THE LAW OF THE REPUBLIC OF AZERBAIJAN

on financial leasing

This Law, in accordance with Paras 12, 13 and 15 of Part I of Article 94 of the Constitution of the Republic of Azerbaijan, establishes the legal framework for financial leasing activities, as well as legal, organizational and economic foundations for the regulation and supervision of such activities, to develop, promote and strenghten the role of financial leasing activities in economic growth.

Chapter 1

GENERAL PROVISIONS

Article 1. Main definitions

1.1. The definitions used for the pirposes of this Law shall bear the following meanings:

1.1.1. **purchase price** – the residual amount payable upon the expiry of the financial lease agreement for the lessee to acquire ownership of the financial lease object.

1.1.2. **sale-and-leaseback** – a financial lease under which the lessee itself acts as the seller of the financial lease object and which provides that, upon the expiry of the financial leasing agreement, the lessee is obliged to acquire ownership of the financial lease object.

1.1.3. **financial lease** – a lease under which the lessor grants the financial lease object to the lessee for possession and use and which meets one or more of the following criteria:

1.1.3.1. the financial leasing agreement provides for the transfer of ownership of the financial lease object to the lessee upon the expiry of the lease term, or grants the lessee the right to purchase the financial lease object upon the expiry of the lease term at a specified or predetermined price.

1.1.3.2. the lease term exceeds 75% of the useful life of the financial lease object.

1.1.3.3. upon the expiry of the lease term, the residual value of the financial lease object is less than 20% of its market value at the commencement of the financial lease.

1.1.3.4. the aggregate amount of lease payments payable during the lease term is equal to or exceeds 90% of the market value of the financial lease object at the commencement of the financial lease.

1.1.4. **lessee** – a legal entity or an unincoporated individual that, under a financial leasing agreement, accepts the financial lease object for possession and use for a specified period and under the agreed terms in return for financial lease payments.

1.1.5. **financial leasing activity** – entrepreneurial activity carried out by the lessor involving the provision of a financial lease object under a financial lease using its own and/or borrowed funds.

1.1.6**. financial leasing agreement** – a written agreement between the lessor and the lessee governing the establishment, amendment and termination of legal relations arising from a financial lease.

1.1.7. **financial lease payments** – periodic payments made by the lessee in favour of the lessor in consideration for the use of the financial lease object.

1.1.8. **financial lessor** (hereinafter – the '**Lessor**') – a commercial legal entity or the local branch of a foreign commercial legal entity that, in accordance with the terms of a financial leasing agreement, acquires the financial lease object from the seller and grants it to the lessee for possession and use in return for financial lease payments.

1.1.9. **qualifying holding** – direct or indirect ownership of an interest representing 10% (ten) or more of lessor's charter capital, or an interest that, under an agreement, enables its holder to exercise significant influence over the decision-making of the legal entity in which it participates.

1.1.10. **supplier** – a person who, under a sale and purchase agreement, transfers the financial lease object into the ownership of the lessor, including the lessee in a sale-and-leaseback transaction.

1.1.11. **total amount** – the aggregate amount of the financial lease payments, including the purchase price.

1.1.12. **civil impeccability** – the status whereby persons performing management functions of the lessor, holders of qualifying holdings in the lessor's charter capital, where such holder is a legal entity, the head of its executive body, and beneficial owners comply with the requirements of Article 17 of the *Law of the Republic of Azerbaijan on the Prevention of the Legalization of Criminally Obtained Property and the Financing of Terrorism*.

1.2. Other terms used in this Law shall have the meanings assigned to them by the normative legal acts of the Republic of Azerbaijan.

Article 2. Legal framework for financial leasing activities

2.1. Financial leasing activities shall be governed by the *Constitution of the Republic of Azerbaijan*, the international treaties to which the Republic of Azerbaijan is a party, the *Civil Code of the Republic of Azerbaijan*, this Law, other normative legal acts of the Republic of Azerbaijan regulating relations in this field, as well as the regulations adopted by the Central Bank of the Republic of Azerbaijan (hereinafter – the 'Central Bank') in accordance therewith.

2.2. Financial leasing relations in the Alat Free Economic Zone shall be governed in accordance with the *Law of the Republic of Azerbaijan on the Alat Free Economic Zone*.

Article 3. The scope of this law

The provisions of Chapters 1–3 of this Law shall also apply to banks, local branches of foreign banks, and non-bank credit institutions engaged in financial leasing activities.

Article 4. Subjects and objects of financial leasing

4.1. The subjects of a financial lease are the lessor, the lessee and the supplier.

4.2. The financial lease object may consist of movable or immovable property classified as fixed assets and used for entrepreneurial or economic activities, except for property used by the lessee for personal or household purposes, property withdrawn from civil circulation or subject to restrictions on civil circulation under the normative legal acts of the Republic of Azerbaijan, and land plots.

