by the chairman of the meeting and secretary of the Management Board.

23.9 Secretary of the 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 have the following authorities:

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

24.2.2 sign off regulations approved by the Management Board;

24.2.3 issue decrees and directives binding on 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 in the present Law.

24.3 In the absence of the Governor of the Central Bank, his/her 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 Management Board as per the procedures set by the Governor 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 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 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 Management Board of the Central Bank duly petitions the President of the Republic of Azerbaijan;

25.1.3 when considered unfit for work or with limited work ability through the decision of the court;

25.1.4 if an effective court ruling has been adopted that recognizes the person concerned guilty of crime;

25.1.5 requirements and limitations as imposed in Article 21 hereof 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 to accept or reject the resignation of the Governor 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 Governor 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 this person 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 carry out the following:

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

27.1.2. with the purpose of providing observance of the existing legislation, carry out audit of the structural units of the Central Bank.

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

27.1.4. Carry out 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.

Chapter V Monetary Policy

Article 28. Monetary policy

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

28.2 When disclosing key directions of the monetary policy the Central 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 ways of their implementation through reflecting factors dependable and non-dependable on the Central Bank.

Article 29. Instruments of monetary policy

29.1. The following instruments shall be used to implement the 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 the monetary policy accepted in the international practice.

29.2. The Central Bank shall use its own discretion as to utilization of any of the instruments specified in Article 29.1 thereof, along the lines of the goals and objectives of the monetary policy specified under the present Law.

Article 30. Open market transactions

30.1. 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 hereof;
- 30.1.2.** trade in, and other transactions with its own securities;
- 30.1.3.** trade in, and other transactions in foreign currency.

30.2. Issuance and turnover of debt securities of the Central Bank issued with the purpose to implement the monetary policy shall be determined by the legislation;

Article 31. Fixing of interest rates

31.1. Central Bank shall fix refinancing rate and interest rates on its own transactions.

31.2. When fixing the refinancing rate, the Central Bank shall consider existing macroeconomic conditions in the country and the status of the financial market.

31.3. Taking into account the interest rate on its own transactions and the liquidity position of money markets, the Central 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. Central Bank shall publish refinancing rate and interest rates on its own transactions.

Article 32. Setting of required reserves

32.1. Central Bank shall compel credit institutions to maintain required reserves. Reserves shall be set in percentage proportion to 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.

32.2. In the event of failure to meet the required reserve requirements, the Central Bank shall impose administrative fines and penalties to such credit institution and its administrators pursuant to the Code of Azerbaijan Republic on Administrative Offences.

Article 33. Refinancing of credit institutions

33.1. Central Bank shall refinance credit institutions with the purpose of implementing the 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 types and other assets.

33.2. The Management Board of the Central Bank shall establish type, procedures and provisions of refinancing.

33.3. Loans shall be extended to head offices of credit institutions.

Article 34. Deposit transactions

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

Article 35. Restriction of banking operations

The Central Bank may temporarily suspend individual operations conducted by credit institutions, including setting interest rate floors and corridors 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 In accordance with Item 1 of Article 19 of the Constitution of the Republic of Azerbaijan, the monetary unit of the Republic of Azerbaijan is the Manat. One Manat consists of 100 (hundred) kopecks.

Money shall be issued 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 a 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 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 shall be the Central Bank's debt obligations and shall 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 Central Bank shall make qualified review to identify whether bank notes are counterfeit.

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

Article 37. Organization of money circulation

37.0. Central 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 storage and physical transportation of cash by the Central Bank and credit institutions;

37.0.5 determine procedures for carrying out cash transactions at the Central Bank and credit institutions;

37.0. 6 identify signs of banknotes unfit for circulation and determine procedures for replacement thereof.

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 for sale of anniversary and commemorative notes in the order defined and at values determined.

38.3 Central Bank shall decide on issuance of new series of banknotes to circulation due to changes in price scales (denomination) through coordination with the relevant state structures.

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 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

Central Bank shall change notes which are considered as a legal tender with no 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 with no 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 the relevant executive authorities.

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

Chapter VII Administration 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 monetary policy of the country and timely execution of settlements on international commitments.

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 the following assets:

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

Article 43. Information on international gold-foreign exchange reserves

Central Bank shall periodically, but not less than once a quarter, publicize through the media total amount of international gold-foreign exchange 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 Central Bank shall organize, coordinate, regulate and oversight their activities.

