

**LAW OF MONGOLIA  
CIVIL CODE**

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**PART I  
GENERAL BASIS**

**Sub-part I  
Civil Legal Relationship and Legislation**

**CHAPTER ONE  
GENERAL PROVISIONS**

**Article 1. Purpose of the Law**

1.1. The purpose of the Law shall be to regulate relationship with respect to material and non-material wealth arising between legal persons.

1.2. Civil legislation shall be based on the principles of equality and autonomy of participants to the civil legal relations, sanctity of their property, contract freedom, non-interference into personal affairs, free exercise of civil rights and obligations, reinstatement of the violated rights and their protection in the court.

1.3. Unless stipulated otherwise by law, this Law shall not be applied for regulating relationship with respect to material and non-material wealth, subject to regulation by Administrative Laws including Tax, Budget and Finance or based on administrative subordination.

**Article 2. Civil Legislation**

2.1. Civil Legislation shall be consisted of the Constitution of Mongolia, the present Law and other legislative acts adopted in compliance with them.

2.2. If the rules, laid down in the international treaty of Mongolia, differ from those stipulated by this law, the rules of the international treaty shall be applied.

**Article 3. Application of Civil Legislation**

3.1. Courts shall not apply any law contradicting with the Constitution of Mongolia.

3.2. In cases other than the International Treaty stipulating that national legislation should be adopted, civil legal relations shall be regulated by the International Treaty of Mongolia.

3.3. In case laws other than the Constitution and this Law contradict each other, the provisions of the Law, which regulates the matter in more details, or in case of absence of such, provisions of the lately adopted Law shall be applied.

3.4. Validity of an invalidated law shall not be restored if the annulling law is invalidated.

3.5. If the Law envisages, the publicly enforceable legal acts containing civil legal norms, which adopted in compliance with this Law by Government may be applied.

3.6. Legal acts defining norms shall be applied only in case they replace the legal norms.

3.7. Ignorance of the Law or its misinterpretation shall not serve as a ground for its non-appliance or exempt from responsibilities stipulated by the Law.

#### **Article 4. Application of Civil Code by analogy**

4.1. Norms of laws regulating similar relations shall be applied, if the Civil Code lacks norms regulating a particular relationship.

4.2. In the absence of norms regulating similar relations, the particular relations shall be regulated in compliance with the civil legal content, principles and commonly accepted norms.

4.3. Norms specifically regulate a particular relationship shall not be applied by analogy in other relations.

#### **Article 5. Retrospective application (ex post facto) of civil legislation**

5.1. Unless stated otherwise in the Law, retrospective application of civil legislation shall be excluded.

5.2. In case the newly adopted legislation damages the rights and legitimate interests of either one or both parties to the contract, contract terms and conditions shall be valid.

5.3. If parties to the contract mutually agree, the newly adopted legislation with better terms and conditions shall apply.

#### **Article 6. Objects of civil legal relationship**

6.1. In accordance with the grounds and procedure stated in the law, material and non-material wealth, which could be valued in terms of money in civil circulation, shall be objects of civil legal relationship.

6.2. Material or non-material rights, action or non-action and information may be objects of civil legal relations as well.

#### **Article 7. Participants to civil legal relationship**

7.1. Citizens, legal persons and organizations without legal status shall be participants to civil legal relationship.

7.2. Mongolian and foreign citizens, stateless persons/individuals without citizenship participating in the civil legal relationship shall be deemed as citizens.

7.3. Aimag, the capital city, soums, and districts, as state, administrative and territorial units, may enter into civil legal relation like other legal entities.

## **CHAPTER TWO**

### **FOUNDATIONS FOR ARISING CIVIL LEGAL RELATIONSHIP AND ITS PROTECTION, EXERCISING RIGHTS AND DUTIES IN CIVIL LEGAL RELATIONSHIP**

#### **Article 8. Grounds for arising civil legal relationship**

8.1. Civil legal relationship shall arise on the following grounds:

8.1.1. transactions stated or not stated in the Law, which do not contradict content-wise the law;

8.1.2. court ruling causing civil legal relationship;

8.1.3. an administrative decision causing civil legal relationship if stated in the Law;

8.1.4. creation of an intellectual value;

8.1.5. causing harm;

8.1.6. acquisition or possession of goods without grounds;

8.1.7. legal events causing civil legal relations;

8.1.9. other grounds stated in the Law creating civil legal relationship.

#### **Article 9. Civil legal protection**

9.1. Civil legal protection shall aim at restoration of violated rights.

9.2. A participant to the civil legal relationship shall be entitled to select the person whose rights to be protected as provided by law.

9.3. Civil legal protection shall be executed by court or arbitration body along with procedures and methods provided by Law.

9.4. Civil rights shall be protected as follows:

9.4.1. admitting the rights;

9.4.2. halting acts that violate the rights and restoring the pre-violation conditions;

9.4.3. enforcing the assumed duties;

9.4.4. eliminating damages caused;

9.4.5. eliminating non-material harms;

9.4.6. enforcing to pay indemnities stipulated in the law or contract;

9.4.7. invalidating decisions violating rights of others;

9.4.8. altering or terminating civil legal relationship;

9.4.9. self-help;

9.4.10. other methods stipulated by law.

#### **Article 10. Compelled defense**

10.1. Compelled defense shall be an appropriate and required action undertaken to defend oneself or other persons or assets from illegal attacks.

10.2. The person, who undertakes the compelled defense, shall not be responsible for elimination of the harms caused by such defense.

### **Article 11. Action taken in a desperate situation**

11.1. Action taken in a desperate situation shall an action/inactivity/ taken to halt or prevent the danger of that particular situation, if other elimination methods are impossible.

11.2. If the harm done in a desperate situation is less than the potential one, the person has taken such an action shall not be responsible for its elimination.

11.3. If the harm done in a desperate situation is obviously more than the potential one, the person has taken such an action shall be responsible for its elimination commensurate to his/her excessive action.

11.4. Taking into consideration real circumstances of harm-doing, court may assign the third person, in whose interests the act was taken, to eliminate the harm, or the harm-doer or the third person may be partially or fully released from such an obligation.

11.5. If the person took action in a desperate situation, him/herself created such a situation, him/herself should eliminate the harm.

### **Article 12. Self-help**

12.1. In case it is impossible to get timely assistance from competent authorities, without which it is impossible to exercise civil rights or if serious impediment to such rights may occur, respective actions taken by a participant to a civil legal relationship in order to self-help and protect own legitimate interests, and targeted at detaining the performer who might seize, destroy or damage, escape or halt counter measures by the latter against legitimate actions taken by the competent person, shall not be deemed illegal.

12.2. Person that took actions stated in article 12.1 of this Law shall immediately notify the competent authority in order to attach the assets or detain the obliged person.

12.3. Self-help action shall not exceed the norms appropriate for the particular situation.

12.4. Person which took the action stated in article 12.1 of this Law by mistake or by exceeding norms shall be obliged to eliminate the harm.

### **Article 13. Exercising rights and duties in civil legal relationship**

13.1. Participants to civil legal relationship shall fairly exercise and fulfill their rights and duties stipulated by law or contracts.

13.2. Participants to civil legal relationship may at own will exercise rights and duties which are not prohibited or directly stated in the law.

13.3. Participants to civil legal relationship are prohibited to undertake activities harmful to others, limiting freedom of market relations without grounds,

illegally taking advantage of legitimate advantages while enjoying own rights or fulfilling duties. Otherwise, they shall bear responsibilities stipulated by law.

**Sub-part II**  
**Participants To Civil Legal Relationship**

**CHAPTER THREE**  
**CITIZENS**

**Article 14. Civil legal capacity**

14.1. Civil legal capacity shall commence with citizens' birth and terminates with their death.

14.2. It is prohibited to limit civil legal capacity.

**Article 15. Full civil legal capability**

15.1. Civil legal capability to acquire rights and obligations by own conduct or full legal capacity emerges with reaching an adolescence or the age of 18.

15.2. Court may consider citizens reached the age of 16-18 with full civil legal capability at own request with the consent of parents, or guardians, or custodians based on grounds and procedures stipulated by Law.

15.3. If relevant grounds exist, the court rule considering the citizen with civil full capability could be invalidated at the request of an interested person.

**Article 16. Partial civil legal capability**

16.1. Minors under age of 14-18 shall have partial civil legal capability.

16.2. Minors may conclude transactions other than the ones permitted by Law, on the basis of written consent of their legal representative (parents, guardians, custodians).

16.3. Minors may exercise the following rights without consent of their legal representative:

16.3.1. administering own salary, student stipend, other similar incomes, or any asset transferred to them for administering at own discretion;

16.3.2. concluding transactions harmless or of utility nature with immediate execution;

16.3.3. depositing in banks or credit institutions incomes stated in article 16.3.1 of this Law.

16.4. Citizens of age 16-18 may be cooperative members.

**Article 17. Some civil legal capability**

17.1. Persons of age 7-14 shall possess some civil legal capability.

17.2. Legal representative (parents, guardians, trustees) of persons of age 7-14 shall on their behalf conclude transactions other than petty and harmless ones of utility nature with immediate execution.

### **Article 18. Citizens without civil legal capability**

18.1. Persons under age of seven shall lack civil legal capability.

18.2. Court shall deem deprived of civil legal capability of the persons, who are unaware of own conduct and lacking self-control due to mental illness, and shall establish for them custody.

18.3. Legal representatives shall conclude any transactions on behalf of persons with deprived civil legal capability.

18.4. In case of elapsing the conditions or grounds for considering the person deprived of civil legal capability, court may revoke its decision on considering her/him as deprived of civil legal capability.

### **Article 19. Limited civil legal capability**

19. 1. Civil legal capability of adult citizens who are addicted, or regularly using addictive drug substances or alcohol and causing substantial economic damages for their family, may be limited and established custody at the request of interested person according to procedure defined by law.

19.2. It shall be prohibited to limit civil legal capability by concluding transactions.

19.3. Persons with limited civil legal capability may conclude transactions within the unlimited part of their capability upon custodian's consent.

19.4. With elapse of circumstances served as grounds for limiting civil legal capability, court shall invalidate the imposed limitation and shall release the custodian from the obligations.

### **Article 20. Name of citizens**

20.1 Citizens shall have own names.

20.2. Procedure to register and change citizens' names shall be determined by law.

20.3. Citizens' name shall be registered with the competent authority. Civil rights and obligations shall be acquired and exercised at own name. Pseudonyms could be used only according to the procedure and conditions stipulated by law.

20.4. Name changing shall not serve as grounds for altering or terminating the rights and obligations acquired under the previous name.

20.5. Person with changed name shall be obliged to inform an obligation beneficiary or an obligation performer, in case of failure to do so he/she personally shall bear the responsibility for the consequences.

