

LAW OF THE REPUBLIC OF AZERBAIJAN

“On Encumbrance of Movable Property”

This Law has been developed in line with paragraphs 11 and 13 of Section I of Article 94 of the Constitution of the Republic of Azerbaijan and shall govern legal regime of movable property encumbrance, procedures for exercising rights of security holders with regards to movable property, enforcement of movable property, maintenance and use of state registry for encumbrance of movable property to ensure fulfillment of liabilities.

Chapter 1.

General provisions

Article 1. Key terms and definitions

1.0. Following terms and definitions shall be used for the purposes of this Law:

1.0.1. **Encumbrance of movable property** – limitation of ownership on movable property on the basis of a law or agreement for the purposes of satisfying a liability on the grounds stipulated in Article 4 hereof;

1.0.2. **Subject of encumbrance** –movable property, claims and rights identified in the article 3 of this Law,

1.0.3. **Debtor** – person obliged to fulfill a liability secured with an encumbrance in favor of the security holder, or a third party bearing such liability;

1.0.4. **Grantor** – person creating encumbrance in favor of the security holder (debtor himself/herself or a third party may act as the grantor);

1.0.5. **Security holder**– a person having the right to enforce against the subject of encumbrance in the event if a liability secured with an encumbrance is not fulfilled (in

cases of state and municipality encumbrances, a relevant body stipulated in Article 4 hereof);

1.0.6. **Priority right** – prioritized satisfaction of claims of a security holder compared to claims of other security holders and creditors against the subject of encumbrance.

1.0.7. **Notice** – information recorded in the state registry for encumbrance of movable property with regard to creation of movable property encumbrance, modifications and termination of encumbrance, as well as objection to movable property encumbrance;

1.0.8. **State registry for encumbrance of movable property (hereinafter - registry)** – state database/ information system consisting of a systematized aggregation of data (records) stipulated in Article 1.0.7 hereof.

Article 2. Legislation on movable property encumbrance

2.1. Relations related to the encumbrance of movable property shall be governed by the Constitution of the Republic of Azerbaijan, Civil Code of the Republic of Azerbaijan, this Law, other legislative acts of the Republic of Azerbaijan, as well as international treaties which the Republic of Azerbaijan is a party to.

2.2. *Relations related to the encumbrance of movable property in Alat free economic zone are regulated in accordance to the Law of the Republic of Azerbaijan “On Alat Free Economic Zone”.*

Chapter 2.

Subject and types of encumbrance, disclosure of encumbrance to third parties

Article 3. Subject of encumbrance

3.1. With exception of movable property registered in the official movable property registry and securities subject to state registration, subject of encumbrance

consists of any movable property, as well as rights and claims, including movable property to be included in Security holder's property in the future.

3.2. One movable property may be a subject to several encumbrances.

3.3. Unless otherwise stipulated by law or contract, movable property encumbrance shall apply to the following:

3.3.1. accessories to the subject of encumbrance;

3.3.2. benefits (profit, increase, harvest, derivative and other forms) received from the use of encumbrance subject;

3.3.3. modifiable, replaceable or recoverable subject of encumbrance;

3.3.4. profit received from alienation of the encumbrance subject, only if it can be identified as proceeds of alienation of the encumbrance subject;

3.3.5. insurance payments in cases of insurance events, provided that the encumbrance subject has been insured on the basis of law or contracts

3.3.6. amount of compensation payable to the grantor (in the amount sufficient to satisfy security holder claims) as a result of mandatory sales, requisition or nationalization of encumbrance subject on grounds and in manner stipulated by law.

3.4. Unless otherwise stipulated by law or contract, and unless otherwise is perceived from the nature of liability, third party fulfilling debtor's duties with regard to liability secured with movable property encumbrance shall receive rights and duties of the security holder.

3.5. Contractual encumbrance on movable property shall be generated in line with the Civil Code of the Republic of Azerbaijan. encumbrance subject shall be described in the contract as stipulated in Article 22 hereof, with indication of the liability's nature and amount (size) secured by the encumbrance and ownership of the encumbrance subject.