4.3. The lessor's ownership rights in respect of a financial lease object, subject to mandatory state registration under the law shall be registered with the relevant state register.

Chapter 2

FINANCIAL LEASING AGREEMENTS AND PAYMENTS, AND THE RIGHTS AND OBLIGATIONS OF THE SUBJECTS OF FINANCIAL LEASING

Article 5. Financial leasing agreement and sale and purchase agreement

5.1. Relations among the subjects of financial leasing shall be formalized by:

5.1.1. the conclusion of a financial leasing agreement between the lessor and the lessee, and a sale and purchase agreement between the lessor and the supplier.

5.1.2. the conclusion of a mixed agreement between the lessor, the lessee and the supplier.

5.1.3. the conclusion of a sale-and-leaseback arrangement or, in the cases provided for in Article 10.3 of this Law, a subsequent financial leasing agreement.

5.2. A financial leasing agreement shall be concluded in writing. Subject to the requirements of this Law, the financial leasing agreement shall contain at least:

5.2.1. a description of the financial lease object.

5.2.2. the intended purpose and useful life of the financial lease object.

5.2.3. the rights granted in respect of the financial lease object, including, where applicable, the lessee's right to purchase the financial lease object at a specified or predetermined price.

5.2.4. the procedure for the delivery/handover of the financial lease object.

5.2.5. the terms of the financial leasing agreement.

5.2.6. the parties' obligations regarding the maintenance and repair of the financial lease object.

5.2.7. where the lessor is to provide additional services in connection with the financial lease, a list of such services.

5.2.8. total amount of financial lease payments and the amount of the lessor's remuneration (interest or other income).

5.2.9. the schedule of financial lease payments.

5.2.10. the procedure for the allocation and payment of costs and other charges arising from the early performance or termination of the financial leasing agreement.

5.3. A financial leasing agreement may provide the lessee with the right to extend its term while retaining the existing terms and conditions of the agreement or subject to their amendment.

5.4. A sale and purchase agreement concluded in connection with a financial lease shall specify that the financial lease object is acquired by the lessor for the purpose of leasing it under a financial lease and, unless otherwise provided in the financial leasing agreement, that the lessee shall enjoy the rights of a buyer.

5.5. Where relations among the subjects of financial leasing are formalized through the conclusion of the agreement provided for in Article 5.1.2 of this Law, the requirements of the *Civil Code of the Republic of Azerbaijan* relating to mixed agreements shall apply.

Article 6. Financial lease payments

6.1. The total amount of the financial lease payments shall include:

6.1.1. the costs of acquiring the financial lease object, including taxes and customs duties, as well as, in accordance with the financial leasing agreement, other costs related to the delivery and commissioning of the financial lease object.

6.1.2. interest (charges) payable on funds borrowed to finance the financial lease.

6.1.3. the income expected by the lessor from the financial lease.

6.1.4. where the financial lease object has been insured by the lessor, the amount of the insurance premium.

6.1.5. fees for additional services provided by the lessor (where the provision of such services is stipulated in the financial leasing agreement).

6.1.6. other expenses incurred by the lessor in performing its obligations under the financial leasing agreement.

6.2. Amount of financial lease payments and the procedure for their payment shall be determined in the financial leasing agreement, subject to the requirements of this Law.

6.3. Unless otherwise provided in the financial leasing agreement, the lessee's obligation to make financial lease payments shall arise from the time the lessee takes possession of the financial lease object.

6.4. The financial leasing agreement may provide for a grace period of up to 180 (one hundred and eighty) days from the date on which the right to use the financial lease object arises before the lessee is required to commence making financial lease payments.

6.5. Financial lease payments shall be transferred directly to the lessor's account (except where the lessor has assigned its rights arising under the financial leasing agreement in accordance with Article 8.1.4 of this Law).

Article 7. Subleasing

7.1. Where provided for in the financial leasing agreement or with the prior written consent of the lessor, the lessee may, during the term of the financial leasing agreement, grant the financial lease object to a third party (the sublessee under the sublease agreement) for possession and use for a specified period under a sublease agreement. The term of the sublease agreement shall not exceed the term of the corresponding financial leasing agreement.

7.2. A sublease agreement shall be concluded in writing. The lessee shall remain liable for the performance of its obligations under the financial leasing agreement irrespective of the conclusion of the sublease agreement.

7.3. Where the financial leasing agreement is terminated or declared invalid, the sublease agreement shall likewise be terminated or declared invalid, as applicable.

7.4. Where the financial lease object is subleased, the right to bring claims against the seller shall pass to the sublessee under the sublease agreement.

7.5. Unless otherwise provided by this Law or the financial leasing agreement, the provisions governing financial leasing agreements shall apply to sublease agreements.

Article 8. Rights and obligations of the lessor

8.1. The Lessor shall be entitled to:

8.1.1. require the Lessee, on a periodic basis, to submit its financial statements (reports reflecting its financial position) and inspect the financial lease asset to verify its condition and the circumstances of its use where provided for in the financial lease agreement.

