

LAW OF THE REPUBLIC OF AZERBAIJAN

on Credit Unions

This Law shall determine economic, legislative, and organizational basis for establishment and operation of credit unions in the Republic of Azerbaijan.

Chapter I GENERAL PROVISIONS

Article 1. The definition of a credit union

1. A credit union is a non-bank credit institution created by voluntarily joined individuals and (or) legal entities that are small entrepreneurs for mutual lending by accumulating available funds based on common interests.

2. Mutual lending is a short- and long-term loans issued to cover economic and social demands of members against funds collected in the credit union.

3. A credit union has its own property, may obtain property and non-property rights on its behalf and act as a pretendant and defendant party in the court.

4. *The provisions of this Law shall also apply to credit cooperatives, except as otherwise provided by the Law of the Republic of Azerbaijan 'on Agricultural Cooperation'.*

Article 2. Legislation on credit unions

2.1. The legislation on credit unions shall include the Constitution of the Republic of Azerbaijan, the Civil Code of the Republic of Azerbaijan, the Law of the Republic of Azerbaijan 'on Non-bank credit institutions', the present Law, and other legislative acts of the Republic of Azerbaijan.

2.2. *Relations on credit unions in the Alat free economic zone shall be regulated by the requirements of the Law of the Republic of Azerbaijan 'on the Alat Free Economic Zone'.*

Article 3. Main principles of credit union's activities

1. The main principles of credit union's activities shall include:

- 1.1. association of members based on common interest and mutual confidence
- 1.2. voluntary membership
- 1.3. lucidity of activities
- 1.4. coordination of personal and common interests
- 1.5. equality of rights irrespective of shares' size
- 1.6. personal participation of members in credit union's management
- 1.7. channeling of obtained funds to entrepreneurial activities
- 1.8. self-controlled activity arrangement.

2. *Credit unions may not attract savings (deposits) from legal entities or individuals.*

Article 4. Credit union's rights and objectives

1. A credit union shall be entitled to:

- 1.1 obtain credits and grants from banks, international and foreign financial institutions.
- 1.2. issue loans to its own members as established in the charter *considering the requirements of the Civil Code of the Republic of Azerbaijan.*

1.3. deposit available cash with banks ~~and other credit unions~~, as well as use it for purchase of government securities.

2. Credit unions shall perform duties, implied in the tax and other legislations of the Republic of Azerbaijan.

Article 5. Government and credit unions

1. The government shall take actions on the establishment and stimulation credit unions.

2. A credit union shall be state registered as a legal entity under the legislation of the Republic of Azerbaijan upon a foundation meeting.

3. A credit union shall be deemed non-founded if it fails to get state registered during the legislatively determined period and shares shall be returned within 15 days.

4. Founders may bring an action if a credit union is not registered. In this case, the return period of shares may be prolonged until a court decision.

5. The government shall not be kept responsible for liabilities of a credit union and a credit union shall not be kept responsible for liabilities of the government.

6. The Government shall guarantee protection of legal rights and interests of a credit union and its members.

7. The loss caused to the credit union by actions (inactions) of public institutions shall be reimbursed by the same institutions.

8. A credit union shall obtain a *license* from the *Central Bank of the Republic of Azerbaijan (hereinafter – the Central Bank)* as per the legislation to issue loans according to Article 4 herein.

9. In the event the *Central Bank* refuses to issue a *license*, it should substantiate its refusal. Refusal to issue a *license* may be subject to legal investigation in court based on founders' claim.

10. The *Central Bank* may establish economic regulatory guidelines for a credit union and occupational fitness requirements for members of the Management Board and impose sanctions:

10.1. require implementation of measures directed at elimination of revealed violations.

10.2. suspend or revoke *the license*.

11. *Supervisory actions over activities of credit unions, including inspections shall be provided by the Central Bank according to the Law of the Republic of Azerbaijan 'on the Central Bank of the Republic of Azerbaijan'.*

12. *State control over the compliance of credit unions with competition legislation shall be carried out in accordance with the procedures set forth in the Competition Code of the Republic of Azerbaijan.*

Chapter II ESTABLISHMENT AND MEMBERSHIP OF CREDIT UNIONS

Article 6. Establishment of a credit union

1. A credit union shall be founded by no less than 11 individuals and (or) legal entities in the statutory order.

2. The credit union's foundation meeting shall take a decision on establishment of the credit union, approve its charter, and elect the management and control body.