### **Article 21. Protection of citizens' name, honor, dignity and business reputation**

- 21.1. It is prohibited to use illegally the name of citizens.
- 21.2. If the person, who defamed citizen's name, honor, dignity and business reputation, fails to prove the defamation accuracy, he/she shall be liable to refute the defamation via media and in the form, it was originally disseminated, or in other forms.
- 21.3. If the defamation of others' name, honor, and dignity and business reputation is due to incomplete information about the documents, the guilty person shall be liable to refute, as stipulated in article 21.2 of this Law.
- 21.4. Citizen, considering harmful the dissemination without his/her consent of any personal information, defined by law as confidential, shall be entitled to demand the harm elimination.
- 21.5. Person, considering harmful any publication or public demonstration without its consent of an individual image in a form of photo, movie, video recording, portrait or any other form, shall be entitled to demand the harm elimination.
- 21.6. In case a person receives any fee or payment for using his/her image or grants the rights to use his/her image in connection with his/ her social status for promotion, or his/her image is used during public activities as a part of training, scientific research, business activities, no special permit shall be required from the person.
- 21.7. If any information, defaming the name, honor, dignity and business reputation, or confidential personal news of the diseased person is publicized without consent of the heir specified in article 520 of this Law, the rules laid down in this article shall equally be applied.
- 21.8. Harm done in the case stipulated in article 21.7 shall not be demanded to be compensated in material form.
- 21.9. Person violated rights provided by this article, shall eliminate the harm done to others, as envisaged in articles 497 and 511 of this Law.

## **Article 22. Citizen's residence**

- 22.1. Citizen's residence shall be determined by the administrative and territorial unit, where the individual is registered according to law.
- 22.2. If the citizen does not reside in the registered location, the place he/she basically lives or the most of her/his personal assets is located may be deemed as her/his residence.
- 22.3. Residency of a person under others' custody shall be determined by the residency of her/his parents or custodians.

## **Article 23. Citizen declared as missing**

- 23.1. Upon request of an interested person, Court may declare a citizen as missing, if his/her whereabouts is unknown or not heard for a period of two years since the date of her/his missing from the place of residence.
- 23.2. Court shall rule the protection over the property of a missing citizen, and the citizen's statutory obligations such as raising and assisting her/his

dependants, paying fees and taxes according to law, paying debts according to liabilities, shall be charged from the property.

23.3. If the location of the missing person is identified, or the person is back, the Court shall revoke its ruling and terminate the property protection.

23.4. Upon return, the missing citizen shall be entitled to reclaim his/her property available or transferred free to others on grounds other than stipulated by Article 23.3 of this Law. However, any profit gained in the result of using the assets for economic purposes, shall not be claimed.

23.5. The administrator shall pay the price of assets of the missing person if they are sold, or pay their full or partial value if they are lost, or short of, or damaged, in the amount ruled by Court, depending on the degree of guilt.

23.6. If the missing person is back, the administrator of the assets shall be entitled to demand the reimbursement of costs related to their protection, storage and use.

#### **Article 24. Citizen declared as deceased**

24.1. Upon request of an interested person, Court may declare a citizen as deceased if his/her whereabouts remains unknown for over five years since the date of her/his missing from the residency, or if her/his existence remains unknown for a year since the date of missing in life-threatening circumstances.

24.2. Person missing while participating in military operations could be deemed as deceased after the expiration of two years since the termination of such operations.

24.3. The date of death of the citizen declared as deceased shall be the date, when the Court decision on considering him/her deceased enters into force.

24.4. If the citizen declared as deceased due to missing under life-threatening circumstances, Court may consider the date of possible death as the date of the death of that citizen.

24.5. The property of a citizen declared as deceased shall be transferred to others according to the succession rule.

24.6. If the person declared as deceased is back or her/his location is identified, Court shall revoke its previous decision.

24.7. If the person declared deceased is back, he/she shall enjoy the right to reclaim the available property transferred free to others in way of inheritance or other forms. If thus transferred to the state property cannot be returned to the owner, its price shall be reimbursed.

24.8. Revocation of the Court rule declaring a person as deceased shall not serve as grounds for invalidating the new marriage of her/his spouse.

**CHAPTER FOUR  
JURISTIC PERSON**

**Sub-chapter one  
Common provisions**

**Article 25. Juristic person**

25.1. Juristic person shall be an organised unity with concrete mission and engaged in regular activities, which is entitled to own, possess, use and dispose of its separate property, which can acquire rights and bear duties on its own name, which can be liable for consequences arising out of own activities with its own assets, and which is capable to be defendant or plaintiff.

25.2 Juristic person may be for-profit with an objective to make profit or non-profit one with an objective specified by a law or a charter.

25.3.A Juristic person shall be either public or private, or mixed property.

25.4. Unless otherwise provided in the Law, juristic persons may be in an amalgamation with the purpose to coordinate their activities, while they will retain their juristic person status.

25.5. Juristic status of juristic persons shall be established by law.

**Article 26. Civil juristic capacity of juristic persons**

26.1. A juristic person's legal capacity in civil law shall be commenced, arising with registering with the State Register, and terminated upon its liquidation according to law or its deletion from the State Register.

26.2. Procedure to register juristic persons with or to be deleted from the State Register shall be determined by law.

26.3. Legal capacity of public juristic person in civil law shall be born (commenced) or terminated with its foundation or liquidation in accordance with law provisions, and it shall be entitled to participate in civil juristic relationships with equal status to other participants.

26.4. Juristic persons shall participate in civic legal relationships via their governing bodies.

26.5. Juristic status of governing bodies of juristic persons shall be specified by laws of their incorporating thereof,

26.6. Non-profit juristic persons shall undertake activities in compliance with the objectives specified by their charters or other bylaws incorporating thereof,

26.7. For-profit juristic persons shall be entitled to undertake any activity not prohibited by law or not in conflict with commonly accepted moral.

26.8. Juristic persons shall undertake certain activities with the consent of respective competent authorities provided by law. The entitlement to undertake the activities shall emerge from the day of getting the special authorisation.

26.9. Legal capacity of juristic persons in civil law shall be limited solely based on grounds and procedure prescribed by law.

### **Article 27. Name of juristic persons**

27.1. Juristic persons shall have own names. Juristic person's name shall reflect its structure and juristic form.

27.2. If required by law, the juristic person's type should be indicated.

27.3. Juristic person's name shall not duplicate or be misleadingly similar to the name of other juristic persons.

27.4. Other persons shall be prohibited to use illegally other juristic persons' names. The person violating this provision shall remedy any damage caused to others thereby pursuant to procedure specified in Article 497 of this Law.

27.5. Juristic persons shall register their names as it stipulated in the Law.

27.6. Article 21 of this Law shall be equally applied for protecting the business reputation of juristic persons.

### **Article 28. Business place of juristic persons**

28.1. The place where the head office of a juristic person is located shall be its business place.

28.2. A Juristic person shall have only one business place and or official address.

### **Article 29. Subsidiary and representative office of juristic persons**

29.1. If prescribed by law or by documents, subsidiary or representative offices may set up by such juristic person in accordance with the due procedure.

29.2. Subsidiary shall be a special unit located in place other than the juristic person's business place, which performs fully or partially main functions of that juristic person.

29.3. A representative office shall be a unit located in a place other than the juristic person's business place, obligated to defend legitimate interests and conclude transactions, or take other legal actions on behalf of at juristic person.

29.4. The rights and liabilities of subsidiaries and representative offices shall be determined by the charter of the principal juristic person.

29.5. Executives of subsidiaries and representative offices shall carry out their activities on the basis of power of attorney granted by the principal juristic person thereto.

29.6. Subsidiaries and representative offices of the juristic person shall not be entitled to the rights a juristic person.

### **Article 30. Incorporation of juristic persons**

30.1. Unless otherwise stipulated in the law, citizens and juristic persons may incorporate juristic person as prescribed by law.

30.2. In order to perform its functions or satisfy public needs, the state may establish a juristic person, using solely the state property or in collaboration with a third party.

### **Article 31. Re-organization of juristic persons**

31.1. A juristic person may be reorganised by merging, consolidating, dividing, separating or restructuring at the decision of the assets' owner, or a designated body or a body authorised by its founding bylaws, as prescribed by law.

31.2. *Merging* shall take place when activities of two or more juristic persons are halted, and their rights, obligations and responsibilities are transferred to a newly established juristic person.

31.3. *Joining* shall take place when rights, obligations and responsibilities are transferred to another juristic person after halting its activities.

31.4. *Dividing* shall take place when activities of juristic persons are halted, and their rights, obligations and responsibilities are transferred to newly emerging two or more juristic persons.

31.5. *Separating* shall take place when some rights, obligations and responsibilities of a juristic person are transferred to a newly established juristic person, without halting the former activities.

31.6. Juristic person could be established by changing its organisation type, form and basic goals.

### **Article 32. Liquidation of juristic persons**

32.1. Juristic persons shall be liquidated on the following grounds:

32.1.1. a decision issued by it's of the owner or the designated body, or a body authorised by the founding documents;

32.1.2. court decision on liquidation on the grounds declaration of bankrupting, or several or serious breaches of the law, or other grounds stipulated in the law;

32.1.3. own decision on discontinuing its activities due to its term expiration 31.3 or body founded

32.1.4. a decision by the competent founder of the juristic person;

32.1.5. any other grounds provided by law;

32.2. A commission, appointed by the body, which made the decision on liquidation, shall be in charge of liquidation process.

32.3. Liquidation Commission shall publicise the liquidation of the juristic person.

32.4. The time limit for acceptance by the Liquidation Commission of claims from creditors shall be not less than two month and not more than six months

from the date of public notification of the liquidation of the juristic person in question.

32.5. Claims against a juristic person in liquidation shall be satisfied in the following order:

32.5.1. payments to recorer ( or remedy) damages caused to the life and health of others and other payments due to a decision by Court;

32.5.2. operational expences born, , by the executor , Liquidation Commission, or other similar persons thereto.within their competence;

32.5.3. claims arising out of contracts and transactions concluded in the process of re-capitalization of the plaintiff during its bankruptcy;

32.5.4. capital of depositors;

32.5.5. payment of due to workers under labor contracts;

32.5.6. payments to other claimants in accordance with law.

32.6. Principle of satisfying the following claims after full payment of all first claims shall in order to satisfy claims against juristic persons in process of liquidation observed in satisfying claims against the juristic person in liquidation.

32.7. If the available cash of the juristic person is insufficient to satisfy the amounts owing to claimants, then the Liquidation Commission may sell other assets and complete the payments as provided by the law.

32.8. If the assets of the juristic person in liquidation are insufficient to meet its debts, its available assets shall be distributed among the claimants in proportion to the amounts owed and with proper sequence.

32.9. After satisfying debts of claimants, any remaining property shall be transferred to the legitimate owners or to authorised persons, if provided by law.

32.10. If there is no person to accept the property of the juristic person in liquidation, then it shall be transferred to state ownership.

32.11.The registration body shall announce publicly the deletion of the juristic person from the State register.

## **SUB-CHAPTER TWO**

### **TYPES OF JURISTIC PERSONS**

#### **Article 33. Types of juristic persons**

33.1. Profit-making juristic persons shall be established in the form of partnership or company.

33.2. Non-profit juristic persons shall be established in the form of association, foundation or cooperative.

#### **Article 34. Companies**

34.1. A company shall be a juristic person with shareholders' capital divided into certain number of shares, with separate own assets, and with an objective to make profit.

34.2. The legal status of companies shall be determined by law.

### **Article 35. Partnerships**

35.1. A partnership shall be a juristic person with assets, consisting of its members contributions, and liable for its obligations with these assets and the personal property of its members, as provided by law.

35.2. Legal status the partnership shall be determined by law.

### **Article 36. Associations, foundations, cooperatives**

36.1. An *association* shall be a membership juristic person established by voluntary amalgamation of several persons with common specific goals.

36.2. A *foundation* shall be a juristic person with no members, established by one or more founders by raising funds to attain for the public common goals.