Article 4. Types of movable property encumbrance

4.1. Movable property encumbrances are classified into state, municipality and private encumbrance types.

4.2. State and municipality encumbrances include:

4.2.1. submission of an execution (payment) order by tax authorities to the credit institution or party performing banking transactions to transfer to state budget or suspend/freeze tax debt/payables, their accrued interest and applied financial sanctions from the current or other accounts of the taxpayer in national and foreign currency in line with Article 65.2 of the Tax Code of the Republic of Azerbaijan;

4.2.2. enlisting of taxpayer's property by the tax authority for the purpose of repaying taxpayer's tax debt/payables, their accrued interest and applied financial sanctions in line with Article 89.1 of the Tax Code of the Republic of Azerbaijan;

4.2.3. submission of an execution (payment) order by relevant executive authority implementing mandatory state social insurance governance to the bank or other credit institution to transfer accrued and re-accrued mandatory social insurance debt/ payables and applied financial sanctions to the account of the above authority from current, currency and other accounts of the policyholder in line with Article 14 of the Law "On Social Insurance" of the Republic of Azerbaijan;

4.2.4. submission of execution (payment) order by the customs authority to the bank to deduct unpaid customs debt from the payer according to the manner of tax deduction for the state budget stipulated in legislation in line with Article 249.3 of the Customs Code of Azerbaijan Republic;

4.2.5. undertaking security against current and potential customs debt by the customs authority in line with Article 250.2 of the Customs Code of Azerbaijan Republic;

4.2.6. Imposing of temporary security measures on movable property by the court in line with Article 40.3 of the Administrative Procedural Code of Azerbaijan Republic;

4.2.7. Application of claim satisfactory measure on movable property by the court in line with Articles 157 and 158 of the Civil Procedural Code of Azerbaijan Republic;

4.2.8. Arresting of movable property by a court with the purposes to satisfy civil claim and ensuring property confiscation in cases stipulated by criminal law, in line with Articles 248 and 249 of the Criminal Procedural Code of Azerbaijan Republic;

4.2.9. Arresting of movable property by court as a mandatory enforcement measure, in line with Article 43.1.1. of the Law of Azerbaijan Republic "on Execution";

4.2.10. *Issue of a certified copy of the enforcement document, which indicates requirements to the bank or other credit organization for retention, in accordance with Article 5 of the Law of the Republic of Azerbaijan "On Execution".*

4.3. Private encumbrance shall include the following:

4.3.1. usufruct of movable property in line with Articles 263-268 of the Civil Code of Azerbaijan Republic;

4.3.2. pledge of movable property established by a contract, in line with Chapter 12 of the Civil Code of Azerbaijan Republic;

4.3.3. Retention of the right to ownership in line with Article 606 of the Civil Code of Azerbaijan Republic;

4.3.4. pledge right of renter in line with Article 698.1 of the Civil Code of Azerbaijan Republic;

4.3.5. pledge right of the lessee in line with Article 702.1 of the Civil Code of Azerbaijan Republic;

4.3.6. pledge right of the lessor in line with Article 716 of the Civil Code of Azerbaijan Republic;

4.3.7. leasing of movable property in line with Article 747.1 of the Civil Code of Azerbaijan Republic;

4.3.8. pledge right on movable item produced by contractor in line with Article 757 of the Civil Code of Azerbaijan Republic;

4.3.9. pledge right of the commission agent in line with Article 820.1 of the Civil Code of Azerbaijan Republic;

4.3.10. pledge right of the warehouse owner in line with Article 830.3 of the Civil Code of Azerbaijan Republic;

4.3.11. pledge right of the hotel or restaurant owner in line with Article 836.3 of the Civil Code of Azerbaijan Republic;

4.3.12. pledge right of transporter on cargo in line with Article 860.1 of the Civil Code of Azerbaijan Republic;

4.3.13. rent of movable property in line with Chapter 48 of the Civil Code of Azerbaijan Republic;

4.3.14. right to assign monetary claims to factor in line with Article 655 of the Civil Code of Azerbaijan Republic;

4.3.15. other encumbrances to fulfill implementation of the main liability

4.4. in the event of an engagement in civil relations by state authorities and municipalities legal, they may act as Security holders for encumbrances stipulated in Article 4.3 hereof.