8.1.2. require the restriction or suspension of the Lessee's right to use the financial lease asset until relevant circumstances have been remedied where provided for in the financial lease agreement, where the Lessee, through its acts or omissions, creates a risk of destruction, loss or damage to the financial lease asset, or where the Lessee materially breaches the terms of the financial lease agreement.

8.1.3. encumber the financial lease asset with a pledge (mortgage) to raise borrowed funds.

8.1.4. assign, in whole or in part, its rights relating to the financial lease asset or arising under the financial lease agreement to persons carrying out financial leasing activities; in such case, the assignee shall also assume the obligations of the Lessor established under this Law and the financial lease agreement.

8.1.5. terminate the financial lease agreement prior to its expiry in the cases provided for in Article 10 of this Law.

8.2. The Lessor shall:

8.2.1. subject to Articles 5.4 and 9.1.1 of this Law, conclude the sale and purchase agreement with the supplier.

8.2.2. inform the Lessee of any third-party rights relating to the financial lease asset, including any encumbrances affecting the financial lease asset.

8.2.3. not amend the sale and purchase agreement, without the consent of the Lessee, where such amendment may affect the performance of obligations arising under the financial lease agreement.

8.2.4. place the financial lease asset in the possession and use of the Lessee in accordance with the terms of the financial lease agreement.

8.2.5. where provided for in the financial lease agreement, transfer ownership of the financial lease asset to the Lessee upon expiry of the term of the financial lease agreement.

8.2.6. duly and timely perform any other obligations arising under agreements concluded in connection with financial lease agreements.

8.3. Unless otherwise provided for in the financial lease agreement, where the financial lease asset, its supplier and/or the terms of the sale and purchase agreement have been selected by the Lessee, the Lessor shall not be liable to the Lessee for the supplier's failure to perform, or improper performance of, the terms of the sale and purchase agreement.

8.4. The Lessor shall not be liable for defects in the financial lease assets that were agreed upon at the time of conclusion of the financial lease agreement, were known to the Lessee in advance, or could reasonably have been discovered by the Lessee upon inspection of the financial lease asset or verification of its proper functioning.

8.5. The Lessor shall ensure the protection of information relating to the financial lease agreement, including information concerning the Lessee, in accordance with the *Law of the Republic of Azerbaijan on Commercial Secrets*.

Article 9. Rights and obligations of the Lessee

9.1. The Lessee shall be entitled to:

9.1.1. order the financial lease asset and/or determine its supplier.

9.1.2. assert against the supplier of the financial lease asset any claims arising under the law or the sale and purchase agreement.

9.1.3. where the Lessor fails to perform, or improperly performs, its obligations under the financial lease agreement, suspend payment of the lease instalments until relevant deficiencies have been remedied by the Lessor.

9.1.4. where Lessor unjustifiably exercises the rights provided for in Article 8.1.2 of this Law, claim compensation from Lessor for any damage resulting therefrom.

9.1.5. unless otherwise provided for in the financial lease agreement, upon expiry of the agreement, acquire the asset by paying the purchase price, extend the term of the financial lease agreement by mutual agreement with the Lessor, or return the financial lease asset.

9.1.6. where provided for in the financial lease agreement or by mutual agreement with the Lessor, perform financial lease payment obligations ahead of schedule and acquire ownership of the financial lease asset.

9.2. Unless otherwise provided for in the financial lease agreement or with the prior written consent of the Lessor, the Lessee shall not:

9.2.1. lease, sublease, rent out, or otherwise encumber the financial lease asset in any form.

9.2.2. assign to third parties any rights arising under the financial lease agreement.

9.3. The Lessee shall:

9.3.1. make financial lease payments in the manner and within the time limits specified in the financial lease agreement.

9.3.2. Unless otherwise provided for in the financial lease agreement, fulfil the obligations relating to the acceptance of the financial lease asset and the assertion of claims arising from the sale and purchase agreement concerning the financial lease asset.

9.3.3. where provided for in Article 11.2 of this Law, provide the Lessor with one copy of the acceptance act (or installation certificate) relating to the delivered and installed financial lease asset.

9.3.4. throughout the term of the financial lease agreement, ensure the safekeeping of the financial lease assets, maintain it in proper working condition, and use it solely in accordance with the terms of the financial lease agreement.

9.3.5. unless otherwise provided for in the financial lease agreement, bear all costs relating to the transportation, acceptance, installation, dismantling, operation, storage, safeguarding, maintenance, routine and intermediate repair of the financial lease asset, as well as all other related expenses.

9.3.6. inform the Lessor of any encroachment or claim by third parties in relation to the financial lease asset.

9.3.7. where provided for in the financial lease agreement (and, in the case of sale-and-leaseback transactions, irrespective of whether such provision is included), upon expiry of the financial lease agreement, acquire ownership of the financial lease asset or, except in the case of a sale-and-leaseback transaction, return the financial lease asset to the Lessor in a condition compliant with the terms of the agreement, taking into account normal wear and tear.

