

**THE LAW of the REPUBLIC of AZERBAIJAN
on CREDIT UNIONS**

(with amendments of 23 November 2001, September 30, 2010 and 04 March 2016)

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

**Chapter I
GENERAL PROVISIONS**

Article 1. What is a credit union?

1. A credit union is defined as a non-bank credit institution established for mutual crediting of members collecting free cash of voluntarily joined individuals and (or) legal entities, that are small entrepreneurs, united on the community of interests.
2. Mutual crediting 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 possess the right to obtain property and non-property rights on its behalf and act as a pretendant and defendant party in the court.

Article 2. Legislation on credit unions

The legislation on credit unions consists of The Constitution of the Republic of Azerbaijan, this Law and other legislative acts of the Republic of Azerbaijan.

Article 3. Main principles of credit union's activities

1. The main principles of credit union's activities include:
 - 1.1. association of members on the basis of common interest and mutual confidence;
 - 1.2. voluntary membership;
 - 1.3. lucidity of activities;
 - 1.4. coordination of personal and common interests;
 - 1.5. real equality of rights irrespective of shares' size;
 - 1.6. personal participation of members in credit union's management;
 - 1.7. direction of obtained funds at entrepreneurial activities;
 - 1.8. self-controlled activity arrangement.

Article 4. Credit union's rights and obligations

1. A credit union shall enjoy the following rights:
 - 1.1. obtain credits and grants from banks, international and foreign financial and credit institutions;
 - 1.2. issue loans to its own members as established in the charter;
 - 1.3. deposit free cash with banks and other credit unions, as well as use it for purchase of state securities.
2. Credit unions shall discharge duties, implied in the tax and other legislations of the Republic of Azerbaijan.

Article 5. Government and credit unions

1. Government shall take measures on establishment and stimulation of activities of credit unions.
2. A credit union shall be state registered as a legal entity under the legislation of the Republic of Azerbaijan upon a constituent assembly.
3. A credit union shall be deemed non-constituted if it fails to get state registered during the legislatively determined period and shares shall be returned within 15 days.
4. Constitutors 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 responsible for liabilities of the Government.
6. The Government shall guarantee the protection of legal rights and interests of a credit union and its members.
7. The damage caused to the credit union by actions (inactions) of state institutions shall be reimbursed by the same institutions.
8. A credit union shall obtain a special permit under the legislation to perform banking operations from the *financial markets supervisory authority*.
9. In the event the *financial markets supervisory authority* refuses to issue a special permit, it should substantiate its refusal. Refusal to issue a special permit may be subject to legal investigation in the court on the basis of constituents' claim.
10. The *financial markets supervisory authority* may establish economic regulatory guidelines for a credit union and requirements on professional ability of members of the Management Board and impose sanctions:
 - 10.1. require implementation of measures directed at prevention of discovered violations;
 - 10.2. suspend or revoke the special permit.

Chapter II

ESTABLISHMENT AND MEMBERSHIP OF CREDIT UNIONS

Article 6. Establishment of a credit union

1. A credit union shall be constituted by no less than 11 individuals and (or) legal entities in the statutory order.
2. The credit union's constituent assembly shall take a decision on establishment of the credit union, approve the charter, and select the management and control body.

Article 7. Charter of a credit union

1. The charter of a credit union shall address the following:
 - 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 the management bodies of the 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 initial share to the credit union, rules, and term of its payment, and infringement responsibility;
- 1.9. property creation of the credit union and income management;
- 1.10. terms and regulations 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's activity;
- 1.14. regulations on share retrieval at the termination of membership;
- 1.15. other legal matters relevant to the activity of the credit union 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 international relations and assist in other joint issues.

Article 9. Membership to the credit union

1. The number of constitutors of the credit union should not fall below 11. When the number of members decreases, a credit union must increase the number of members up to 11 within three months at the latest by informing the *financial markets supervisory authority* within 10 days. The special permit shall be revoked if the minimum number is not restored within this period.
2. Upon the 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 forward a petition 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, obligations and responsibilities of credit union members

1. A member of the credit union shall enjoy the following rights:
 - 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 the terms and rules implied in the charter of the credit union and other normative documents;
 - 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 or the Management Board;

2. A credit union member shall have the following duties:
 - 2.1. pay the share in the order and time-framespecified in the charter;
 - 2.2. followthe 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;
 - 2.5. fulfillcompetent 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 keptresponsible for its liabilities in proportion to its own property and shallnot be kept responsible for the liabilities of its members irrelevant to the activities of the credit union. The members of the credit union shall beresponsible 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 when:
 - 1.1. ashareholder is expelled from the membership as determined in the charter;
 - 1.2. ashareholder willingly resigns from his/her membership;
 - 1.3. thecredit union is liquidated.
2. When a credit unionmember willingly resigns from his/her membership he/she must at least 3 months prior submit a petition to the Management Board.
3. When a credit union member is expelled from the membership at the decision of the Management Board, he/shemay file an appeal against the decision to the supervisory boardor thegeneral meeting. He/shemay take the case to the court when unsatisfied with the decision of the general meeting.
4. A heir-at-law may substitute the member upon his/her death or he/shemay buy outthe share of the member.