36.3. The legal status of associations and foundations shall be determined by law.

36.4. A *cooperative* shall be a juristic person, established jointly on voluntary basis by several persons to carry out activities aimed at satisfying common economic and social needs of its members, based on assets with corporate governance and control over joint assets.

36.5. Incorporation, registration, termination of and control over its activities, membership and other relations relevant to cooperatives shall be regulated by law.

36.6. Monasteries and churches, participating in the civil juristic relations, shall observe provisions of the law pertaining to the juristic status of foundations

### **Article 37. Special regulation for foundations.**

37.1. The Governing body the board of governors of a foundation or the governing board shall consist of donors, supporters and representatives designated by them.

37.2. The Governing body of foundations shall nominate its executives and supervising body.

37.3. Executives of foundation shall carry out activities consistent with the statute, of foundations shall distribute to the public the published operational and financial reports reviewed by the governing body of the foundations.

### **Article 38. Foundation liquidation procedure**

38.1. Liquidation Commission, nominated by the authority and made the liquidation decision, shall be in charge of liquidation. In the special cases, Court may nominate another liquidation body, which shall bear the same responsibilities as members of Liquidation Commissions.

38.2. Day-to-day activities of liquidated foundations shall be halted, the available assets shall be and payments made to claimants.

38.3. After making payments as provided by Article 38.1 of this Law, the remaining assets shall be transferred to one or more persons with goals common

or similar to the liquidated foundation. In case of absence of such a person, it may be decided to be transferred to the state ownership.

### **SUBPART III**

#### **Transactions**

### **CHAPTER FIVE**

#### **GENERAL PROVISIONS**

##### **Article 39. Transaction**

39.1. Transaction shall mean an intended action /inactivity/ of citizens or juristic persons aimed at creating, modifying, transferring or terminating civil rights and obligations.

39.2. A person may conclude a transaction expressing one's intention.

##### **Article 40. Validity of expression of intention**

40.1. Expression of intention shall become effective when it received by the other party.

40.2. If the other party refuses in advance or straightforward to receive the expressed intention, the intention expressed shall be deemed as ineffective.

40.3. Transactions or intention expressed by the person before his/her death or loosing his/her full civil law capability shall remain as valid.

##### **Article 41. Interpretation of intention**

41.1. While interpreting the content of an intention, direct meaning of its words shall directly be taken into consideration.

41.2. If the meaning of the expressed intention is ambiguous, it shall be interpreted by analysing the intention expresser's needs, demands, words, actions and inactivity, as well as other conditions and circumstances.

##### **Article 42. Forms of transaction**

42.1. Transactions may be concluded in the form as provided by law, or if it is not provided, the parties may agree on concluding either orally or in writing.

42.2. Written transaction with simple form shall enter into force upon signing it by the person expressing the intention.

42.3. According to business traditions, the signature directly copied by technical means may be considered as an authentic to the original.

42.4. As to transactions requiring notary certification, it shall be certified by notary or other persons provided by law.

42.5. If a transaction requiring notary certification is not certified, and one of the parties accepts full or substantial performance of the obligations by the other party, but objects to notary certification of the transaction, then at the request of

the party fulfilled its obligations, Court may consider that the transaction have been concluded.

42.6. If a person is unable to sign personally the document due to sickness or illiteracy, another person may sign the transaction on his/her behalf upon authorisation. In that case, the signature of the authorising person must be certified and reason of signing by another person shall be stated in the document.

42.7. If a written transaction was executed in several copies, it shall be considered as concluded, if copies left with parties are mutually signed by both of them.

42.8. The parties may conclude a transaction by expressing their intention through undertaking real actions as for the major condition.

42.9. If it is provided by law or contract, a silence may be considered as an acceptance of the proposal to conclude a transaction.

42.10. If the law provides so, a transaction, which is not complying with the legal requirements to be in written, shall be void and the parties shall mutually return all objects of transaction.

42.11. Unless otherwise provided by this law, if parties have a dispute over a transaction, breaching mandatory requirements to be in written, then they may prove the transaction by any other means of evidence, despite losing the right to have it proven by witnesses.

### **Article 43. Evidence of transaction as concluded**

43.1. Oral transaction shall be considered as concluded in the following cases:

43.1.1. agreement by the parties on the essential terms of the transaction;

43.1.2. handing over customary things like receipts or documents certifying the conclusion of the transaction;

43.1.3. if provided by law or contract, in the absence of a reply to a proposal for concluding the transaction and on the expiry of a fixed time or of a reasonable time for reply.

43.2. A written transaction shall be considered as concluded in the following cases:

43.2.1. executing and signing by parties of a document expressing their intention;

43.2.2. receiving by a party of an official letter, telegram, fax or other similar documents expressing the intention of the other party, who accepted the proposal to conclude a transaction;

43.2.3. registering and certifying by notary of transactions, which have to be registered or certified by notary, as provided by law.

43.3. If a party expressed its acceptance of the other party's intention by concrete conduct or action, then the transaction shall be considered as concluded by real action.

43.4. If it is impossible to define the content of transaction, the transaction shall be deemed as not concluded.

#### **Article 44. Conditional transaction**

44.1. Transaction which is concluded that it would be executed or terminated if an event that is uncertain takes place shall be called a conditional transaction.

44.2. If a transaction provides for creation of rights and obligations depending on happening of an event with uncertain occurrence, or the parties are unaware of its occurrence, then it shall be considered to be a suspended conditional transaction.

44.3. If a transaction provides for termination of rights and obligations depending on happening of an event with uncertain occurrence, then it shall be considered to be a changeable conditional transaction.

44.4. If the future occurrence of an event depends on intention of parties to the transaction, then the provisions of this article shall not be applied.

#### **Article 45. Void conditional transaction**

45.1. If conditions are not in compliance with law requirements or contradict with admitted common behavioural norms, or obviously unrealistic, the transaction shall be void.

#### **Article 46. Void conditions**

46.1. In case of concluding a transaction with condition that an event occurs at certain time, but the event does not take place during the specified period, the condition shall become void.

46.2. Condition without concrete term may occur anytime.

46.3. If it becomes evident that the event indicated in the condition will never take place, then the condition shall become void.

#### **Article 47. Condition deemed satisfied**

47.1. If the transaction with a condition that an event shall not occur at certain time, and prior to the specified time it becomes evident that it will not occur, then the conditions shall be deemed satisfied.

#### **Article 48. Obligations of the person concluded a conditional transaction**

48.1. Person, concluded a conditional transaction, shall not be entitled to undertake any actions obstructing the other side to fulfil its obligations prior to the occurrence of the event, indicated in the transaction.

48.2. If the party to whom the condition's occurrence would cause unfavourable situation, unfairly obstructs the condition occurrence, the condition shall be deemed occurred.

48.3. If the party to whom the condition's occurrence would cause favourable situation, unfairly affect the condition occurrence, the condition shall not be deemed occurred.

48.4. If a person has already taken the action specified in article 48.1 of this Law by the time the condition is occurred, then, he/she shall be obliged to eliminate the harm caused to the other party due to such action.

#### **Article 49. Stock exchange transactions**

49.1. Transactions for investment into the stock exchange turnover or for the transfer of property rights (properties, securities etc) shall be subject to execution procedure and registration with the Stock exchange, as provided by law.

49.2. Unless conflicted with law, or the nature of the particular type of transaction, Stock exchange transactions may be regulated by the rules governing the relevant contracts (contracts for sale and purchase, contracts for commission etc) subject to adjustment to content-wise.

49.3. The conditions concerning confidentiality of the commercial secrets of parties to transactions, which are not disclosed without their consent, shall be determined by the Law on Stock Exchange.

49.4. Disputes over the conclusion of stock exchange transactions, and rights and obligations arising out of them, shall be reviewed and settled by the competent authority, and the parties may appeal to Court with respect to its decisions.

#### **Article 50. Transactions subject to special authorization**

50.1. The third party, who is competent to issue an authorisation-the mandatory condition for a transaction to become effective, shall equally notify parties to the transaction about issuing the authorisation or refusal to issue it.

50.2. The authorization does not need to be in the form that to be observed in the transaction.

50.3. If the transaction, the validity of which depends on the authorization of the third person, concluded with the latter's consent, the provision of article 54.5 of this Law shall be applied as well.

#### **Article 51. Invalidation of an authorization**

51.1. If parties have not created any consequences yet on basis of the received authorisation with the purpose to conclude a transaction, the authority, issued such an authorisation may invalidate the authorisation prior to concluding the transaction. Parties shall be notified if the invalidation of the authorisation.

#### **Article 52. Condition for non-retroactivity of an authorisation**

52.1. Actions taken at the decision of the person competent to issue the permit prior to later support and authorisation of the transaction, or according to the mandatory execution, or in connection with administering the property by the Liquidation executor, shall be valid notwithstanding to articles 42.1 – 42.3 of this Law.

**Article 53. Validity of conduct of unauthorized person**

53.1. If the conduct of unauthorized person is later supported and authorized by the competent person, such conduct shall be deemed as valid.

**Article 54. Unauthorized transaction concluded by minors under age 14-18**

54.1. If a person, concluded a transaction with a minor, requests the legitimate representative to prove that the transaction was authorized, the latter shall notify the former in writing within 14 days. In this case, the previous authorization issued to the minor or refusal by the representative shall be void.

54.2. If no reply received within the period stipulated in article 54.1 of this Law, it shall be deemed that the authorization was renounced.

54.3. If the minor attains adolescence after concluding an unauthorized transaction without her/his legitimate representative, him/herself shall decide whether the expressed intention is still valid.

54.4. Person, concluded a transaction with minor, shall be entitled to renounce it prior to receiving an authorization supported by the legitimate representative.

54.5. If the legitimate representative authorized the minor to conclude the transaction, but the proof document is not presented to the other side, the latter shall be entitled to renounce the transaction.

**Article 55. Transaction concluded independently by minors under age 14-18**

55.1. Minors shall exercise the right to conclude independently a transaction with regard to assets transferred to them, with the right to administer at own discretion, by the legitimate representative or by a third party with the latter's consent.

55.2. Article 55.1 of this Law shall not be applicable to unilateral transactions other than those allowed by law to be concluded by minors.

**CHAPTER SIX  
VOID TRANSACTIONS**

**Article 56. Void transaction**

56.1 A transaction shall be deemed void if:

56.1.1 breaches law or contradicts with commonly accepted or behavioral norms;

56.1.2 made fictitiously;

56.1.3 made with the purpose of concealing another transaction;

56.1.4 made to represent a specific will, without genuine intention, with recklessness, and with foresight of its disclosure;

56.1.5 made by a person without civil law capability;

56.1.6 made by a citizen who is incapable to understand consequences of own conduct, or unable to manage oneself properly, due to mental illness, at the time he/she is officially not considered as legally incapable;

56.1.7 expressed by a person with full legal capability at the time of incapability to understand consequences of own conduct or in the state of temporary derangement;

56.1.8 made with a breach of form defined by law or without consent of the respective person as stipulated by law;

56.1.9 made by a juristic person in breach of the main purpose of its own activities;

56.1.10 other transactions concluded on the basis of void transactions mentioned above.

56.2. If the parties learn about the conditions of considering the transaction is void, specified in article 56.1 of this law, after concluding it, however, the transaction is in compliance with requirements of another transaction, and if the parties wish, the transaction that complies with the requirements shall be deemed as valid.

56.3 In case of a person concluded transaction specified in articles 56.1.2-56.1.4 and 56.1.8 of this law, later acknowledges the validity of the intention expressed in the contract and expresses it in a form stipulated by law, the transaction shall be considered newly made and valid.