9.4. The occurrence of property risks for which the Lessee bears responsibility under this Law shall not release Lessee from its obligation to make financial lease payments.

Article 10. Early termination of the financial lease agreement

10.1. The Lessor may terminate the financial lease agreement prior to expiry where:

10.1.1. The conditions under which the Lessee uses the financial lease asset are not consistent with the terms of the financial lease agreement or the purpose of the financial lease asset.

10.1.2. The Lessee breaches the requirements set out in Article 9.2 of this Law.

10.1.3. The Lessee fails to maintain the financial lease asset in proper working conditions and such failure adversely affects its operational suitability.

10.1.4. except in the circumstances provided for in Article 9.1.3 of this Law, the Lessee fails to make financial lease payments on three occasions within a calendar year or on two consecutive payment dates specified in the financial lease agreement.

10.1.5. The Lessee fails to comply with the requirements of the Lessor made pursuant to Articles 8.1.1 or 8.1.2 of this Law.

10.1.6. in the cases provided for in Article 422 of the *Civil Code of the Republic of Azerbaijan*.

10.1.7. Lessee ceases its entrepreneurial activity, is dissolved, or is declared bankrupt.

10.2. The Lessee may terminate the financial lease agreement prior to its expiry in the circumstances provided for in Article 9.1.3 of this Law by returning the financial lease assets and claim compensation from the Lessor for any damage suffered. Where the Lessee requests reimbursement of financial lease payments from the Lessor, the reasonable value of the benefit derived by the Lessee from the use of the financial lease asset during the lease term shall be deducted from financial lease payments to be reimbursed.

10.3. Where the financial lease agreement is terminated prematurely, the Lessor may re-lease the financial lease asset to another lessee under a new financial lease arrangement. Where the supplier has outstanding unperformed obligations under the sale and purchase agreement relating to the financial lease asset, the Lessor shall inform the supplier of the new lessee.

Article 11. Rights and obligations of the Supplier

11.1. The Supplier shall be subject to the obligations owed to the Lessee and the Lessor under the law and the sale and purchase agreement. For this purpose, the Lessee and the Lessor shall act as joint creditors vis-à-vis the Supplier.

11.2. Where the sale and purchase agreement provides that the Supplier shall deliver and/or install the financial lease asset for the Lessee at the agreed place and within the agreed period, performance of that obligation shall be evidenced by an acceptance (or installation) act signed by the Supplier and the Lessee. One copy of such certificate shall be provided to the Lessor.

11.3. Where provided for in the sale and purchase agreement, maintenance services in respect of the financial lease asset shall be performed by the Supplier.

Chapter 3

PROTECTION OF THE PROPERTY RIGHTS OF PARTIES TO A FINANCIAL LEASING

Article 12. Property relations in financial leasing

12.1. The financial lease asset placed in the possession and use of the Lessee shall remain the property of the Lessor.

12.2. Unless otherwise provided for in the financial lease agreement, the rights of possession and use in respect of the financial lease asset shall vest in the Lessee in full.

Article 13. Allocation of risks and insurance between the parties to a financial lease

13.1. Unless otherwise provided for in the financial lease agreement, the Lessee shall bear responsibility, from the moment of actual acceptance of the financial lease asset, for the protection of the financial lease asset against loss or damage, including destruction, loss, deterioration, theft, premature failure, and risks arising from errors or defects in its installation or use. Where the financial lease agreement provides for the insurance of such risks and/or business risks, the agreement shall specify the insured party (policyholder), the beneficiary, the duration of the insurance cover, and any other insurance-related terms deemed necessary by the parties.

13.2. Unless otherwise provided for in the financial lease agreement, the risk arising from the Supplier's failure to perform its obligations under the sale and purchase agreement in a timely or proper manner, or from the Supplier's insolvency, shall be borne by the party that selected the Supplier.

13.3. Unless otherwise provided for in the financial lease agreement, the risk that the financial lease asset is unsuitable for the purposes for which it is intended to be used under the financial lease agreement shall be borne by the party that selected the financial lease asset.

13.4. In cases prescribed by law, the Lessee shall maintain liability insurance in respect of its liability arising from damage caused, in the course of the use of the financial lease asset, to the life, health or property of other persons.

13.5. Any other matter relating to the insurance of the financial lease asset and risks associated with its use shall be determined by mutual agreement of the parties.

Article 14. Recourse against the financial lease asset

14.1. Except in the cases provided for in this Law and in the financial lease agreement, the Lessor may not assert any claim against the financial lease asset during the term of the financial lease agreement.

14.2. Claims of third parties arising from the obligations of the Lessee may not be enforced against the financial lease asset.