Article 7. Charter of the credit union

1. The charter of a credit union shall include:

1.1. the name and address of the credit union

- 1.2. purpose and activities of the credit union
- 1.3. membership admittance and termination rules, as well as termination criteria
- 1.4. rights, duties, and responsibilities of members
- 1.5. appointment tenure of management bodies of credit unions
- 1.6. arrangement rules of extraordinary general meeting
- 1.7. rules of payment for the damage to the credit union caused by members
- 1.8. minimum share to the credit union, rules and maturity of its payment, and infringement responsibility
- 1.9. property creation of the credit union and use of income
- 1.10. terms and rules of credit granting to members
- 1.11. management and control bodies of the credit union, their authorities, rules of establishment and decision-making
- 1.12. establishment of credit union funds
- 1.13. termination and liquidation rules of the credit union
- 1.14. regulations on share retrieval at the termination of membership
- 1.15. other legal issues related to the activity of the credit union not contradicting the legislation may be implied in the charter.

Article 8. Association of credit unions

Credit unions may establish associations to protect interests of their members, coordinate their activities, foster development of inter-regional and cross-border relations, and assist in other joint issues.

Article 9. Membership to the credit union

1. The number of founders of the credit union shall not fall below 11. When the number of members decreases, a credit union shall increase the number of members up to 11 within three months at the latest by informing the *Central Bank* within 10 days. The *license* shall be revoked if the minimum number is not restored within this period.

2. Upon registration of the credit union new members shall be admitted in accordance with this Law.

3. A person willing to become a member of the credit union shall apply to the Management Board of the credit union and undertake to follow the charter. The applicant shall be considered a member upon the Management Board decision.

4. A member shall receive a document that validates his/her membership and share.

Article 10. Rights, duties, and responsibilities of credit union members

1. A credit union member shall be entitled to:

1.1. use services of the credit union

1.2. participate at meetings and management of the credit union, vote, and be voted into the management and control bodies.

1.3. obtain a loan according to terms and rules implied in the *charter* of the credit union and other normative documents *considering the requirements of the Civil Code of the Republic of Azerbaijan*.

1.4. alienate his/her share as specified in the charter under the legislation of the Republic of Azerbaijan.

1.5. obtain necessary information on activities of the union from credit union officials.

1.6. return his/her share together with final clearance and terminate the membership under the charter.

1.7. enjoy other rights specified in the charter.

1.8. bring an action against the decision of the general meeting and the Management Board.

2. A credit union member shall:

2.1. pay the share in the order and period specified in the charter.

2.2. follow the requirements and regulations specified in the charter and other documents.

2.3. provide true information on the purpose of the loan when obtaining the loan.

2.4. repay the debt on time and in accordance with the contractual terms *considering the requirements of the Civil Code of the Republic of Azerbaijan*.

2.5. fulfill competent decisions of management and control bodies of the credit union

2.6. avoid membership of another credit union.

3. Credit union members shall have the following responsibilities:

3.1. The credit union shall be kept responsible for its liabilities in proportion to its own property and shall not be kept responsible for liabilities of its members irrelevant to the activities of the credit union. Members of the credit union shall be responsible before the credit union with all their property.

Article 11. Membership termination of the credit union

1. Membership of the Credit union may be terminated if:

1.1. a shareholder is expelled from the membership as determined in the charter.

1.2. a shareholder voluntarily resigns from his/her membership.

1.3. the credit union is liquidated.

2. When a credit union member voluntarily resigns from his/her membership, he/she should at least 3 months prior apply to the Management Board.

3. When a credit union member is expelled from the membership at the decision of the management board and does not agree to the decision, he/she may file an appeal to the supervisory board and a general meeting. He/she may take the case to court when he/she is unsatisfied with the decision of the general meeting.

4. Heir-at-law may substitute the member upon his/her death, or he/she may buy out the share of the member.

III Chapter MANAGEMENT OF THE CREDIT UNION AND CONTROL OVER ITS ACTIVITIES

Article 12. Credit union management

1. The Credit union shall be managed by a general meeting of members, a supervisory board, a management board, and a credit committee.

2. The supreme management body of the credit union shall be the general meeting of its members. The next general meeting shall be convened within the period determined in the charter, however not less than once a year. Rules for extraordinary meeting convening shall be determined by the charter. Convening of the general meeting shall be announced at least 20 days prior to the meeting by the management board.

3. The general meeting shall have exceptional powers for the following issues and decision making:

3.1. adopt the charter, make additions and changes therein.