4.5. Encumbrances by decisions of state authorities, municipalities or courts shall be establishing cases stipulated in Article 4.2 hereof; contractual encumbrances shall be establishing cases stipulated in Articles 4.3.1-4.3.3, 4.3.7, 4.3.13-4.3.15 hereof; encumbrances on the grounds of law shall establish in cases stipulated in Articles 4.3.4, - 4.3.6 and 4.3.8-4.3.12 hereof.

Article 5. Disclosure of encumbrance to third parties

5.1. Disclosure of encumbrance to third parties by the security holder as stipulated in Article 5.3 hereof is voluntarily for the private encumbrance and is mandatory for the state and municipality encumbrance.

5.2. Disclosure of encumbrance to third parties by the security holder in line with Article 5.3 hereof shall affect sequence of payment of claims in cases specified in Chapter 3 hereof and in line with preference rules.

5.3. Security holder shall disclose encumbrance to third parties using one or more of the following methods:

5.3.1. by registering notices on existing rights on the subject of encumbrance or future potential rights in cases specified in Article 21.4 hereof;

5.3.2. by acquiring possession right over encumbrance subject;

5.3.3. by acquiring control over encumbrance subject.

5.4. Recording of rights to encumbrance subject in the registry shall apply to any encumbrance subject.

5.5. Acquisition of possession right to encumbrance subject shall apply to cash, jewelry, non-registered (in state registries) securities, warehouse certificates, consignment and shall be generated in cases of actual transfer of possession rights of encumbrance subject to the Security holder (actual possession of the encumbrance subject) in line with law or contractual conditions.

5.6. Acquisition of control right to encumbrance subject shall apply to funds on grantor's bank account or notary deposit account and shall be executed through conclusion of control agreement between security holder, grantor and bank or the notary. According to such agreement, bank or notary undertake an obligation to fulfill instructions of the security holder with regard to funds on grantor's bank account or deposit account without consent of the grantor.

5.7. One or more of the methods listed in Article 5.3 may be applied to the same encumbrance subject. Security holder has the right to replace the applied method with another or apply an additional method within duration of the method's validity. In such cases, disclosure of encumbrance to third parties shall be considered effective from the date of enforcement of the initial method.

Chapter 3.

Priority order

Article 6. Order/sequence of satisfaction of security holder claims

6.1. ~~With exception of the sequence/order stipulated in Article 6.4 hereof,~~ In the event if one movable property is subject to several encumbrances, claims of security holders shall be satisfied in the following order:

6.1.1. firstly, claims of security holder who applied one or more of methods specified in Article 5.3 hereof on subject of encumbrance shall be satisfied;

6.1.2. secondly, claims of security holders who have not apply any methods stipulated in Article 5.3 hereof on subject on encumbrance shall be satisfied;

6.1.3. all other claims shall be satisfied in accordance with legislation.

6.2. Priority right may be altered among security holders at any time based on contract. In case of more than two security holders, priority right is altered only upon written consent of the security holders whose interest is affected by such alteration.

6.3. State encumbrance security holder may not assign his/her preference turn to private encumbrance security holder.

~~6.4. Irrespective of other requirements of this Law, claims of security holders to funds in the account shall be repaid in the sequence stipulated in Article 965 of the Civil Code of Azerbaijan Republic.~~

Article 7. Repayment of security holders claims of the same sequence

7.1. With exception of circumstances specified in Article 7.2 hereof, in the event if one movable property is subject to several encumbrances and one or more security holders apply one or more of methods provided for Article 5.3 hereof with respect to that encumbrance subject, sequence of repayment of such security holder claims shall be identified based on the time (date and hour) when such methods were applied. In the event if a security holder has replaced applied method with another method or applied an additional method, application time of such method shall be identified on the date of its enactment in line with the Article 5.7 hereof.

7.2. Irrespective of the application sequence of one or more methods specified in Article 5.3 hereof with regard to the same movable property, in the following cases security holder claims shall be repaid earlier:

7.2.1. in cases specified in Article 4.3.8 hereof, provided that the security holder possesses the subject of encumbrance;

7.2.2. claims secured with encumbrance of property provided to debtor by the security holder and acquired by the debtor through financing of security holder, provided that encumbrance notice is recorded in the registry within 3 (three) business days after the subject of encumbrance is transferred to possession of the debtor or grantor.