14.3. Claims of Lessor's creditors, including secured creditors, arising from the obligations of Lessor and relating to a financial lease asset that is in the possession and use of the Lessee shall be deemed to be directed solely against Lessor's rights arising under this Law and the financial lease agreement. In such case, the obligations of the Lessor shall also pass to those creditors.

14.4. The provisions of Article 14.3 of this Law shall also apply where the Lessor is declared insolvent. In such case, any further specific rules governing recourse against the financial lease asset shall be regulated by the *Law of the Republic of Azerbaijan on Insolvency and Bankruptcy*.

Chapter 4

REGULATION AND SUPERVISION OF FINANCIAL LEASING ACTIVITIES

Article 15. Requirements applicable to financial leasing activities

15.1. The regulation and supervision of financial leasing activities shall be carried out by the Central Bank in accordance with this Law.

15.2. A legal entity state registered in the Republic of Azerbaijan or a local branch of a foreign legal entity may carry out financial leasing activities only after being entered in the Register of Financial Lessors maintained by the Central Bank (hereinafter – the 'Register'). A state fee in the amount prescribed by the *Law of the Republic of Azerbaijan on State Fees* shall be payable for inclusion in the Register.

15.3. Persons not engaged in financial leasing activities shall be prohibited from using the words 'financial lease', 'financial leasing', 'leasing', or any combination of such words in their name.

15.4. A branch of a Lessor (other than a local branch of a foreign legal entity) may carry out financial leasing activities upon notification to the Central Bank in accordance with Article 16.14 of this Law.

15.5. A legal entity carrying out financial leasing activities shall maintain minimum charter capital and own funds (or, in the case of a local branch of a foreign legal entity, funds equivalent thereto). The minimum amount and formation requirements for charter capital (or equivalent funds of a local branch of a foreign legal entity), as well as the methodology for the calculation, structure and composition of own funds (or equivalent), shall be determined by the Central Bank.

15.6. Transactions between a Lessor and its related parties shall be governed by Article 49-1 of the *Civil Code of the Republic of Azerbaijan*. The maximum aggregate amount of financial lease agreements that may be concluded with the related party(-ies), and the requirements applicable to transactions with such persons, shall be determined by the Central Bank.

15.7. A Lessor shall comply with the requirements established by the Central Bank concerning maximum credit risk exposure to a single Lessee or a group of connected Lessees.

15.8. A Lessor shall have internal policies in place governing financial leasing operations, risk management, and internal control over financial leasing activities.

15.9. Lessors shall submit information relating to each Lessee to the Centralised Credit Registry established by the Central Bank in accordance with the procedures determined by the Central Bank and to at least one credit bureau operating pursuant to the *Law of the Republic of Azerbaijan on Credit Bureaus* and comply with the requirements arising under that Law.

15.10. In carrying out financial leasing activities, a Lessor acting as a reporting entity shall comply with the requirements of the *Laws of the Republic of Azerbaijan on the Prevention of the Legalisation of Criminally Obtained Property and the Financing of Terrorism* and *on Targeted Financial Sanctions*.

15.11. A Lessor may engage in other activities not prohibited by law in addition to financial leasing activities.

Article 16. Entry of a Lessor in the register

16.1. The Register maintained by the Central Bank shall be publicly accessible. The Register shall contain information on Lessors, including their name, registered address, branches, persons performing management functions, registration number and date of entry in the Register, any restriction or suspension of their financial leasing activities, as well as information concerning Lessors removed from the Register.

16.2. Subject to the requirements of Article 16.15 of this Law, a legal entity applying for entry in the Register shall submit to the Central Bank an application together with the following documents and information:

16.2.1. a notarised copy, or a copy certified in accordance with Article 9 of the *Law of the Republic of Azerbaijan on Administrative Proceedings*, of the legal entity's charter, certificate of state registration, and extract from the State Register of Legal Entities.

16.2.2. documents and information concerning the amount of charter capital, the participation interest (share) of each participant, and the source of the funds used to acquire such participation interest (share).

16.2.3. a list of the persons performing management functions in the legal entity (members of the supervisory board (board of directors), where established, and members of the executive body), together with information about their civil impeccability; where such persons are foreign nationals, a certificate issued by competent authorities of their country of residence confirming whether they have been subject to criminal prosecution, duly legalised or apostilled in accordance with applicable legislation.

16.2.4. information, in the form prescribed by the Central Bank, about relationships among participants and beneficial owners, including information that the beneficial owners meet the civil impeccability requirements established by this Law; where a beneficial owner is a foreign national, a certificate issued by competent authorities of his or her country of residence confirming whether that person has been subject to criminal prosecution, duly legalised or apostilled in accordance with applicable legislation.

16.2.5. information about qualifying holding owners in the legal entity (full names, addresses, percentage holdings in the charter capital, business activities (or occupations), and the source of funds used to acquire such holdings; information about their civil impeccability (or, where the holder of the qualifying holding is a legal entity, civil impeccability of the head of its executive body); and, where such persons are foreign nationals, a certificate issued by competent authorities of their country of residence confirming whether they have been subject to criminal prosecution, duly legalised or apostilled in accordance with applicable legislation.