56.4. An interested person may request to eliminate the consequences arising from the void transaction.

56.5. The parties to the transaction specified in article 56.1 of this law shall be liable to mutually return all objects transferred by the transaction or pay the prices if it is not possible to do so.

56.6 The person at fault for concluding a void transaction shall compensate the losses caused to others.

### **Article 57. Transaction could be deemed as void**

57.1. At the request of an interested person, Court may consider a transaction to be void.in accordance with the grounds and procedures specified by law.

57.2. Transaction considered by Court as void shall be invalid from the moment of its conclusion.

57.3. Transaction that contradicts with the form agreed by the contract may be deemed as void by Court at the request of an interested party.

57.4. Apparent error made by a party to the transaction while expressing its intention in written or in calculation shall not serve as grounds for considering the transaction to be void. The person made such an error shall enjoy a right to correct it.

### **Article 58. Transactions concluded in the result of serious misleading**

58.1. Court may consider a transaction, which concluded expressing intention based on serious misleading, to be void.

58.2. The followings shall be deemed as serious misleading:

58.2.1. concluding a transaction different from the one intended;

58.2.2. confusing about the intended transaction content.

58.3. The following may be deemed as serious misleading:

58.3.1. misleading about a person who is the other party to the transaction, or his/her personality which served as major reason for concluding the transaction;

58.3.2. confusing about the nature of the goods important for determining the value of the transaction object;

58.3.3. confusing about the right – serving as the transaction's major ground;

58.3.4. confusing about intention- the negotiation object.

58.4. Transaction concluded on the basis of misinformation about the expressed intention of the client or person represented by the broker or representative, may be fallen under scope of provisions of article 58.2 of this Law.

58.5. If other party to the transaction agrees to execute the transaction at the request of the disputing party, the transaction concluded due to confusion shall not be considered as void.

58.6. Person concluded the transaction due to confusion, upon learning about the confusion shall be liable to immediately inform the other party.

58.7. If a party to the transaction is confused due to negligence or the transaction deemed void on the grounds stipulated in article 58.4 of this law, the person at fault shall be liable to eliminate the harm done to the other party to the transaction or to the third person. If the other party was aware of, or should have known, or potentially could find out about the confusion, it is not obliged to eliminate the harm caused to him/her.

#### **Article 59. Transactions concluded as a result of fraud**

59.1. If others are cheated with the purpose to conclude transaction, the cheated person shall be entitled to contend the transaction is void. In this case, considering the transaction void shall not depend on whether the person cheated had an intention to gain profit or do harm to the cheated person.

59.2. If a party to the transaction finds out later that the other party has hidden circumstances might obstruct the conclusion of the transaction, he/she shall be entitled to insist to consider the transaction void.

59.3. If person benefiting from the transaction was aware of or should have known of that he/she was cheated by the third party, the cheated person shall be entitled to insist on considering the transaction void.

59.4. An interested person shall be entitled to present a claim within a year after learning of that the grounds exist to consider the transaction void

#### **Article 60. Transactions concluded as a result of use of force**

60.1. A party or third party made the transaction concluded through use of force or threatening to do so, the other party who is binding by the transaction shall have a right to contend the transaction is void.

60.2. Convincing of that the party to the transaction him/herself, or his/her family members, relatives, or any other person who close to him/her, or their properties could be in jeopardy, shall be considered as use of force.

60.3. If the transaction is concluded as result of use of force, the party to the transaction shall be entitled to present a demand to the other party within a year after the conclusion of the transaction.

#### **Article 61. Some transaction parts become void**

61.1. Some parts of transaction deemed to be void though, the remaining parts potentially could satisfy the transaction objectives, then the transaction shall remain as valid.

61.2. This article shall be applied for article 202.5 of this Law as well.

### **CHAPTER SEVEN REPRESENTATION**

#### **Article 62. Representation in transactions**

62.1. Transactions may be concluded through a representative.

62.2. If law prohibits concluding transaction through a representative, or due to the nature of transaction, the parties must conclude it in person, such a transaction shall not be concluded through representative.

62.3. The representative's authority shall be created in accordance with law or on the basis of authorization.

62.4. Representative shall be liable to carry out the authorised activity in person.

62.5. If the authorization envisages that activity could be carried out by others, or if it is required in the interest of the principal, the authorization may be transferred.

62.6. The term of transferred authorisation shall not be longer than the original one., Transferred authorization shall be terminated upon termination of the original authorization.

62.7. Representative shall be liable to inform the principal about transferring the authority to others and the recipient. If the representative fails to do so, he/she shall be responsible for consequences of the conduct of the recipient.

#### **Article 63. Representatives**

63.1. In case of representation of an authorization, a representative may be a citizen with full, or partial, or limited civil law capability and a juristic person.

63.2. Within the authority delegated by the principal, a representative shall conclude transactions with third parties on behalf of the principal. Rights and obligations created by transaction shall belong solely to the principal.

63.3. Representative shall be liable to exercise the authority fairly and in conformity with principal's rights and legitimate interests.

63.4. Representative shall be liable to eliminate the harm done to the principal due to failure to fulfil obligations as provided in article 63.3 of this Law.

63.5. Person represented by a citizen with partial or limited civil law capability, without consent of its legal representative, shall bear personal responsibility for any harm done to others, due to such representation.

#### **Article 64. Representative authority**

64.1. Principal may delegate an authority to the representative by notifying orally or in writing her/him and the third party to the transaction about the representation and representative authority.

64.2. Written authorization shall meet the following requirements:

64.2.1. be signed by principal, and juristic person's authorization shall be signed by executive and attached with chops or seal on it;

64.2.2. authorization entitling to receive, or transfer, or administer juristic person's assets shall be signed by the accountant beside executive;

64.2.3. issued date shall be indicated;

64.2.4. if provided by law, it should be certified by notary;

64.2.5. if authorization was issued for certain period of time, the duration should be indicated;

64.3. Authorization which is not satisfying the requirements specified in article 64.2 of this Law shall be void.

64.4. Military officer's authorization may be certified by commanders of the unit or organisation, and prisoner's authorisation shall be certified a chief of the prison unit.

64.5. Authorization issued for a certain period of time shall be valid for no more than three years, authorization without a specified time shall be valid for a year period from the date of issuance.

64.6. Unless otherwise stipulated by law, requirements for the form of transaction to be concluded by representative are irrelevant to the expression of intention of being represented.

#### **Article 65. Acceptance of representative authority**

65.1. In case a person has created a situation, when another person comprehends him/herself as the former's representative, and with this comprehension the latter assumes seriously his/her representative authority and has concluded a transaction with a third person, the person created such a comprehension of representative authority shall not take advantage of the real absence of such a authority.

65.2. If a representative concludes a transaction, without informing others of his/her representative authority, the transaction consequences will be born by the principal only when the other party to the transaction should be aware of dealing with a person representing others.

65.3. Provision of article 65.2 of this Law shall be applied, if it was not important for the other party to the transaction with whom the transaction was concluded.

### **Article 66. Advantages of principal's expressed intention**

66.1. An expressed intention of the principal shall prevail when transaction is considered to be void due to insufficient expression of intention by the representative and desired consequences were not created

66.2. In case of concluding by the representative of a transaction in compliance with the authority issued and instructions received, the principal shall not be entitled to insist on considering the transaction to be void on the grounds that the representative was not aware of the conditions, which the principal knew better or should have known.

### **Article 67. Altered or terminated representation**

67.1. If the representative authority is altered or become invalid, the third party shall be notified of it in the form, in which originally the authorization was issued. If this requirement is not met, the alteration shall not be used by the parties in cases other than the third party knew or should have known of at the time of concluding the transaction.

67.2. Representation shall be terminated on the following grounds:

67.2.1. declining the authority by representative;

67.2.2. revocation by the principal of the authority;

67.2.3. unless otherwise stipulated in the law or contract, either the representative or principal died or loses full civil law capability;

67.2.4. termination of the activity of the juristic person issued the authorization;

67.2.5. fulfillment of the authority;

67.2.6. expiration of the term of the authority;

67.2.7. as provided by law, if the grounds for representation defined by law are being terminated.

67.3. Principal shall enjoy the right to revoke the authorization anytime, or decline the representation. Transaction agreeing on non-entitlement to such rights shall be void.

67.4. Representative is obliged to return the authorization to the principal, as soon as he/she learns about it.

67.5. The principal shall notify the representative and the third party about the revocation of the authorization, directly or through any possible means of official media.

67.6. Transaction concluded with another person by the representative while he was not aware of termination of the authorization or if it was impossible to know of it, shall remain valid.

### **Article 68. Transaction concluded by person without representative authority**

68.1. If a person without representative authority concluded a transaction with a third person on behalf of others at his/her own discretion, the validity of the transaction shall depend on the consent of the principal.

68.2. If the third person to the transaction requests consent from the principal, he/she may receive it.

68.3. The consent shall be received within two weeks. If no reply is received during this period, consent shall be deemed declined.

68.4. A third party concluding the transaction shall be entitled to renounce the transaction prior to granting the consent by the principal, except he/she was aware of that the representative had no authority.

#### **Article 69. Responsibility of person without representative authority**

69.1. If representative fails to prove its authority or the principal refuses to issue his/her consent to support the transaction, the person concluded the transaction at own discretion shall be obliged to fulfill the obligations under the transaction at the other party's demand, or eliminate any harm caused to it.

69.2. If the third party was aware of or should have know that the transaction had been concluded with a person without representative authority, then the person without representative authority shall not be responsible for any consequence of the transaction.

69.3. A representative with limited or partial civil law capability shall not be liable for consequences except representing other persons with the consent of their legal representative.

#### **Article 70. No self-transaction by representative**

70.1. Representative shall be prohibited to conclude transaction with him/herself on behalf of the principal or on behalf of a third party with the principal.

### **SUBPART IV**

#### **PERIOD OF TIME IN CIVIL LAW**

#### **CHAPTER EIGHT**

#### **TIME DEFINITION AND CALCULATION**

#### **Article 71. Determination of period of time**

71.1. Period of time fixed in law, contract or court decision shall be defined by calendar year, months, days, or year, quarter, month, week, day or hour.

71.2. Period of time may be defined by an event, occurrence of which is inevitable.

### **Article 72. Procedure to calculate period of time**

72.1. Period of time shall be calculated starting from a fixed date or a day or hour after the expiration of the period, or the event took place.

72.2. If the last day of the calculated period of time expires on non-working day, then the time shall expire on the next working day.

72.3. Period of time is defined in order to fulfil an obligation, so unless otherwise stated in the transaction, such an obligation shall be fulfilled within 24 hours of the last day of the period of time.

72.4. If an organization was supposed to fulfil the obligation, it shall be fulfilled within the last hour of the organization's working day or production operation, as determined by the relevant procedure.

72.5. Document shall be deemed executed on time if it was transferred within 24 hours of the last day to a post office or courier service agency.

72.6. For calculating the period of time, calendar year shall be consisting of 12 months, half a year – six months, quarter – three months, a day – 24 hours.

72.7. In case of extension, the new period of time shall be calculated from the moment when the previous period of time expires.

### **Article 73. Termination of calculating a period of time**

73.1. Period of time fixed in years, half a year, quarter and months, shall expire the day of the expiring month. If there is no day of the expiring month, the period shall expire the last day of the month.