44.2 Central Bank shall issue permissions for and oversight activities of clearing (processing) institutions pursuant to applicable regulations.

44.3 Central Bank shall determine the rules and terms and conditions of non-cash settlements and remittances 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 the Central Bank shall determine types of bank accounts, procedures for opening, maintenance and closing of bank accounts in accordance with the Civil Code and other regulations of the Republic of Azerbaijan.

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

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

Article 45 Organization of settlements among credit institutions

Central Bank shall organize settlements among credit institutions by means of correspondent accounts in 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 and standards.

Chapter IX Relations with Credit Institutions

Article 46. Key principles of relations with credit institutions

46.1 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, acts of the Central Bank of normative character.

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

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

46.4 In cases specified by the present Law, Central Bank shall be the Lender of Last Resort for credit institutions.

46.5 Central Bank may disclose information on the 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 Central Bank shall have the exclusive right to grant and revoke *special permissions* (licenses) to credit institutions and permissions to their branches and departments, as well as representative offices of domestic and foreign banks to provide representative capacity, special permission (license) to the national operator of mail service to deliver financial services in the Republic of Azerbaijan.

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

Article 48. Regulation and supervision

48.1 Central Bank shall implement the following to regulate and supervise activities of credit institutions and the national operator of mail service:

48.1.1 adopt banking regulations;

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

48.1.3 determine procedures for calculation and creation of loss provisions for loans 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, based upon this issue binding instructions for credit institutions to make relevant changes to financial statements;

- 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;
- 48.1.6-1** supervise over 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, determine 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 petition to the court for a moratorium of a 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 mail service, the Central Bank may determine different ratios and calculation methods given the types of credit institutions.

Article 49. Lender of Last Resort

Central Bank may extend loans, including subordinated loans to banks under its regulations and terms and conditions, in order to preserve stability of the banking sector, interests of creditors and depositors.

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 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 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

For the purpose of mutual activity with the credit institutions the Central Bank may hold consultations on crucial banking issues, launch uncompensated councils and working groups through involving representatives of banks and their public unions (associations) .

Article 51. Cooperation with external regulatory and supervisory bodies

51.1 For the purpose of effective discharge of its licensing, regulatory and supervisory responsibilities over credit institutions, the Central Bank may, in the order specified by the legislation, enter into agreements and cooperate with banking regulatory and supervisory bodies of foreign countries.

51.2 Such a cooperation shall cover exchange of information between the Central Bank and a bank regulatory and supervisory body of foreign countries on existing or proposed credit institutions and joint supervision, provided that the recipient banking regulator shall keep confidentiality of information and use solely for banking supervisory purposes.

Article 52. Exchange of Information

Central Bank may, in the order specified by the legislation, provide exchange of information on institutions subject to regulation and supervision on mutual cooperation basis with government authorities executing regulatory and supervisory functions 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 Central 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 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 international best practices not contradicting the legislation of the Republic of Azerbaijan .

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

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

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

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

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

Article 55. Prohibited activities

55.0. 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 manufacturing, trade, insurance and other commercial activity, unless otherwise 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 personnel.

Chapter XI

Financial Accounting and reporting of the Central bank

Article 56. Reporting year of the Central Bank

A reporting year of the Central Bank shall last from January 1 through 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 statement 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 audit of the Central Bank shall be conducted in accordance with the International Auditing Standards. Expenses arising out of audit shall be paid by the Central Bank.

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

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

Chapter XII Final provisions

Article 59. Central Bank personnel

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

59.2 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 be granted loans from the Central Bank only. Such employees shall inform the Management Board of the Central 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 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 bank secrecy, during or after termination of their employment with the Central Bank solely in 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 in damages for anything done or omitted while a member of the Management Board of the Central Bank, or while an officer, employee or agent of the

Central Bank, or a conservator or receiver 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

Central Bank shall take appropriate actions to secure its activities. Central Bank's divisions engaged in safe transportation of cash and other valuables in the Republic of Azerbaijan shall be equipped with armored vehicles, and the 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, legal entities and individual entrepreneurs.

Article 64. Publications

64.1 Central Bank shall publish its annual report. The annual report by the Central Bank shall reflect macroeconomic situation in the country, finals 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 Central Bank shall issue information bulletins concerning conditions of money and financial markets not less than once a month.

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

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 authorized capital up to the level stipulated in article 10.2 of the present Law through its profit, where the profit is insufficient for that then the Central Bank shall raise its capital from the 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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