16.2.6. where the owner of a qualifying holding in a legal entity is a person acting as the manager of a foreign legal arrangement, a document confirming this status, together with documents confirming the full name, date of birth, personal identification number or the number of the identity document, citizenship, and permanent place of residence of that person and of other managers (if any), the founder of the foreign legal arrangement, the beneficiary (or group of beneficiaries) of the foreign legal arrangement, the provider of the foreign legal arrangement (if any), as well as any other person exercising effective control over the foreign legal arrangement (or, where such persons are legal entities, their name and identification number), and a copy of the constitutive document of the foreign legal arrangement, legalized or apostilled in accordance with the procedure established by normative legal acts, and information indicating whether any such persons are politically exposed persons, their close family members or close associates within the meaning of the *Law of the Republic of Azerbaijan on the Prevention of the Legalisation of Criminally Obtained Property and the Financing of Terrorism*.

16.2.7. the internal policies referred to in Article 15.8 of this Law.

16.3. Subject to the requirements of Article 16.15 of this Law, for the purpose of entry of a local branch of a foreign legal entity in the Register, the foreign legal entity shall submit the following documents and information to the Central Bank:

16.3.1. a copy of the charter of the foreign legal entity and copies of the branch establishment documents certified as per Article 16.2.1 of this Law.

16.3.2. a document confirming that the funds allocated to the branch are not less than the minimum amount established by the Central Bank.

16.3.3. information about the civil impeccability of the branch manager and, where that person is a foreign national, a certificate issued by competent authorities of the country of residence confirming whether that person has been subject to criminal prosecution, duly legalised or apostilled in accordance with applicable legislation.

16.3.4. a list of the qualifying holding owners in the foreign legal entity, indicating the size of their holdings.

16.3.5. a document evidencing that the foreign legal entity carries out financial leasing activities.

16.3.6. information concerning the activities of the foreign legal entity in international financial markets.

16.3.7. audited financial statements for the most recent financial year together with the auditor's opinion.

16.3.8. the internal policies referred to in Article 15.8 of this Law.

16.4. Unless otherwise provided for in an international agreement to which the Republic of Azerbaijan is a party, documents submitted by foreign nationals and foreign legal entities shall be legalised under applicable legislation, and their translation into the Azerbaijani language shall be notarised.

16.5. To verify the information in submitted documents, the Central Bank may obtain information from independent and reliable sources, as well as from relevant public authorities (institutions). Public authorities (institutions) shall provide the information requested by the Central Bank within 7 (seven) working days. Public authorities (institutions) may not refuse to provide the requested information on the grounds that such information constitutes a commercial secret, tax secret or other legally protected confidential information, except where the information constitutes a state secret.

16.6. The Central Bank shall review the application and accompanying documents within 60 (sixty) days from the date of their receipt.

16.7. Where the Central Bank identifies deficiencies in the documents submitted for review, it shall notify the applicant thereof in writing within 15 (fifteen) working days from the date of receipt of the application.

16.8. The applicant shall remedy the deficiencies no later than 15 (fifteen) working days from the date of receipt of the written notification. The issuance of a written notification by the Central Bank shall suspend the running of the period prescribed in Article 16.6 of this Law for review of the application, and the period of suspension shall not be included in the calculation of that review period. The running of the period shall resume upon receipt by the Central Bank of written confirmation that the deficiencies have been remedied.

16.9. Except in the cases provided for in Article 16.10 of this Law, where a decision is made to enter the applicant in the Register, the Central Bank shall, within 2 (two) working days, notify the applicant of the requirement to pay the applicable state fee. No later than 2 (two) working days after receipt of a document confirming payment of the state fee, the applicant shall be entered into the Register, and the Central Bank shall provide written notification thereof within 2 (two) working days. Where a document confirming payment of the state fee is not submitted within 5 (five) working days, the decision on entry in the Register shall be revoked by the Central Bank, and the applicant shall be notified thereof in writing within 2 (two) working days. The Central Bank shall notify the tax authority of the applicant's entry into the Register within 5 (five) working days from the date on which the applicant is entered into the Register.

16.10. The Central Bank shall refuse to enter an applicant in the Register where:

16.10.1. the applicant fails to remedy, within the period specified in Article 16.8 of this Law, the deficiencies identified in the written notification.

16.10.2. inaccurate or misleading information is identified in submitted documents.

16.10.3. the documents submitted do not comply with the requirements of this Law.

16.10.4. the amount of paid-up charter capital, or funds allocated to the local branch of a foreign legal entity, fails to meet the requirements established by the Central Bank.

16.10.5. the persons performing management functions, the manager of the local branch of a foreign legal entity, holders of qualifying holdings (or, where a holder of a qualifying holding is a legal entity, the head of its executive body), or beneficial owners fail to meet civil impeccability requirements.