7.2.3. claims secured with encumbrance of property produced or processed at the expense of funds or property supplied by the security holder, provided that encumbrance notice is recorded in the registry within 3 (three) business days after the subject of encumbrance is transferred to possession of the debtor or grantor.

7.3. If same movable property is subject to several encumbrances and none of methods specified in Article 5.3 hereof are applied in relation with that encumbrance subject, sequence of repayment of such security holder claims shall be identified based on the date of encumbrance generation.

Article 8. Priority right to the accessories of the real estate (movable items)

8.1. Security holder may register encumbrance right over a movable property before or after that movable property is transformed into accessory to the real estate.

8.2. Priority of repayment of claims between real estate mortgagee and security holder of a movable property which is accessory to real estate shall be identified as follows:

8.2.1. if encumbrance right on accessory to real estate is not registered, mortgage holder shall have the priority right;

8.2.2. if encumbrance right on accessory to real estate is registered and accessory is attached to existing mortgaged real estate, security holder shall have priority right;

8.2.3. if encumbrance right on accessory to real estate is registered and mortgage is generated after encumbrance right is registered, security holder shall have priority right;

8.2.4. if encumbrance right on accessory to real estate is recorded in the registry after attachment of accessory to real estate and mortgage is generated before registration of encumbrance right on accessory, mortgagee shall have priority right;

8.2.5. if mortgage right is generated after attachment of accessory to real estate and encumbrance right on accessory is recorded in the registry, priority shall be identified based on the time of mortgage right generation and encumbrance right registration.

Article 9. Priority right to commingled movable property

9.1. Priority right over movable property commingled with other movable property with retention (remains as the same type of movable property) or loss (new type of movable property is generated) of its initial specifications and quality, remains the same as before commingling.

9.2. Priority rights of security holders on movable commingled with other movable property shall remain proportionate to the price of the movable property on the date of comingling.

Article 10. Priority right to future property

10.1. In case of future property encumbrance, grantor's encumbrance right shall appear as of the moment of receiving ownership right over that movable property.

10.2. In case of future property encumbrance, priority right shall appear as of the moment of e encumbrance registration and shall be carried out as of the moment of receiving ownership right over movable property.

Article 11. Alienation of the subject of encumbrance

11.1. With exception of following cases, change of the ownership right over encumbrance subject, as well as its transfer for use or rent to third parties shall not affect security holder's encumbrance or priority rights:

11.1.1. no records are made in the registry on encumbrance of encumbrance subject at the time of its alienation;

11.1.2. security holder agrees to alienate the encumbrance subject, by terminating the encumbrance;

11.1.3. subject of encumbrance is alienated in the process of changing the ownership right over items in circulation.

Chapter 4.

Enforcement of encumbrance subject

Article 12. Grounds for enforcement of encumbrance subject

12.1. Grounds for enforcement of encumbrance subject shall be identified by normative legal acts specified in Article 4 hereof and others.

12.2. Enforcement of private encumbrance subject shall be carried out in line with Articles 13-19 hereof.

Article 13. Actions of the security holder in relation with encumbrance subject

13.1. Security holder may impose enforcement of encumbrance subject as follows:

13.1.1. if encumbrance subject is a monetary claim (accounts receivable), request repayment of debt to security holders;

13.1.2. if encumbrance subject is possessed by the debtor or grantor, take possession of encumbrance subject on the basis of written agreement with the grantor or apply to a court or notary c to request possession of encumbrance subject to be transferred on the basis of the court resolution or the notary enforcement order;

13.1.3. if encumbrance subject is possessed by the security holder, arrange the sale of encumbrance subject;

13.1.4. take the encumbrance subject into ownership in line with the conditions, identified hereof;

13.1.5. use other legal remedies provided in the legislation.

13.2. Higher priority security holder may join enforcement initiated by the lower priority security holder in the event of breach of liability towards the lower priority security holder any stage and organize the sale himself. This shall not be conditioned on breach of liability towards higher priority security holders by the debtor and expenses incurred by both security holders shall be covered from the value of encumbrance subject.

Article 14. Specifications of enforcement of accounts receivable

14.1. Security holder may deliver a notice to debtor to satisfy the claim. Notice shall reflect the following:

14.1.1. information about the date and parties to an encumbrance agreement;

14.1.2. information on breach of binding liability by the grantor or debtor;

14.1.3. request from debtor to repay the debt to security holder;

14.1.4. details of receiving party and its bank account where the debt is payable;

14.1.5. notice date, name and signature of person signing the notice.