73.2. Calendar year shall start from January 1<sup>st</sup> and terminate on December 31<sup>st</sup>.

73.3. Period of time, fixed in weeks or days, shall expire at the hour of the day when the period expires.

73.4. Period of time, fixed by days of week, shall expire the last hour of the day of week, when the period expires.

73.5. Period of time, fixed in hours, shall expire at the moment of the hour, when the period expires.

## **CHAPTER NINE LIMITATION PERIOD**

### **Article 74. Right to demand related to limitation period**

74.1. In cases other than the law provides the limitation period is irrelevant, the right to demand a person to take or not to take any action shall have a limitation period.

74.2. Unless otherwise stipulated by law, limitation period shall be irrelevant to non-material assets.

74.3. If specified by law, limitation period shall be irrelevant to some property rights.

### **Article 75. General and special limitation period**

75.1. Unless otherwise stipulated by law, general limitation period shall be ten years.

75.2. Unless otherwise specified in this Law, in the following cases special limitation period shall be effective:

75.2.1. claims related to performing contract obligations shall have three year limitation period ;

75.2.2. claims related to contract obligations concerning immovable property shall have six year limitation period ;

75.2.3. claims related to obligations due to perform during a fixed time shall have three year limitation period ;

75.2.4. claims related to obligations arising due to causing damage to others' property shall have five year limitation period .

75.3. At the request of parties, Court may change the limitation period and its calculating procedure.

### **Article 76. Calculation of limitation period**

76.1. Limitation period shall be calculated from the time when right to demand emerges.

76.2. Unless otherwise stipulated in the law, the right to demand shall emerge at the time of the breach of rights or at the time when the breach was known or should have known, or, if there is a warranty period or a fixed time limit for complaint, on the date on which those periods expire or on which the response to the complaint is received.

76.3. The limitation period, related to claim regarding the refusal to perform certain actions, shall be calculated from the time of violating such a claim.

76.4. If the claiming right depends on the claimant's conduct, the limitation period shall be calculated from the time when the claimant was supposed to take an action.

76.5. The limitation period of a counter-obligation shall be calculated from the performance of the principal obligations.

### **Article 77. Termination of limitation period of supplementary obligation**

77.1. With termination of the limitation period for the principal obligation, the limitation period of supplementary obligation (penalty, pledge, guarantee and warrants) shall terminate simultaneously.

### **Article 78. Suspension of limitation period**

78.1. The limitation period shall be suspended in the following cases:

78.1.1. if performance of obligation was postponed-for the period of delay ;

78.1.2. for the period, admitted by an obligee of an obligor's refusal to perform the obligation;

78.1.3. if a competent person due to emergency situation or force majeure was unable to refer to court within six months prior to the termination of the limitation period, or if court was unable to run its regular operation, then – for a period, until such situation disappears;

78.1.4. claims between spouses during the validity of marriage;

78.1.5. as to parents and children, - until the latter reach adolescence;

78.1.6. claims between guardians, custodians and people under their custody – during the period when guardianship or custody are still valid;

78.1.7. for a period when the validity of legal acts regulating such relationship is suspended.

78.2. Article 209 of this Law shall be irrelevant to article 78.1.2 of this Law.

78.3. From the time of elapsing the conditions suspending the limitation period, it shall be calculated continuously. If the remaining period is less than three months, the limitation period shall be extended up to three months, if remaining period is less than six months, the limitation period shall be prolonged for the remaining period.

78.4. If a person deprived of or with partial civil law capability has no legal representative and the limitation period might contradict with their legitimate interests, the limitation period shall not be calculated during six months after the restoration of the person's civil law capability or appointing the legal representative.

#### **Article 79. Cessation of limitation period**

79.1. If a claim is referred to Court in accordance with the specified procedure or obligated person admits the claim by paying to the competent person an advance, or interest, or provide guarantee, or in any other form, the limitation period shall be ceased.

79.2. If a claim is referred to Court, the limitation period shall be ceased until the Court ruling enters into force, or the law-suit ends in other forms.

79.3. If parties reconciled, or the law-suit cannot be continued, the cessation of the limitation period shall be stopped upon termination of the final actions taken by the parties or Court.

79.4. In case of the circumstances stipulated in article 79.3 of this Law, the limitation period shall be calculated newly from the beginning, but if any party decides to continue the law-suit, it shall be considered as presenting a claim, and the limitation period shall be interrupted again.

79.5. If competent person withdraws the claim or Court dismissed it, the limitation period shall not be deemed as interrupted.

79.6. If competent person presents a new claim within six months, the limitation period shall be considered as interrupted from the day when the claim was initially presented. During this period of time the procedures stipulated in articles 78.1.3 and 78.4 of this Law shall be equally applied.

79.7. If the limitation period was interrupted, the passed time shall not be taken into consideration and the limitation period shall be calculated as a new.

**Article 80. Limitation period of legally valid claim**

80.1. Despite of the shortened limitation period was set for the particular claim; the limitation period for such claim shall be ten years if the claim is legally valid pursuant to Court decision.

80.2. If legally valid claim is repetitive and relevant to future obligations, the shortened limitation period set for that particular obligation shall remain as valid.

**Article 81. Limitation period for legacy right**

81.1. If the property to be claimed was transferred to a third person according to a legacy right, the limitation period shall be calculated continuously starting from the time when the property belonged to the previous owner.

**Article 82. Consequence of limitation period expiration**

82.1. In case of expired limitation period, an obligor shall be entitled to refuse to perform the obligations.

82.2. If an obligor admits the obligation performance, while being unaware of the limitation period expiration, he/she shall not be entitled to refuse of obligation performance.

82.3. If an obligor fulfilled the obligation while being unaware of the limitation period expiration, he/she shall not be entitled to claim back the performed obligation.

82.4. If limitation period expiration has justifiable reason to consider, Court or arbitration body may restore it and protect the breached rights.

**SUBPART V**

**TITLE TO MATERIAL AND NON-MATERIAL WEALTH**

**CHAPTER TEN**

**MATERIAL AND NON-MATERIAL WEALTH**

**Article 83. Asset**

83.1. Anybody may acquire assets that are material wealth, and intellectual values, that are non-material wealth, as well as rights, earned by means not prohibited by law or conflicting with commonly accepted behavioral moral norms, in this case the abovementioned wealth is considered as an asset.

**Article 84. Material and non-material asset**

84.1. Asset that is subject to somebody's possession shall be property.

84.2. Property shall be classified into immovable and movable.

84.3. Land and assets that cannot be used for their original purpose when they are in separation with land shall be classified as immovable property.

84.4. Property other than that referred to in article 84.3 of this Law shall be classified as movable property.

84.5. Rights and claim that bring profit to their owner or that entitle to demand from others or claims, as well as intellectual values belong to non-material asset.

#### **Articl 85. Components of asset**

85.1. If it is provided in law, components that can not be separated without destroying them or separation of which is resulted in loss of their original designation shall be independent subjects of civil legal relationship.

85.2. Houses, buildings, constructions and other things, that are constructed for permanent purposes but not to meet temporary needs and inseparably attached to the land shall be main components of land.

#### **Article 86. Accessories to asset**

86.1. Movable property, not belonging to components of asset but serving to satisfy common utility designations of the main asset and which exists in spacial dependence on aset shall be accessories to asset.

86.2. Things that are pertinent to immovable property, serve to it and can separetely be used without affecting their self-values or causing serious damage to them shall also be considered as accessories.

86.3. Temporary use of other asset for logistic purposes instead of a certain asset shall not make the former an accessory of the latter.

86.4. Temporary separation of an accessory from the main asset shall not deprive of its characteristics of being an accessory.

#### **Article 87. Inseparable or limited rights**

87.1. Rights inseparably connected with other rights and that can not be exercised independently without them shall be inseparable rights.

87.2. Rights inherited from wider ranged rights, but limited by the latter shall be limited rights.

#### **Article 88. Benefits from assets and rights**

88.1. Product, newly emerged from natural characteristics of assets or produced as a result of designated application of assets, shall be benefits from assets.

88.2. Incomes, generated by designated exercise of rights, shall be benefits from the particular right.

88.3. Unless otherwise provided by law and agreement, legal owner of asset and rights shall be entitled to own the benefits from assets and particular right.

88.4. If person concerned is liable to return benefits, he/she shall be entitled to demand from authorized person a compensation for costs spent for

production of benefits during the normal commercial operation within the limits not exceeding the cost of benefits concerned.

## **CHAPTER ELEVEN POSSESSION**

### **Article 89. Creation of possession**

89.1. Possession shall be created by lawful acquisition of rights and assets at own will.

89.2. Person, currently keeping an asset in own possession on behalf of another person according to his/her authorization, shall not be considered as a possessor. In this case the person delegating the authority shall be the possessor.

89.3. Person acquired the right or obligation to possess assets for certain period of time according to one's own rights and legitimate interests, based on law or transaction, shall be direct possessor. The person delegating the authority shall be indirect possessor.

89.4. If two or more persons jointly possess an asset, they shall be joint possessors.

89.5. If two or more persons possess certain parts of an asset, each of them shall be possessors of respective parts of the asset.

### **Article 90. Fair possessor**

90.1. Person, legally possessing an asset or having definite possession entitlement, shall be a fair possessor.

90.2. Fair possessor shall be entitled within three years to reclaim from the new possessor the property lost from his/her/its possession.

90.3. If the new possessor enjoys prevailing rights over the previous possessor except the acquisition of the property through deception or use of force, the procedure stated in article 90.2 of this Law shall not be applied.

### **Article 91. Recognition of possessor as an owner**

91.1. As for the third person, possessor shall be considered as an owner of the property.

91.2. Article 91.1 of this Law shall not be applied for the following cases:

91.2.1. if ownership right is based on State registration;

91.2.2. for the previous owner, if property, except for money and non-bearer's securities, was out of possession due to reasons not depending on the previous possessor's will (such as loss or theft, etc.).

### **Article 92. Demanding cancellation of acts impeding the exercise of possession and use rights**

92.1. Fair possessor likewise the owner shall be entitled to demand elimination of any other persons' impediments to exercise rights to possess and use property in possession.

### **Article 93. Rights of legal possessor**

93.1. A property shall not be demanded from its legal possessor.

93.2. Unless otherwise provided by Law or agreement, legal possessor shall possess the benefits from the property concerned during the period of possession.

93.3. Provision of this article shall be effective as well for relations between direct and indirect possessors.

### **Article 94. Rights and obligations of fair possessor**

94.1. Fair possessor, not entitled to possess the asset or lost such a right, shall be obliged to return the property to the authorized person.

94.2. Property and benefits derived from it shall belong to the previous possessor until the authorized person gets the property back.

94.3. Fair possessor shall be entitled to demand from the authorized person to reimburse the cost of storage, maintenance, repair and improvement of the property during the possession period.

94.4. If the property value increased as a result of improvement, the amount of demanded reimbursement shall be determined by the improvement cost at the moment of returning the property. In this case, the demanded reimbursement amount shall not exceed the total sum of the property value and profit.

94.5. If the fair possessor failed to get benefits from the possession due to his/her own fault, the amount of the lost benefit shall be deducted from the reimbursement amount.

94.6. Fair possessor shall be entitled to refuse to return the property back to the authorized person until his/her demands are satisfied.

### **Article 95. Rights and obligations of non-fair possessor**

95.1. Non-fair possessor shall be liable to return the benefit from property or rights to the authorized person and reimburse the due benefits, if he/she failed to get benefits due to own fault.