16.10.6. there are facts giving rise to reasonable grounds to believe that the influence of qualifying holding or beneficial owners over the Lessor would jeopardise its sound and prudent management, or the source of the applicant's charter capital is unknown.

16.10.7. the financial position of the foreign legal entity is unsatisfactory from the perspective of the safe and sound operation of its local branch.

16.11. Where the Central Bank refuses to enter an applicant in the Register, it shall provide written notification of its reasoned decision to the applicant and the tax authority within 2 (two) working days from the date on which the decision is made. A decision refusing entry in the Register may be challenged before a court.

16.12. Where a decision refusing entry in the Register has been made, or where a decision on entry in the Register has been revoked pursuant to Article 16.9 of this Law, the applicant may reapply to the Central Bank for entry in the Register no earlier than 6 (six) months thereafter. In such case, the application shall be examined as a new application in accordance with Article 16.2 of this Law.

16.13. Where there is a change in Lessor's name, address, persons performing management functions, including the manager of a branch carrying out financial leasing activities, qualifying holding or beneficial owners, Lessor shall notify the Central Bank thereof in writing within 5 (five) working days. Documents evidencing the relevant change shall be attached with the notification. Where changes relate to persons performing management functions, qualifying holding or beneficial owners, the notification shall also be accompanied by the documents and information referred to in Articles 16.2.3 to 16.2.6, 16.3.3 and 16.3.4 of this Law.

16.14. The Lessor (other than the local branch of a foreign legal entity) shall submit a written notification to the Central Bank at least 5 (five) working days before the date on which a decision to establish a branch takes effect. The notification shall specify the name and address of the branch and be accompanied by information about civil impeccability of the branch manager in accordance with the requirements of Article 16.2.3 of this Law. Where the Central Bank fails to communicate any objections to the notification within 10 (ten) working days, the branch of the Lessor may commence financial leasing activities.

16.15. Where the documents or information referred to in this Chapter may be obtained from the relevant public authority (institution) through the Electronic Government Information System, such documents or information shall not be requested from the applicant. Where such documents or information cannot be obtained through the Electronic Government Information System, they shall, with the consent of the applicant, be requested from the relevant public authority (institution) upon request or otherwise provided by the applicant.

16.16. For the purposes of this Law, the existence of a criminal conviction in respect of persons for whom a civil impeccability requirement is established shall be determined based on a certificate issued by the authority (body) designated by the competent executive authority, upon request of the Central Bank.

Article 17. Sources of funding for financial leasing activities

17.1. Financial leasing activities may be financed from the following sources:

17.1.1. Lessor's own funds.

17.1.2. borrowed funds, including loans, other debt financing and proceeds obtained from the issuance of bonds.

17.1.3. funds obtained from any other sources not prohibited by law.

Article 18. Regulation and supervision

18.1. In relation to the regulation and supervision of financial leasing activities the Central Bank shall:

18.1.1. adopt regulations in accordance with this Law.

18.1.2. maintain the Register and enter in and remove Lessors from the Register.

18.1.3. receive reports concerning the activities of Lessors.

18.1.4. conduct ongoing monitoring of the activities of Lessors.

18.1.5. inspect financial leasing activities of Lessors.

18.1.6. examine complaints relating to financial leasing activities.

18.2. For supervisory measures, the Central Bank shall have the right to obtain from a Lessor, its employees and its related parties any documents, explanations and information concerning any matter relating to the management of the Lessor or its financial leasing activities, including information relating to financial lease agreements concluded by the Lessor.

18.3. The form, content and procedure for the submission of reports relating to financial leasing activities (other than financial statements) shall be determined by the Central Bank.

18.4. To reduce risks associated with financial leasing activities and protect the rights and legitimate interests of parties to a financial lease, the Central Bank shall have the power to establish, in addition to the regulatory requirements provided for in this Law, other prudential standards and requirements recognised in international practice in the field of financial leasing.

18.5. The monitoring and inspection of financial leasing activities by the Central Bank, as well as other matters relating to supervision, shall be governed by this Law and the *Law of the Republic of Azerbaijan on the Central Bank of the Republic of Azerbaijan*.

18.6. State control over compliance by Lessors with competition legislation shall be carried out in accordance with the procedure established by the *Competition Code of the Republic of Azerbaijan*.

Article 19. Accounting and financial reporting

19.1. The maintenance of accounting records and the preparation, submission and publication of financial statements by a Lessor shall be governed by the *Law of the Republic of Azerbaijan on Accounting*.

19.2. A Lessor shall submit its annual financial statements (including statements about its financial position) and, where applicable, consolidated financial statements, together with the auditor's opinion, to the Central Bank within the period prescribed in Article 12.1 of the *Law of the Republic of Azerbaijan on Accounting*.