14.2. Upon receiving notice to repay accounts receivable to the security holder, debtor is obliged to make payments to the receiving party indicated in the notice from that date.

14.3. If the court decides to suspend repayment to the security holder or sales as preliminary injunction in line with Chapter 13 of the Civil-Procedural Code of Azerbaijan Republic, the court shall require to collect the accounts receivables to the special account reflected in that decision and to keep the amount in that special account till the final decision taking into force on that issue.

Article 15. Giving possession of encumbrance subject to the security holder

15.1. Security holder may take possession of encumbrance subject before or after breach of liability secured with encumbrance on the basis of written agreement with grantor. Such agreement may also be integrated in the encumbrance agreement.

15.2. In the event if the debtor fails to fulfill or properly fulfill the liability secured with encumbrance for reasons under his/her control, security holder may sell subject of encumbrance in his possession in line hereof.

15.3. In the event if the grantor or debtor file a complaint to court with regard to enforcement of encumbrance subject in security holder's possession, this shall not suspend sales of encumbrance subject, unless the court adopts a relevant decision to suspend sales as a preliminary injunction in line with Chapter 13 of the Civil-Procedural Code of Azerbaijan Republic.

15.4. Actions related to transferring possession of encumbrance subject to the security holder shall be carried out in an order execution as proceeding specified in Chapter 23 of the Civil-Procedural Code of Azerbaijan Republic.

15.5. Court order with regard to transferring encumbrance subject to possession of the security holder shall be executed within 3 (three) business days.

Article 16. Sale means of encumbrance subject

16.1. After taking the encumbrance subject into possession, security holder may sell it in an open auction or by any other means.

16.2. Security holder may spend funds to improve condition of the encumbrance subject for sales purposes.

16.3. Security holder's rights specified in this Article may not be limited in any way.

Article 17. Sales of encumbrance subject

17.1. Security holder shall deliver notice reflecting information specified in Article 17.2 hereof to the grantor and debtor at least 7 (seven) business days prior to sales of encumbrance subject and copy of the notice to the security holders from the registry and other security holders known to him/her via confirmation method.

17.2. Notice on sales of encumbrance subject shall include following information:

17.2.1. description of subject of encumbrance;

17.2.2. amount of binding liability;

17.2.3. Mean of sales;

17.2.4. location, date and time of sales;

17.2.5. notice date, name and signature of person signing the notice.

17.3. Security holder shall sell the encumbrance subject at a reasonable price (price set for similar item during similar sale process).

17.4. Grantor or debtor has preemptive right of purchase for encumbrance subject within seven (7) business days from the date of the receipt of the notice specified in the article 17.1 hereof.

17.5. Possibility of sale of encumbrance subject at a higher price shall not indicate sale at unreasonable price.

17.6. In the event if the security holder sells encumbrance subject at a price lower than reasonable price, security holder shall bear responsibility in line with legislation for any damage incurred towards the grantor, any other security holder and other party (parties) with rights to encumbrance subject in this regard.

Article 18. Distribution of profit from sales of encumbrance subject

18.1. Amount generated from sales of encumbrance subject shall be distributed by the security holder as follows:

18.1.1. to meet expenses incurred for maintenance, safety, improvement and sales of encumbrance subject;

18.1.2. to meet higher priority claims in cases and manner specified in Chapter 3 hereof;

18.1.3. to meet claims of security holder who sold encumbrance subject;

18.1.4. to meet lower priority claims in cases and manner specified in Chapter 3 hereof;

18.2. Security holder shall inform grantor and debtor in writing about distribution of proceeds from sales of encumbrance subject within 5 (five) business days after the sales.

18.3. After payments specified in Article 18.1 hereof are made, remaining part of proceeds from sales of encumbrance shall be reimbursed to the grantor within 10 (ten) business days after sales.

18.4. In the event if the proceeds of encumbrance sales are not sufficient to cover claims of the security holder, the security holder has the right to recover the deficit amount from other items of the debtor, unless otherwise provided in the contract. In such cases the security holder shall not have a priority right on the basis of encumbrance.