Chapter III

MANAGEMENT OF THE CREDIT UNION AND CONTROL OVER ACTIVITIES

Article 12.Management of the credit union

1. The Credit union shall bemanaged by a general meeting of members, a supervisory board, amanagement board and a credit committee.
2. The supreme management body of the credit union shall bethe general meeting of its members. The next general meeting shall beconvened within the period determined in the charter, however not less than once a year. Rules for extraordinary meeting convention shall bedetermined by the charter. Convention of the general meeting shall beannounced 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 amendments thereof;
 - 3.2. determine the rules for membership admittance and termination;
 - 3.3. selectthe Supervisory Board, the Management Board, Chairman of the Management Board, the credit committee, hear their reports and terminatetheir 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 utilization rules;
- 3.7. determine terms and conditions of and regulations on credit granting;
- 3.8. determine establishment and utilization rules of funds of the credit union;
- 3.9. determine repayment rules for damage 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 the 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 two-third majority and remainders by simple majority. If the votes are equally divided, the chair of the meeting shall have the decisive vote.
5. A resolution shall pass through an open vote or secret ballot at the general meeting as implied in the charter.

Article 13. Oversight on 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 member of the Management Board and the credit committee.
3. The Supervisory Board shall:
 - 3.1. oversee implementation of decisions of the general meeting;
 - 3.2. analyze the performance of the credit union, the 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 reference;
 - 3.4. caution about elimination of shortcomings in the activities of the Management Board and the credit committee, about abolishment 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 the 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. Governance of activities of the credit union

1. The Management Board and its chairman 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 defined 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 relations with third parties;
 - 3.3. arrange general meetings;
 - 3.4. conclude labor contracts with new employees on behalf of the credit union, contract civil bargains with members and third parties;
 - 3.5. issue loans on the basis of the credit committee reference;
 - 3.6. prepare accounting balance and other financial statements;
 - 3.7. fulfill other duties implied in the charter.
4. Salaries of the Management Board members shall be defined by the charter.

Article 15. Issue of a loan

1. The decision on the loan granting shall be taken by the Management Board on the basis of the credit committee reference. The credit committee consisting of at least three members shall be selected from among the members of the credit union at 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.
4. The loan securitization may be requested under the legislation of the Republic of Azerbaijan.
5. The credit committee may deliver proposals to the general meeting to set interest rates on loans.
6. The credit committee shall report to the general meeting on its activities annually.

Article 16. Responsibilities of the Supervisory Board, the Management Board and the Credit Committee

Supervisory Board, Management Board and credit committee members shall be taken responsible for damages caused by their actions (inactions) as defined in the legislation of the Republic of Azerbaijan.

Article 17. Taxation, accounting and reporting in credit unions

1. Taxation in the credit unions shall be determined by the Tax Code of the Republic of Azerbaijan.
2. Accounting rules, specification, structure and presentation periods of reports shall be defined by the *financial markets supervisory authority* in line with the legislation.

Chapter IV
FUNDS OF THE CREDIT UNION

Article 18. Chartered capital

1. The chartered capital of the credit union shall be formed by shares of its members.
2. The minimum amount of the chartered capital shall be set by the *financial markets supervisory authority*, however, the amount of member's share, its payment order and responsibility for infringement shall be determined under the charter.
3. The chartered capital shall be used for mutual crediting. The necessary amount to launch credit union activities may be allocated from the chartered 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 the chartered capital.
5. Credit union members may recover their shares only in case their membership is terminated.

Article 19. Reserve fund

1. A special reserve fund shall be created to cover losses caused by activities of the credit union.
2. 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 the chartered capital and profit of the credit union, as well as the funds attracted from other sources according to this Law. These funds shall be solely used for crediting of members.
2. The amount of the loan issued from the credit fund cannot exceed 10 times of the share of the member who obtains the loan and cannot exceed 10 percent of credit fund resources.

Chapter V

**LIQUIDATION AND REORGANIZATION OF THE CREDIT UNION
AND DISPUTE SETTLEMENT**

Article 21. Liquidation of the Credit union

1. Foundations for the liquidation of the credit union:
 - 1.1. decision of the general meeting on the liquidation of the credit union;
 - 1.2. decrease in the minimum number of members and minimum chartered capital of the credit union;
 - 1.3. valid court decision on the liquidation of the bankrupt credit union;
 - 1.4. valid court decision on the liquidation of the credit union for infringement of the laws of the Republic of Azerbaijan.
2. The institution making decision on the 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. Separation of one or several legal persons from the reorganized credit union, as well as its division and consolidation shall be conducted on the basis of 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. name and address of the credit union;
 - 3.2. number of members;
 - 3.3. chartered capital;
 - 3.4. appraisal of issued loans and property;
 - 3.5. inheritance terms and conditions and maturity of liabilities;
 - 3.6. criteria and rules of disposal of members' shares in the credit union 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 the members upon reorganization, the period until 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 special permit for the banking activity, under the requirements herein.

Article 23. Dispute settlement

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

Article 24. Final provisions

1. Credit unions created prior to the effective date of this Law shall operate according to the Articles of this Law.
2. Special permits for banking activities issued to the credit unions prior to the effective date of this Law shall be valid within the period indicated therein.

President of the Republic of Azerbaijan

Heydar Aliyev.

Baku, May 2, 2000

N=876-IQ.