19.3. An external auditor conducting an audit of a Lessor shall notify the Central Bank in writing of any breaches of law or deficiencies identified in the course of the audit relating to financial leasing activities. An external auditor conducting, or having conducted, an audit of a Lessor shall, upon written request of the Central Bank where required for the performance of its supervisory functions, provide to the Central Bank, within the period specified in the request, any documents and information relating to activities of the Lessor that has been or is being audited.

Article 20. Supervisory measures

20.1. Where it is established that a Lessor is carrying out financial leasing activities in breach of this Law, the *Laws of the Republic of Azerbaijan on the Prevention of the Legalisation of Criminally Obtained Property and the Financing of Terrorism* and *on Targeted Financial Sanctions*, or regulations of the Central Bank, or where circumstances are identified that may give rise to such breaches, the Central Bank shall issue to the Lessor a binding written instruction requiring the remediation of identified breaches.

20.2. The Lessor shall provide the Central Bank with written information on the implementation of the measures specified in the binding instruction within the period established therein.

20.3. Where the Lessor fails to provide information to the Central Bank within the prescribed period regarding compliance with the requirements set out in the binding instruction, or where such requirements are not fulfilled in a timely or proper manner, the Central Bank shall be entitled, depending on the nature of the breach, to take one or more of the following measures against the Lessor:

20.3.1. restrict or suspend the conclusion of new financial lease agreements (including in respect of the persons referred to in Articles 15.6 and 15.7 of this Law).

20.3.2. require amendments to internal policies referred to in Article 15.8 of this Law.

20.3.3. prohibit the opening of new branches carrying out financial leasing activities, suspend financial leasing activities at a branch, or require the termination of such activities at a branch.

20.3.4. require an increase in the capital of the Lessor.

20.3.5. remove the Lessor from the Register.

20.4. Decisions of the Central Bank imposing supervisory measures may be challenged before a court. The lodging of such a challenge shall not suspend the implementation of those decisions.

Article 21. Removal of a Lessor from the Register

21.1. The Central Bank shall remove a Lessor from the Register where:

21.1.1. Lessor so requests.

21.1.2. Lessor is dissolved or declared insolvent.

21.1.3. Lessor fails to commence financial leasing activities within 12 (twelve) months from the date of its entry in the Register or fails to submit activity reports to the Central Bank for two consecutive reporting dates.

21.1.4. information submitted in support of the application for entry in the Register is subsequently found to have been false.

21.1.5. Lessor fails to comply, in whole or in part, or within the deadline, with one or more instructions issued pursuant to Articles 20.1 and 20.3 of this Law.

21.1.6. facts exist that give rise to reasonable grounds to believe that the influence of qualifying holding or beneficial owners over the Lessor would jeopardise its sound and prudent management.

21.2. A decision on removal from the Register shall be notified to the Lessor and the competent tax authority within 3 (three) working days. The Central Bank shall also publish a notice of the decision on its official website. Unless a different effective date is specified in the decision, the decision shall take effect upon its notification to the Lessor.

21.3. Where Lessor's name contains the words 'financial lease', 'financial leasing', leasing', 'leasing', or any combination of such words, the Lessor shall amend its name within 2 (two) months from the date of receipt of the relevant decision of the Central Bank on its removal from the Register.

21.4. Where a person removed from the Register fails to comply with the requirement set out in Article 21.3 of this Law, the Central Bank shall take legal action to secure the necessary amendment of that person's name.

21.5. Except in the case referred to in Article 21.1.1 of this Law, a legal person removed from the Register may not apply for re-entry in the Register for a period of 1 (one) year from the date of the relevant decision.

Chapter 5

FINAL PROVISIONS

Article 22. Associations and alliances of Lessors

22.1. Lessors may establish associations and alliances to coordinate their activities and jointly represent and protect their common interests.

22.2. Lessors shall not use associations or alliances to conclude agreements or engage in concerted practices aimed at restricting competition or monopolising the market. Associations and alliances shall comply with the requirements of competition legislation in the conduct of their activities.

Article 23. Liability for breaches of this Law

Persons who breach the requirements of this Law shall incur liability in the cases provided for by law.

Article 24. Transitional provision

Persons carrying out leasing activities in the territory of the Republic of Azerbaijan on the date of entry into force of this Law (including persons that have currently suspended leasing activities in accordance with applicable legislation) shall, within 9 (nine) months from the date of entry into force of this Law, bring their activities into compliance with the requirements of this Law and apply to the Central Bank for entry in the Register. Persons that fail to comply with the requirements of this Law within that period shall not conclude new financial lease agreements, shall not extend the term of existing leasing agreements and, where their business name contains the words ‘financial lease’, ‘financial leasing’, ‘leasing’, or any combination of such words, shall take the measures required under applicable regulations to remove such words from their name.

Article 25. Entry into force of this Law

This Law shall enter into force 6 (six) months after the date of its publication.

Ilham ALIYEV,
President
The Republic of Azerbaijan

Baku city, 26 May 2026
№ 412-VIIQ