18.5. In the event if security holder breaches provisions of Article 18.3 hereof, he/she shall bear responsibility in line with legislation towards the grantor for any damage incurred.

Article 19. Taking encumbrance subject into ownership of security holder

19.1. Security holder who wishes to take ownership of encumbrance subject in return of liability or part of it secured with encumbrance shall deliver notice reflecting

information specified in Article 17.2 hereof to grantor and debtor, and copy of notice to other security holders known to him/her via confirmation method.

19.2. In the event if within 10 (ten) business days after receiving notice, grantor and debtor agree in writing to transfer the encumbrance subject into ownership of the security holder in return of the liability or part of it secured with encumbrance and other security holders receiving notice do not object, security holder sending such notice shall take encumbrance subject into ownership under terms and conditions specified in the notice.

19.3. In the event if grantor and debtor do not agree in writing to transfer encumbrance subject in return of liability or part of it secured with encumbrance to ownership of the security holder or other security holders receiving notice object in writing to such transfer, the security holder sending such notice shall comply with requirements of Article 16 hereof.

Chapter 5.

State Registry for Encumbrance of Movable Property and Registration of Encumbrance

Article 20. Registry

20.1. The registry is an electronic information system/database, which functions uninterruptedly to ensure entry/recording and search of notices.

20.2. With exception of cases stipulated in Articles 21.1.8– 21.1.13 hereof, information indicated in notices recorded in the registry shall be available to everyone searched in registry.

20.3. Information stipulated in Articles 21.1.8–21.1.12 hereof shall be used for official statistics.

20.4. Following notices shall be recorded in the registry:

20.4.1. encumbrance notice;

20.4.2. notice on modification to encumbrance;

20.4.3. notice on objection to encumbrance;

20.4.4. notice on termination of encumbrance.

20.5. Notices shall be considered effective from the moment when they are available to be seen by persons searching in the registry.

20.6. Person entering the notice into the registry shall bear responsibility for accuracy of recorded information in the notice.

20.7. Any damages incurred as a result of registration of notice containing information significantly different from that in the encumbrance agreement or failure to register notice in cases and within timeframes specified in Article 25.1 hereof shall be bared by the entity or person registering or must register the notice.

20.8. Administrative and criminal liability shall be applicable in line with legislation against senior officers of the registrar entity for breach of requirements related to storage of information and registry maintenance.

20.9. Registry's activity shall be financed from the fee collected in line with the article 27 hereof for maintenance of registry.

20.10. Procedures for registry maintenance shall be identified by relevant executive authority.

20.11. Notices shall be registered through data entry in the registry in online regime and shall be provided with a unique registration number. Notices on state and municipality encumbrances may be registered through other electronic information systems integrated with the registry.

Article 21. General rules of recording encumbrance notice in registry

21.1. Encumbrance notice recorded in the registry shall reflect following information:

21.1.1. if the security holder is an individual – his/her last name, first name, patronymic and address, PIN ~~or~~ *and if available* taxpayer's identification number (TIN), and contact details; for foreign citizens – their passport series, passport number and contact details;

21.1.2. if the security holder is state and municipality authority, as well as a legal entity – its name, legal address, taxpayer’s identification number (TIN) and contact details; for foreign legal entities – their full name and contact details in Latin script;

21.1.3. if the debtor or grantor is an individual - his/her last name, first name, patronymic and address, PIN ~~or~~ *and if available* taxpayer’s identification number (TIN), and contact details; for foreign citizens – their passport series, passport number and contact details;

21.1.4. if the debtor or grantor is a state and municipality authority, as well as a legal entity – its name, legal address, taxpayer’s identification number (TIN) and contact details; for foreign legal entities- their full name and contact details in Latin script;

21.1.5. description of encumbrance subject;

21.1.6. validity period/ expiration date of encumbrance notice;

21.1.7. confirmation of grantor’s agreement to register information in the system by checking relevant cell;

21.1.8. volume of main liability secured by encumbrance (*maximum limit*);

21.1.9. debtor’s gender (for individuals);

21.1.10. debtor’s newcomer or repeated customer status;

21.1.11. debtor’s activity area;

21.1.12. movable property type;

21.1.13. other information specified in Article 20.10 hereof 21.2. Information specified in Articles 21.1.6– 21.1.12 hereof are not required to be recorded in encumbrance notices specified in Article 4.2 hereof based on decision of state authorities, municipalities and courts.