95.2. Non-fair possessor shall be entitled to demand from the authorized person to reimburse the cost of storage, maintenance, repair and improvement of the property, if this input increased the profit to the authorized person. The demanded sum shall not exceed the total sum of property value and profit.

### **Article 96. Termination of possession**

96.1. Possession shall be terminated, if possessor completely refused from possession or owner/legal possessor lost to others his/her right to keep the property in other forms under his/her possession.

96.2. Possession transferred as inheritance shall be transferred to heir in the same size as it was possessed by testator.

96.3. Possession of property shall terminate when owner or legal possessor present justified demand to the property possessor.

#### **Article 97. Cessation of possession period**

97.1. If possessor lost his/her right to possess, the period referred to in articles 104.1 and 104.2 of this Law shall be ceased. When possession right is restored, the possession period shall be newly counted commencing from the period of cessation excluding the elapsed period.

97.2. If possessor, who lost possessor's right beyond own will or on the grounds of a third party's claim, regained the right within a year from losing it; the period of possession shall not be considered as ceased.

#### **Article 98. Possession of intellectual values and rights**

98.1. The relevant provisions of Articles 89 - 94 of this Law shall be applied to acquisition under possession of intellectual values and rights.

## **CHAPTER TWELVE**

### **OWNERSHIP**

#### **SUB-CHAPTER ONE**

#### **GENERAL PROVISIONS**

#### **Article 99. Types and forms of ownership**

99.1. There shall be public and private ownership in Mongolia.

99.2. Public ownership shall have forms as of state, local, ecclesiastical and communal.

99.3. Private ownership shall have forms as individual and joint.

99.4. Public and private ownership may be in mixed forms.

#### **Article 100. Owner**

100.1. Unless otherwise provided by Law, the state, aimag, capital city, soum, duureg, individual and legal person shall be owners.

#### **Article 101. Right to ownership**

101.1. Owners shall be entitled to freely possess, use, dispose of their ownership subjects at own discretion and protect them from any encroachment, without breaking the other parties' rights guaranteed by law or agreement and within the limits determined by law.

101.2. Owners shall be prohibited to abuse ownership rights by causing harm or damage to others. However, if the conduct inevitable to protect own

interests was proven to be legitimate, it shall not be considered as an abuse of rights.

101.3. Owners of livestock and pet, while exercise their ownership rights, shall be liable to observe norms and standards on protection of livestock, wildlife and environment, hygiene and safety requirements.

101.4. In case of owner's failure to properly use, maintain and store the ownership object conflicts with public interests, Court may charge the owner with obligation to properly use, maintain and store the ownership object, or may commission the latter to have this obligation performed by somebody else for certain remuneration.

101.5. Rights to ownership shall be pertained to components of the concerned property.

101.6. Owner may transfer the rights provided by this article to others, and the recipient shall be entitled to possess, use, and dispose of the property in accordance with designation authorized by the owner and for own activity purposes and procedure.

101.7. Unless otherwise provided by the contract, owner shall be responsible for risks of destruction or damages to object of ownership, its offspring and benefits due to emergency and force majeure circumstances.

## **Article 102. Land ownership**

102.1. Land, other than the one in private ownership of citizens of Mongolia, shall be in state ownership.

102. 2. While exercising rights, landowners shall not cause damages to the environment or violate rights and legitimate interests of other persons.

102.3. Landowners shall specify a utilization of the land when they transfer it for others' use. Such transferred land for specific purpose shall be prohibited to use for other purposes.

102.4. The term "landowner" in this Law shall refer to the State until the procedure for private ownership of land by citizens of Mongolia is legalized.

102.5. Relations with regard to privatization, possession and use of State-owned land shall be regulated by law.

## **Article 103. Restriction on ownership rights**

103.1. Ownership rights shall only be restricted under the grounds specified in law.

## **Article 104. Acquisition of ownership rights depending on possession period**

104.1. Persons, possessing ownerless property for five years continuously and transparently like own one, after finding it in a fair manner, shall acquire the right to own it.

104.2. Unless otherwise provided by law, a non-owner, who acquired ownerless immovable property and was possessing it for a period of fifteen years

like its owner after its registration with State register, shall acquire the right to own it upon termination of the above-mentioned period.

104.3. Right to ownership shall not be created for person, who acquired the property in an unfair manner or if the legitimate owner of the property was identified within the period stipulated in articles 104.1 and 104.2 of this Law.

104.4. If the property acquired in accordance with articles 104.1 and 104.2 of this Law was transferred to a third party on the basis of inheritance, the period of ownership for heir shall be continuously counted as including the period when the property was under possession of the previous possessor.

104.5. If the owners presented a claim to the person who acquired the property prior to the period stated in articles 104.1 and 104.2 of this Law, this period shall be ceased.

### **Article 105. Preemptive right to acquire an ownership right**

105.1. Unless otherwise provided by law and agreement, the possessors, who legally possessed and used the property for ten or more years, shall have the preemptive right to acquire an ownership right for this particular property.

### **Article 106. Owner's right to claim**

106.1. Owners shall be entitled to claim own property from its illegal possession by others.

106.2. If owner considers that his/her ownership right is violated to some extent, though this is not related to the possession of the ownership object, he/she shall be entitled to demand from the violator to eliminate the violation or stop the act impeding the exercise of the ownership right.

106.3. If the right has continuously been violated after demanding in accordance with articles 106.1 and 106.2 of this Law, the owner shall bring in an action to Court and have the violated right protected.

106.4. Provisions of articles 106.2 and 106.3 of this Law shall be applicable for the legal owner alike.

### **Article 107. Restoration of violated rights certified by securities**

107.1. Court shall restore violated rights certified by bearer or inscribed securities as prescribed by law.

107.2. Authority, competent to regulate and control the security market, shall restore violated rights certified by registered security.

### **Article 108. Joint ownership**

108.1. Two or more persons may jointly own property partially or jointly in whole, as provided by law or based on transaction.

108.2. Each owner of joint ownership shall be entitled to claim the entire property from possession of a third person, without affecting rights and legitimate interests of other owners.

108.3. Each owner of parts of joint ownership property shall be entitled to transfer own part of it to ownership of others or dispose otherwise and shall be liable to inform other owners of parts of joint ownership of thus disposing.

108.4. Any owner of joint ownership property may transfer to others or otherwise dispose of own part of the property with permission of all other owners, on behalf of the right and in the legitimate interests of any of them.

108.5. Unless otherwise provided by law or agreement, partial owners of joint ownership property shall *pro rata* be responsible for costs, taxes, fees and other obligations pertaining to maintenance and storage of the property, meanwhile owners in whole of the property shall be equally responsible for ownership property. Benefits from use of joint ownership property shall be allocated commensurably to the above-mentioned shares or proportion.

108.6. Partial owner of joint ownership property shall enjoy a preemptive right to purchase a certain part of the joint ownership property.

108.7. Unless otherwise provided by law, partial owner of joint property shall be entitled to sell own part of the property to a third party at the price not less than that offered to other owners, in case of absence of any answer from other owners within a month since their notification of intention to sell own part of property and offered price

108.8. Partial owner of joint ownership property shall be entitled to separate own part of property or to demand the price of own part, if the designation, entirety and other characteristics of the property could be lost as result of such separation.

## **SUB-CHAPTER TWO**

### **CREATION AND TERMINATION OF OWNERSHIP RIGHTS**

#### **Article 109. Transfer of ownership rights for immovable property**

109.1. Either transferor or transferee shall be entitled to request to transfer to others ownership rights for immovable property or have the transfer registered with the State register.

109.2. Grounds for transfer of immovable property shall be clearly stated in the transactions on transfer of immovable property and other relevant documents, and be registered with notary's office. In case, any of parties enters this relationship through a representative, a proxy mandate of representative shall be noted or attached to the document.

109.3. Non-owner, registered with the State register as owner, shall be the owner of the immovable property for the transferee of ownership rights. However, this provision shall not apply to transferee, who was aware that the transferor of rights was not the property owner.

#### **Article 110. Termination of ownership rights for immovable property**

110.1. If ownership right for immovable property is transferred from a person to another based on transaction, ownership rights shall be created for the new owner and terminated for the previous owner by registering the transaction with Immovable property registration office.

### **Article 111. Transfer of ownership rights for movable property**

111.1. Unless otherwise provided by law or agreement, rights ownership for movable property shall be created for the new owner and terminated for the previous by the actual transfer of the property to the ownership of transferee as requested, in conformity with relevant procedures.

111.2. Actual transfer of property shall be considered as completed, in the following cases:

111.2.1. with transferring the property to possession of transferee;

111.2.2. with conclusion of transfer agreement, if the property in question is in the possession of transferee of ownership rights;

111.2.3. with conclusion of an agreement on transfer of the right to claim by the owner to the person acquiring the ownership right, if the property is in the possession of a third party.

### **Article 112. Transfer of ownership rights with payment of property price**

112.1. If parties agreed that ownership rights shall be transferred with complete payment of the price of property, the ownership right shall be transferred to the new owner, when the property price is fully paid.

112.2. Parties shall be liable to return all objects duly transferred to each other, if transferor of ownership rights renounces the agreement, when the transferee has not paid the price of property in due time. In this case, owner of the property in question shall be entitled to demand the party, that has not fulfilled the obligation, to compensate for actual damage and loss incurred, excluding ordinary depreciation.

### **Article 113. Transfer of ownership rights with transfer of securities and endorsement documents**

113.1. If law or agreement provides so, ownership rights for property concerned shall be considered as transferred with the transfer of endorsement documents or securities attached to the property.

113.2. Ownership rights to be certified by inscribed security, shall be transferred by updating the entry of the inscriber security.

113.3. Ownership rights certified by non-bearer security shall be transferred by handing-over the security to others.

113.4. Ownership rights certified by bearer security shall be transferred in conformity with relevant legislation.

113.5. Transferor of bearer security shall be responsible for validity of the security. However, the transferor shall not be responsible for the transfer of rights.

113.6. Rights certified by security shall be entirely transferred upon transfer of security to others.

113.7. Transferor of inscribed security shall be responsible for its validity and transfer of rights.

#### **Article 114. Fair acquisition of ownership rights**

114.1. Rights to ownership shall be considered acquired fairly, if transferee of ownership rights was not aware or was not able to be aware that the transferor was not the owner of property. On the contrary, if transferee of ownership rights was aware, or had to be aware or was able to learn that the transferor was not the owner of property, ownership rights shall not be considered as being acquired fairly.

#### **Article 115. Acquisition of property without ownership**

115.1. Ownerless property or property, the owner of which renounced own ownership with the purpose of terminating its ownership rights, shall be considered as objects without ownership.

115.2. If person acquired objects without ownership by means other than that prohibited by law or did not violate the rights of authorized person while acquiring them, then he/she shall be entitled to possess and own the objects in accordance with articles 104.1 and 104.2 of this Law.

115.3. Unless otherwise provided by law, provisions of this article may be applied in case of acquisition, possession and ownership of lost livestock, pet or other animal.

#### **Article 116. Lost property**

116.1. Person found the lost property shall be liable to immediately notify its owner or an authorized claimant and hand over to them the property. In the absence of such persons, local administrative or police shall be informed, and him/herself shall store and protect it, or shall be liable to hand over it to these authorities.

116.2. Person found the lost property shall be entitled to own it, if the owner or authorized person were not identified within a year from the date of notice to relevant authorities in accordance with article 116.1 of this Law. If the finding person refuses to own it, the property shall be transferred to local ownership.