- 3.2. determine rules for membership admittance and termination.
 - 3.3. select the supervisory board, management board, chairperson of the management board, the credit committee, hear their reports and terminate their competency.
 - 3.4. approve an annual report and balance sheet.
 - 3.5. determine amounts and payment rules of shares and other payments.
 - 3.6. determine profit allocation of the credit union and its usage rules.
 - 3.7. determine terms, conditions of, and regulations on credit granting.
 - 3.8. determine establishment and usage rules of funds of the credit union.
 - 3.9. determine repayment rules for loss and set limits for administrative expenses.
 - 3.10. entry of the credit union to and exit from the Association of Credit Unions.
 - 3.11. decision making on reorganization and liquidation of the credit union.
 - 3.12. decision making on auditing and selection of an auditor.
 - 3.13. resolve other issues related to activities of the credit union under the charter.
4. The general meeting shall be deemed competent with the participation of 51% of its members. Resolution of issues relevant to exceptional powers of the general meeting shall be passed by the two-third majority and remainders by simple majority of votes. Be the votes equally divided, the chair of the meeting shall have the casting vote.
5. A resolution shall pass through an open vote or secret ballot at the general meeting as implied in the charter.

Article 13. Control over activities of the credit union

1. A supervisory board shall be selected from among credit union members at the general meeting to ensure control thereto. The supervisory board shall consist of at least 3 members.
2. A supervisory board member shall not be the management board and credit committee member.
3. The supervisory board shall:
 - 3.1. oversee implementation of decisions of the general meeting.
 - 3.2. analyze performance of the credit union, management board and the credit committee, control financial and economic activities.
 - 3.3. submit reports of the management board and the credit committee, an annual balance sheet to the general meeting attaching its own opinion.
 - 3.4. caution about elimination of shortcomings in activities of the management board and the credit committee, about elimination of illegal decisions or accordingly inform the general meeting.
 - 3.5. deal with the complaints about the management board and the credit committee.
 - 3.6. discharge other duties implied in the charter.
4. One of supervisory board members should have an auditor experience. An auditor may be involved in the absence of the member with the appropriate experience.

Article 14. Management of activities of the credit union

1. A management board and its chairperson shall manage activities of the credit union throughout intervals between general meetings. A management board member may not be the member of the supervisory board or the credit committee.
2. The number of members of the management board, their tenure, rights, duties and competence of the management board and its members shall be determined by the charter. The management board should consist of at least 3 members.
3. The management board shall:

- 3.1. deal with admittance of new members to the credit union and termination of membership as defined in the charter.
- 3.2. represent the credit union in court and in relations with third parties.
- 3.3. arrange general meetings.
- 3.4. conclude labor contracts with new employees recruited on behalf of the credit union, contract civil bargains with members and third parties.
- 3.5. issue loans based on the credit committee opinion.
- 3.6. prepare ~~accounting balance and other~~ financial statements.
- 3.7. discharge other duties implied in the charter.
4. Salaries of management board members shall be defined as per the charter.

Article 15. Issue of a loan

1. The management board shall take a decision to issue a loan based on the credit committee opinion.

The credit committee consisting of at least three members shall be selected from among the members of the credit union in the general meeting. The tenure, duties, rights, and responsibilities of the credit committee shall be defined by the charter.

2. A credit committee member may not be the member of management and supervisory boards.

3. The credit committee shall review loan requests of members, establish terms and conditions for credit granting and repayment, and make proposals to the management board thereof. The management board may not sign a loan agreement with members without the opinion of the credit committee

4. Loan securitization may be requested under the legislation of the Republic of Azerbaijan.

5. The credit committee may issue proposals to the general meeting to set loan interest rates.

6. The credit committee shall report to the general meeting on its activities annually.

Article 15-1. Information sharing between the centralized credit registry, credit bureaus and credit unions

15-1.1. A credit union shall deliver information on every borrower to at least one credit bureau and the centralized credit registry launched at the Central Bank in the order specified by the Central Bank.

15-1.2. The procedure for delivery of borrower information to and taking from the credit bureau shall be regulated by the Law of the Republic of Azerbaijan 'on Credit Bureaus'.

Article 16. Responsibilities of supervisory and management boards and the credit committee

Supervisory and management boards and credit committee members shall be taken responsible for damages caused by their actions (inactions) to the credit union as defined in the legislation of the Republic of Azerbaijan.

Article 17. Taxation, accounting and reporting in credit unions

1. The Tax Code of the Republic of Azerbaijan shall determine taxation in credit unions.

2. *Credit unions shall maintain annual financial statements in compliance with the International Financial Reporting Standards. Rules for accounting in credit unions, as well as the format and content*

of annual financial statements shall be determined by the Central Bank by coordinating with an authority (institution) designated by the relevant executive authority.