21.3. Encumbrance notices shall be recorded in the registry in following cases and by following persons:

21.3.1. for encumbrances generated by a contract – by security holder, based on that contract and before entry into force of the contract in a manner specified in Article 21.4 hereof;

21.3.2. for encumbrances generated by decisions of state authority, municipality or court resolution – by the person applying to state authority, municipality authority or

court for this purpose, or if these authorities initiate such encumbrances – by these authorities themselves after entry into force of these decision;

21.3.3. for encumbrances generated by requirements of the law – by the security holder after discovery of debtor’s failure to fulfill or properly fulfill liabilities.

21.4. Encumbrance notice generated from the contract may be recorded in the registry by the security holder upon written consent of the grantor before signing of the encumbrance agreement between parties. In such cases, the security holder shall conclude the contract with grantor within no later than 30 (thirty) days from the encumbrance notice’s registration date or immediately terminate the encumbrance notice.

21.5. Registration of the encumbrance notice generated by the contract shall require written approval of the grantor. Such approval shall be indicated in the contract or a separate consent form.

21.6. Registration of encumbrance notice generated by decision of state authority, municipality or court shall not require a written approval of grantor.

21.7. Encumbrance notice shall remain valid for the period indicated in the notice and without registration of termination notice is subject to premature termination only based on entry into force court decision.

Article 22. Description of encumbrance subject in the registry

22.1. Description of encumbrance subject shall consist sufficient information to enable reasonable identification of movable property, rights and claims (replaceable or irreplaceable items, consumer goods, complex property, as well as their accessories or integral parts etc.) as encumbrance subjects.

22.2. Encumbrance subject’s description may indicate that it consists of all existing or future movable property of the grantor. Such definition may also refer to specific type (category) of movable property, accounts receivable or their portion.

Article 23. General procedures for registering notice on objection to encumbrance

23.1. In the event if the grantor considers information reflected in the encumbrance notice recorded in the registry is inaccurate/incorrect and security holder refuses to modify or terminate such notice within 5 (five) business days after receiving the notice or grantor or Debtor are not satisfied with performed changes and amendments, grantor or the Debtor have the right to register a notice of objection to an encumbrance in the registry.

23.2. Notice of objection to encumbrance shall include following information:

23.2.1. registration number of objected encumbrance notice;

23.2.2. information on person entering notice of objection to encumbrance specified in Articles 21.1.3 and 21.1.4 hereof;

23.2.3. justified grounds for modification and termination of encumbrance notice which is objected to;

23.2.4. other information specified by the regulations shall be approved in line with Article 20.10 hereof.

23.3. Registration of notice of objection to encumbrance shall not result in termination of the encumbrance notice which is subject to objection and objection notices shall remain accessible to all persons searching in the registry.

23.4. Complaints with regard to notice of objection to an encumbrance, as well as with regard to refusal to amend or terminate encumbrance notices shall be subject to court trial.

Article 24. General procedures for registering notice on modification to encumbrance

24.1. In the following cases notice on modification to encumbrance shall be registered from the moment of security holder's awareness of such modification:

24.1.1. in the event, when replacement of encumbrance subject or modification in composition of the encumbrance subject, including conversion of one movable property type to another movable property type, as well as modification in description of encumbrance subject takes place;

24.1.2. in the event, when replacement of security holder, grantor and debtor with another party based on legislation and contracts take place;

24.1.3. in the event, when modification on information stipulated in Articles 21.1.1– 21.1.4 hereof take place;

24.1.4. in the event, when validity period of encumbrance notices as required by legislation and contracts changes;

24.1.5. in other cases, provided by legislation and contracts

24.2. Notice on modification to encumbrance shall include following information:

24.2.1. registration number of encumbrance notice subject to modification;

24.2.2. information on entity or person entering notice of objection to encumbrance specified in Articles 21.1.1 and 21.1.2 hereof;

24.2.3. except the notices of state and municipality encumbrance, integrated to the registry via other electronic information system, grounds for registering notice on modification to encumbrance;

24.2.4. if the encumbrance subject is amended or debtor is replaced, evidence of grantor's consent to register information by checking the relevant cell (with exception of cases when security holder is state authority or municipality);

24.2.5. Other information specified by the regulations shall be approved in line with Article 20.10 hereof.

24.3. For approval specified in Article 24.2.4 hereof a consent shall be provided in line with Article 21.5 hereof.

Article 25. General procedures for registering notice on termination of encumbrance

25.1. After the debtor fully fulfill liabilities related to encumbrance recorded in the registry, within 5 (five) business days the security holder shall register a notice of termination of encumbrance unless the encumbrance notice is automatically deleted after its expiration date or through other electronic information systems integrated with the registry.