116.3. Person found the lost property shall be entitled to demand from the owner or authorized person, or local authorized organizations a reward, and reimburse the costs related to storage, protection and search for owner of the property.

116.4. Reward amount shall be subject to the parties' negotiation, but if they fail to do so, the reward amount shall be equal to ten percent of the whole price of the lost property.

116.5. If the lost property may easily be blemished or the cost of its storage and protection significantly exceeds its price, the finding person shall be entitled to sell it with the consent of competent authorities as specified in article 116.1 of this Law through public market places. In this case, proceeds from sales of the lost property shall be considered as lost property.

116.6. Person, found lost property in public place, office-room or public transport, shall hand over the property to the administration of the respective organization.

116.7. Administration of the organization specified in article 116.6 of this Law shall be liable to announce publicly about the lost property, ensure its safety or transfer it to the competent authorities stipulated in article 116.1 of this Law. In this case, person found the property and organization to which the lost property was handed over shall be entitled to demand the reward specified in article 116.4 of this Law in equal amounts and related costs in actual expenses.

116.8. Provision of article 116.5 of this Law shall be applied to the property specified in article 116.6 as well. However, if the property owner or possessor was not identified within the period specified in article 116.2 of this Law, the organization to which the lost property was handed over shall become owner of the property.

### **Article 117. Lost livestock**

117.1. Person found lost livestock must notify the proper local administrative body or police and herd the livestock in her/his possession until the owner of the livestock is identified, or transfer it to local administrative body or police.

117.2. If the owner is identified within a year from the public announcement, the lost livestock together with offspring shall be returned. If the owner is not identified within this period, the livestock shall be kept in ownership of the person who found it or transferred to the local ownership if the finding person refused.

117.3. Person found the lost livestock shall be entitled to demand reimbursement of any costs incurred and reward for finding as prescribed by articles 116.3 and 116.4 of this Law.

### **Article 118. Hidden valuables**

118.1 Unless otherwise provided by law, if any hidden valuable, which had been buried underground for long time or abandoned until it became impossible to identify its owner or authorized person, was found, the person found it or owner of the land or property, where the hidden valuable was found, shall be entitled to own it in equal shares, unless they agreed otherwise.

118.2. Hidden valuable shall be transferred as a whole to the owner of the land or property, where it was found, if hidden valuable was found in the result of exploration with the purpose of finding it without the consent of owner of the land or property, where hidden valuable was found.

118.3. If objects of historic and cultural value were found among buried valuables, they shall be transferred to the state ownership. In this case, the owner of the land and property, where the hidden valuable was found, or person found it shall be entitled to equal share of reward equal to fifty percent of price of the valuable.

118.4. Provision of this article shall not apply to buried valuables, archaeological and paleontological findings, found by persons in charge of research and digging during performance of their official duties.

### **Article 119. Merger or mix up of property**

119.1. Unless otherwise provided in law or agreement, the movable property as main component of and attached to the estate as provided by article 85.2 of this Law, shall be the property of the owner of the estate.

119.2. In case of a new property, which is inseparable and created as result of merger or mix up of properties belonging to separate ownership of two or more owners, those owners shall be joint owners of the new property.

119.3. If a dispute arises over the ownership right for property referred to in article 119.2 of this Law, the person, who owned the major or main part of the property prior to merger or mix up, shall be the owner of the newly created property and the other party shall not be entitled to demand the restoration of the initial state of property though he/she shall have the right to demand the damages are compensated.

### **Article 120. Reprocessing of property**

120.1. If a person created new movable property through repair, improvement and reprocessing, then the person and the owner of the property shall partially own the property together, unless otherwise provided by law or agreement and parts of ownership belonging to them shall be determined proportionally to the material cost and production expenses.

120.2. If a dispute arises over ownership rights between parties referred to in this Article, then the party, which invested more assets and labour into the newly created property shall be the owner of the property and the other party shall not be entitled to right to demand the restoration of the initial state of property though he/she shall have the right to demand the damages are compensated.

### **Article 121. Termination of others' rights by transfer of ownership right**

121.1. If ownership right was transferred according to Articles 119 and 120 of this law, any right of other persons concerning the property in question shall be terminated.

### **Article 122. Acquisition of ownership right over non-material property**

122.1. Unless otherwise provided by law, ownership right of a person who created an intellectual value which considered as an intellectual property shall arise at the moment of its creation.

122.2. Possessor of the right or claiming right may transfer them to the ownership of another person in the extent of its possession.

122.3. The previous owner shall be responsible for providing the new owner with all documents pertaining to the right and claiming right, and any information necessary for exercising these rights, as well as the transfer notification certified by notary office regarding such transfer of above-mentioned rights, if the new owner requires, and relevant expenses thereof shall be borne by the new owner.

### **Article 123. Transfer of claiming rights**

123.1. Obligation performer shall fulfill obligations undertaken by the agreement before the principal until he/she is notified of the transfer of the rights.

123.2. If it does not contradict with the law, or contract, or the nature of the obligation, possessor of the claiming rights may transfer his/her rights to a third party on basis of the agreement concluded, without the consent of the obligation performer.

123.3. If rights and legitimate interests of obligation performer might suffer, transfer of claiming rights may be limited by agreement.

123.4. Obligation performer shall be entitled to object or present claims at the moment of receiving a notification on transfer of claiming rights to the new principal.

123.5. If obligation performer demanded the former principal to consider obligations fulfilled prior to the transfer of claiming rights, such demand may be addressed to the new principal.

123.6. Other rights, pertaining to claiming rights and methods to ensure its enforcement, shall be transferred along with transfer of claiming rights to new owner.

123.7. If person who enjoy the claiming rights agreed with several persons to transfer the rights, then the first person agreed with, shall have full rights to demand the obligation from obligation performer. If it is impossible to identify the agreed first person, then the person, who first notified the obligation performer shall be considered as person to whom the rights were transferred.

123.8. As for the transaction to be made in the form specified in law or agreement, transfer of claiming rights shall be made in the form as the transaction is made.

123.9. Procedure prescribed by this article shall be applied as well for the transfer of claiming rights as specified in law, or on the basis of Court ruling or the decision of the competent government authority.

### **Article 124. Transfer of debt**

124.1. Having agreed with the possessor of claiming rights, a third party may transfer to him/herself the debt of the obligation performer, thus becoming the obligation performer. In this case the procedure provided by articles 123.8 shall be effective as well.

124.2. New obligation performer shall be entitled to make all counter claims, arising out of relationship between the claiming right possessor and previous obligation performer, to the claiming right possessor.

124.3. If a guarantor and pledgee refuse to continue their relations upon the transfer of debt, then the collateral/mortgage, pledge, guarantee and bank guarantee aimed at satisfying the demand shall be terminated.

### **SUB-CHAPTER THREE FAMILY PROPERTY RIGHTS**

#### **Article 125. Family property and its regulation**

125.1. Family property shall consist of properties of spouses, and other family members.

125.2. Some relations of property rights of spouses may be regulated by contract.

#### **Article 126. Joint property of family members**

126.1. All properties accrued for the period of life together since the marriage, except for personal property of family members, shall be joint property.

126.2. The following property shall be the joint property of family members:

126.2.1. profits earned in the course of joint labour and economic activities of family members, as well as other revenues, cash accumulation and property which is newly accrued;

126.2.2. immovable or movable properties earned by incomes of joint property of family members;

126.2.3. dividends and securities;

126.2.4. other properties accrued since the marriage, notwithstanding at whose name of spouses or family members the property is registered;

126.2.5. asset, cash accumulation transferred from personal property of a family member for the purpose of joint ownership;

126.3. If the price of a personal property of a family member increased significantly as a result of reconstruction, innovation or re-equipping undertaken by other members of family or the separate property (apartment, gher, compound, house) was designed for the use of the new family, then these may be defined as property of joint ownership.

126.4. Wife, husband, and other members of the family, who did not earn income since the marriage due to engagement in household works, child caring, sickness and other justifiable reasons, shall be entitled to ownership of family joint property.

#### **Article 127. Personal property of family member**

127.1. The following property shall be the personal properties, unless a family member agrees to transfer them to joint ownership of family members:

127.1.1. property, money or property rights which were acquired by either spouse before the marriage;

127.1.2. accumulated money, property or property rights transferred to a member by inheritance or gift, as well as property or money acquired as a result of sale or exchange of those things;

127.1.3. property designated for individual consumption by a family member;

127.1.4. intellectual property or author's honorarium;

127.1.5. reward for individual talent, capability and achievement;  
127.1.6. property or money acquired by a family member using personal property and which is required for carrying out professional activities.

127.2. Family members shall be entitled to right to possess, use and dispose of their personal property at their own discretion.

127.3. Unless otherwise agreed, family members shall be responsible with their personal property for assuming obligations arising from their private activities.

### **Article 128. Possession, use and disposal of joint property**

128.1. Family members shall enjoy equal rights to own, use, and dispose of properties of family joint ownership, as well as possess, use and dispose them on the basis of mutual agreement.

128.2. Any member of family shall obtain written permission from a family adult member and have it certified by notary when disposing an immovable property of the family joint ownership.

128.3. Unless otherwise provided by law, any transaction which does not comply with provision of article 128.2 of this Law shall be void.

128.4. If it has been revealed after marriage that a family member transferred property to others at own discretion or deliberately concealed profits and incomes derived from the transfer, then other family members whose rights were violated shall be entitled to restore their rights.

### **Article 129. Defining member's share in joint property of family**

129.1. Per member share of family joint property shall be defined in the following cases:

129.1.1. if dispute over per member share arises when a member leaves the family;

129.1.2. if the personal properties of spouses are insufficient to make payments;

129.1.3. if payments are made by other members of the family;

129.1.4. on the opening of inheritance with the death of a family member.

129.2. Per member share in the property shall be the same for all family members including minors and disabled members.

129.3. In case of divorce or the marriage considered as void, Court may fix a different per member shares in property, taking into consideration the health condition of spouses or interest of children.

129.4. When defining per member share in the property for family members, other than specified in article 129.3 of this Law, Court may rule to reduce share size or not to give at all to a family member, taking into consideration her/his labour contribution and property size contributed to formation of the family joint property.

129.5. Article 129.4 of this Law shall not be applicable if a family member was not able to contribute own labour or property to the formation of family joint

property for justifiable reason such as military service, academic study or long term illness, etc.

129.6. Court shall settle the disputes arising from the defining the per member share in the family joint property.

129.7. If profit and income earned jointly by family members or earned as a result of assuming obligations by a member were proven to be used for family needs, then payment may be made from property of joint ownership, and if the property is insufficient then the payment shall be made from the personal properties of the family members.

129.8. If profit and income gained were proven to be transferred to personal property of other members of the family or to property of joint ownership, in order to escape of paying the compensation for damages caused to others or to conceal own illegal acts, then payment may be made in the required amount from the respective property.

### **Article 130. Split up joint property of family**

130.1. Joint property of family members may be split up at the request of a spouse or any adult member of family while marriage is valid, or after the divorce, or at the demand of a plaintiff, if personal property of a family member is insufficient to make payment.

130.2. Family members may split up the property of joint ownership based upon their mutual consent.

130.3. Court shall define per member shares in family joint property in case of dispute, and rule which property should be allotted to which family member, and if the price of property transferred to a member exceeds her/his share, the price balance may be given to other members.