3. The credit union shall submit to the Central Bank annual financial statements verified by an external auditor within five months at the latest upon the end of a fiscal year, combined (consolidated) financial statements verified by an external auditor within six months at the latest along with an auditor opinion, publish in print media or on its official website (if any) and inform the Central Bank accordingly.

4. The credit union shall submit a copy of annual financial statements and combined (consolidated) financial statements with an auditor opinion to any person at his/her request free of charge.

5. The Central Bank shall supervise activities of credit unions in accounting and financial reporting in accordance with the present Law and the Law of the Republic of Azerbaijan 'on Accounting'.

Chapter IV FUNDS OF THE CREDIT UNION

Article 18. Authorized capital

1. The authorized capital of the credit union shall be formed by shares of its members.

2. Minimum amount of authorized capital shall be set by the *Central Bank*; while amount of member's share, its payment order and responsibility for infringement shall be determined under the charter.

3. The authorized capital shall be used for mutual crediting. Necessary amount to launch credit union activities may be allocated from authorized capital to acquire necessary premises, equipment, and inventory at the decision of the general meeting.

4. The credit union shall be prohibited to use an obtained loan to form authorized capital.

5. Credit union members may recover their shares only in case their membership is terminated.

Article 18-1. Prevention of legalization of criminally obtained property and the financing of terrorism

Activities of credit unions with respect to prevention of legalization of criminally obtained property and the financing of terrorism shall be regulated in accordance with the Laws of the Republic of Azerbaijan 'on Prevention of legalization of criminally obtained property and the financing of terrorism' and 'on Targeted Financial Sanctions'.

Article 19. Reserve fund

1. A special reserve fund shall be created to cover losses caused by activities of the credit union.

2. The reserve fund shall be established in the statutory order.

Article 20. Mutual credit fund

1. The credit union shall establish a mutual credit fund as a source of crediting. The mutual credit fund shall be formed at the expense of authorized capital and profit of the credit union, as

well as funds attracted from other sources according to this Law. These funds shall be solely used for crediting of members.

2. Amount of the loan issued from the credit fund cannot exceed 10 times of the share of the member who obtains the loan (*except for a member of a credit cooperative*) and 10 percent of credit fund resources.

V Chapter LIQUIDATION AND REORGANIZATION OF THE CREDIT UNION AND DISPUTE SETTLEMENT

Article 21. Liquidation of the credit union

1. Grounds for liquidation of the credit union:

1.1. decision of the general meeting on liquidation of the credit union.

1.2. decrease in the minimum number of members and minimum authorized capital of the credit union.

1.3. valid court decision on liquidation of the bankrupt credit union.

1.4. valid court decision on liquidation of the credit union for breach of laws of the Republic of Azerbaijan.

2. The body deciding on liquidation shall establish a liquidation committee and the functions of the management board shall be transferred to the liquidation committee.

3. Liquidation of the credit union shall proceed under the legislation of the Republic of Azerbaijan. The shares and the calculated proportionate income shall be distributed among members after all liabilities of the credit union are discharged.

Article 22. Reorganization of the credit union

1. The credit union may be reorganized in the statutory order. Reorganization of the credit union as separation, dissolution, or merger of one or several legal entities from the reorganized credit union shall be conducted based on the decision of the general meeting.

2. A project for the reorganization of the credit union shall be prepared by the management board and evaluated by an independent auditor.

3. The reorganization project shall contain the following information:

3.1. the name and address of the credit union.

3.2. the number of members.

3.3. authorized capital.

3.4. appraisal of issued loans and property.

3.5. inheritance terms and maturity of liabilities.

3.6. criteria and rules for disposal of members' shares in the credit union to operate upon reorganization.

3.7. criteria for mutual crediting on the eve of and upon reorganization.

3.8. other property and non-property rights and duties of members upon reorganization, the period until their effective date.

4. In parallel to the reorganization project, a charter of each newly reorganized credit union shall be prepared upon reorganization.

5. Each member no later than 20 days prior shall be informed on reorganization by a written notice and each of them may get acquainted with the reorganization project.

6. The reorganized credit union shall be obliged to get a ~~banking~~ *banking license* under the requirements of this Law.

Article 23. Dispute resolution

Disputes among members of the credit union and between members and management bodies shall be resolved in the general meeting. In the event of mutual disagreement between the parties, the case shall be taken to the appropriate court.

Article 24. Final provision

1. Credit unions created before the effective date of this Law shall operate according to the provisions of this Law.

2. *Licenses* for banking activities issued to credit unions prior to the effective date of this Law shall be valid within the period indicated therein.

HEYDAR ALIYEV

President

The Republic of Azerbaijan

Baku city, 2 May 2000

№ 876-IQ