25.2. If the encumbrance notice includes several security holders (joint creditors) and one termination applies to encumbrance right of one of the security holders,

encumbrance termination notice shall apply solely to the right of security holder who agreed to such termination.

25.3. Notice on termination of encumbrance shall include following information:

25.3.1. Registration number of encumbrance notice subject to termination;

25.3.2. Information on person entering notice of encumbrance termination stipulated in Articles 21.1.1 and 21.1.2 hereof;

25.3. 3. Confirmation of termination of encumbrance by checking relevant cell, with consideration of provisions of Article 25.2 hereof;

25.3.4. other information specified by the regulations shall be approved in line with Article 20.10 hereof.

25.4. Any complaints on refusal to register encumbrance termination notice by the security holder shall be subject to court trial and mandatory termination of registered encumbrance shall be performed only on the basis of court decision entered into force.

25.5. Security holder shall bear responsibility before the grantor in line with the Civil Code of Azerbaijan Republic for any damages incurred as a result of failure to register encumbrance termination notice in a timely manner, within timeframes and procedures specified hereof.

Article 26. Information search in the registry and extracts/excerpts from the registry

26.1. Any information search in the registry for debtors or grantors shall be conducted on the basis of the taxpayer's identification number (TIN) of legal entity, state or municipality authority; full name in Latin script of the foreign legal entity; PIN of an individual; passport series and number of the foreign citizens, as well as unique registration number of the encumbrance notice.

26.2. Information search and electronic report on search results shall be provided free of charge to the person searching for information through registry request. Information reflected in the report shall be identified in the regulations shall be approved in line with Article 20.10 hereof.

Article 27. Registry fee

A fee shall be paid for registering notices on encumbrance, changes in encumbrance notices ~~and termination of notices~~, as well as provision of hard copy approved reports on search results performed by any person upon request of such person. Relevant executive authority shall determine the amount of the fee and exempts from the payment of the fee.

Chapter 6.

Final Provisions

Article 28. Transitional provisions

28.1. Security holder may use other methods specified in Article 5.3 hereof with regard to movable property encumbrance generated prior to the entry into force of this Law.

28.2. Security holder may register encumbrance notice for movable property encumbered prior to the entry into force of this law, provided that grantor is delivered an advance notice. In such cases, prior agreement of grantor is not required and encumbrance notice may be recorded in the registry within 9 months after the registry becomes operational.

28.3. In the event if within 9 months after the registry becomes operational the security holder registers encumbrance notice or uses other methods provided for in Article 5.3. hereof with regard to movable property encumbered prior to the entry into force of this Law, such disclosure shall be deemed active from the date of encumbrance liability generation.

28.4. In the event if one of the methods provided for in Article 5.3.2. and 5.3.3. are applied with regard to movable property encumbered prior to the entry into force of this Law, security holder may continue to maintain possession and control over encumbrance subject, as well as record the encumbrance notice in the registry.

28.5. In the event when security holder fails to use one of methods provided for in Article 5.3. hereof with regard to movable property encumbered prior to the entry into force of this Law within 9 months after the registry becomes operational, application of

such methods after the indicated timeline shall be deemed active from the date of actual application of a method.

28.6. With regard to encumbrances generated prior to the entry into force of this Law, between Security holder failed to apply one of methods provided for in Article 5.3. hereof within 9 months of the entry into force of the Law and security holder who applied one of methods provided for in Article 5.3. hereof within 9 months of entry into force of the law priority is identified in line with this Law. For this purpose, encumbrance shall be perceived as one of methods specified in Article 5.3 applied to it.

Ilham Aliyev

President of Azerbaijan Republic

Baku city, May 2, 2017

№ 667-VQ