### **Article 131. Member leaving the family**

131.1. If one or more family members leave the family, they shall take their shares in joint property, but shall not be entitled to property which is essential for the further conduct of family business.

131.2. If it is impossible to give the share in kind, then its money equivalent shall be paid.

### **Article 132. Spouses regulating ownership rights by contract**

132.1. Spouses may set up a procedure regulating a responsibility of each spouse in regard to family budget and expenses, and in case of annulling the marriage procedure to determine per spouse share of property and other conditions pertaining to ownership rights by concluding an agreement in conformity with this Law.

132.2. Spouses shall conclude a written contract pertaining to their ownership rights and have it certified by notary. Contract that does not meet this requirement shall be invalid.

132.3. Spouses may conclude a contract pertaining ownership rights anytime prior to or after the marriage.

132.4. Contract concluded prior to marriage shall enter into effect from the date of marriage registration.

132.5. It is prohibited for spouses to include into the contract conditions, that regulate non-property relations, or obviously affecting legitimate rights and interests of either of spouses, or restricting legal capability of any of them.

### **Article 133. Alteration and termination of contract**

133. 1. Contract may be terminated by agreement of spouses or decision of Court at the request of any of spouses. Agreement on alteration and termination of contract shall be made in the same format as of the original contract.

## **SUB-CHAPTER FOUR NEIGHBOR'S RIGHTS**

### **Article 134. Neighboring properties**

134.1. Bordering estates and other immovable properties, which may mutually influence on each other shall be considered as neighboring property.

134.2. Owners or possessors of the neighboring properties shall be obliged to pay a respect to the other parties in situations, other than exercising his/her rights and fulfilling obligations defined by law.

### **Article 135. Restriction and prohibition, or non-restriction and non-prohibition of neighbor's influence**

135. 1. Owner or possessor of one side of the neighboring properties shall not be allowed to restrict or prohibit the other side's inevitable influence which is not impeding the use of his/her property.

135.2. If a party's influence was due inevitable necessity to use own property for ordinary entrepreneurial purposes, though the influence is serious, then the provision of article 135.1 of this Law shall be applied as well. If this influence is considered as exceeding the degree of normal use, then the other party shall be entitled to demand from the influencing party cash compensation.

135.3. Owner of the neighboring property shall be entitled to prohibit the construction and use of on-the-ground or underground facilities, that may cause serious damages to his/her rights and legitimate interests, and demand the owner or possessor of the other part to halt acts violating the rights.

135.4. In case of construction and facility referred to in article 135.3 of this law clearly conflicts with legitimate interests and rights of owner of the other part, despite they are constructed outside the fixed boundary of neighboring estates, then owner of neighboring property shall be entitled to demand to demolish or remove them.

135.5. A neighbor shall have rights to demand the owner or possessor of construction located on the territory of neighbor to undertake all safety measures to prevent from the danger of falling of the construction on his/her territory.

**Article 136. Use of water flow**

136.1. It is prohibited to change the flowing direction of underground clean water or waste water running across several estates, as well as to reduce the amount of water running to other estates, or to deteriorate the quality of water, or use flowing or underground clean water in a way restricting the others' needs.

136.2. It is prohibited to change the natural river flow, except for cases provided by law.

**Article. 137. Admission of violation of neighbor's border**

137.1. If possessor of land constructs facilities without neighbor's permission, then the neighbor shall have to admit such violation unless he/she demanded the possessor to halt his/her activities prior to or soon after beginning the act of violation of boundary.

137.2. The party violated the neighbor's rights, shall pay cash compensation to his/her neighbor annually and be liable to pay in advance the payment due in current year before the end of previous year.

**Article. 138. Construction of roads, pipelines across neighbor's land**

138.1. In case of an estate in possession is surrounded by private land and has no access to the road of public use or unable to use public network of power, gas and water supply, then possessor of the land shall be entitled to build a road, line or pipeline to be connected with the above-mentioned networks through neighbor's land.

138.2. In the case referred to in article 138.1 of this law, neighbor shall provide with relevant permission, and the party that builds a road, line or pipeline shall pay one-time compensation at the other party's request subject to mutual negotiation. If parties fail to reach consensus about the compensation amount, Court shall determine the amount of compensation.

138.3. Possessor of land, who changed or made impossible to use the road, line and pipeline, that had previously been used, without neighbor's permission, shall lose rights stipulated in article 138.1 of this Law.

138.4. If possessor transferred a part of land of his/her estate with road, line and pipeline of public use, to possession of another person, and the remaining part of the land is needed to be connected with road, line and pipeline of public use, then the new possessor shall be obliged to issue a permission to build a road, line and pipeline through his/her territory.

**Article 139. Marking neighbor's boundary**

139.1. The land owner shall be entitled to demand the neighboring land owner to participate in erecting border marks along the boundaries of the neighboring area, restoring or repairing the marks earlier erected along the boundaries of the neighboring area, and unless otherwise agreed by the parties the respective costs thereof shall be born equally.

139.2. If it is not possible to define the detailed boundaries, the size of area, which is actually possessed by the neighbors shall be taken into

consideration. If the actual size is impossible to determine, the parties shall equally divide and possess the disputed area. If they fail to do so the dispute shall be settled by Court.

**Article 140. Communal use of construction of neighboring boundary area**

140.1. Neighbors shall have an equal right to use from both sides at the same time the boundaries of the neighboring area and other constructions including fences. While exercising this right, both parties shall be liable not to hinder other side's rights to use the land.

140.2. The parties shall equally share the cost related to use and maintenance of fences and other constructions.

140.3. No party shall be entitled to disassemble fences or other constructions marking the boundaries of the neighboring area without permission from the other party.

140.4. Provisions of articles 140.1- 140.3 shall not be applied in case of wall is being as component of a building in the neighboring area, which is in the ownership or possession of one party and marks the boundary.

**Article 141. Irrelevancy of the limitation period to neighbor's rights**

141.1. Limitation period shall not be applicable to the requirements stipulated in articles 135.3- 135.5, 138.1, 138.4, 139.1 and 139.2 of this Law.

**SUB-CHAPTER FIVE**

**COMMUNAL APARTMENT BUILDING OWNERSHIP RIGHT**

**Article 142. Ownership of communal apartment building**

142.1. Apartments /rooms/ inside the communal apartment building and other non-residential area which is not related to objects of communal ownership can be owned individually.

142.2. Parts of apartment building, construction and equipments that are not related to individually owned objects shall be subject to the communal ownership.

142.3. Per apartment ownership's share in the communal ownership property, shall be determined by the ratio of apartment area to the overall area of the building.

142.4. Only isolated apartments with concrete boundaries (apartments, rooms) and other isolated facilities of the construction shall be considered as property of individual ownership.

**Article 143. Apartment owners' association**

143.1. In case of two or more households become owners of their apartments in the same communal apartment building, the Apartment owner's association (hereinafter referred to as an Association) shall be set up with the

purpose of exercising communal ownership rights, ensuring utilization maintenance of the apartment building and protecting rights, benefits and interests of apartment owners.

143.2. Apartment owners inhabiting in neighboring several apartment buildings may join and form a single association.

143.3. The Apartment owner's association shall not enjoy the rights of juristic person.

143.4. All other persons owning apartments in the same apartment building must be members of the Apartment owner's association.

143.5. If the apartment building is composed of the mixed ownerships, including state and local property apartments, representatives appointed by the owner's authorized organization shall be members of the Association.

143.6. Matters related to the Apartment owner's association shall be regulated by law.

#### **Article 144. Dissolution of association**

144.1. If the major part of the apartments and other property is destroyed or damaged, and the damage and destruction cannot be repaired or recovered through insurance or other ways, apartment owners may dissolve the association.

#### **Article 145. Creation and termination of individual ownership rights for apartment**

145.1. The right for individual ownership of an apartment shall be created on basis of law or transaction.

145.2. Transaction creating the right of individual ownership of an apartment shall be certified by notary and registered with the State register.

145.3. All owners shall be entitled to have registered the apartments (rooms) and other yareas, which are subject to individual ownership, with the State Immovable Properties Registration Office as provided by law.

#### **Article 146. Objects of individual and communal ownership of apartment**

146.1. The area stipulated in article 142 of this Law, and its components, which could be renovated, isolated and improved without violating the rights of other persons owning communal or individual objects, or without damaging the outside appearance of the building, shall be objects of individual ownership.

146.2. Despite of location in the middle of an individual ownership area/property, the area or part, which is necessary for ensuring the reliable quality and safety of the building, and as well as facilities and equipment, commonly used by owners shall not be deemed as objects of individual ownership.

146.3. Apartment owners may negotiate and agree about co-ownership of some parts of the area that belong to the individual ownership objects.

146.4. It is prohibited to transfer individual ownership areas for others' ownership through a sale and collateral or any other form, without including the

respective part of communal property. This provision shall not cover non-residential areas of individual ownership property.

**Article 147. Distribution of costs and payments related to communal ownership objects of apartment houses**

147.1. Apartment owners shall be liable to pay the competent authorities the heating, hot and clean water, sewage water removal, hygiene, electricity, and communication costs for their owned apartment and non-residential areas, and to pay the expenses for maintenance and repair of communal ownership parts to the Apartment owner's association.

147.2. For determining the participation of apartment owners in paying costs related to services and repair of elevators, ladder, balconies, patio, gates, waste removal, window, and in financing other related costs, the total cost shall be divided by the total number of apartments in the building.

147.3. For defining apartment owner's participation in financing the repair and maintenance, insurance and other relevant inevitable costs related to the maintenance of roof, basement, space to the first blinder of heating supply, hot/cold water supply net, area to the switchboard of power input, area to the link-box of telecommunication line installed on each floor, wastewater net above the floor +0.00 mark, water pools for public use located in the upper floor or basement of the apartment building, parking area and other objects of communal ownership similar to them, the area belonging to individual ownership shall be compared with total area of individual ownership in the building.

147.4. In order to calculate the space, which is in individual ownership, the size of one third of non-residential area shall be added to owner's residential area.

147.5. Owner, who did not make a proposal on issues other than ensuring the normal and safe operation of apartment use, and current repairs, shall not be liable to reimburse the costs related to the implementation of above-mentioned measures, but in this case he/she shall not be entitled to demand to use the products resulting from implementing the above-mentioned measures.

147.6. Association of apartment owners shall have repaired the objects of communal ownership by professional organizations on contract basis. The association shall recover damages caused to others in related to the contractual obligations according to provisions stated in articles 147.2 and 147.3 of this Law, unless otherwise stipulated in the statute of the Association or contract with apartment owners.

**Article 148. Rights and obligations of apartment owners**

148.1. The apartment owners shall have the following rights:

148.1.1. To possess, use and dispose of the objects of individual ownership at won discretion unless otherwise provided in law;

148.1.2. To use the communal ownership objects according to their original designation;

148.1.3. To have a voting right commensurate to the own share in regard to use, maintenance and disposal of communal ownership objects;

148.1.4. To be entitled to take necessary measures to reduce and eliminate any potential damage to the communal objects without permission of co-owners and to claim for reimbursement of any related costs;

148.1.5. Other related rights stated in law;

148.2. The apartment owners shall have the following duties:

148.2.1. To break no rules and orders of common residence with other co-owners in the course of possession, use, maintaining and protecting the objects of individual ownership;

148.2.2. While maintaining, repairing and renovating own apartment or non-residential parts of the building, to comply with the respective legislation, standards and norms, cause no damages to objects of other parties' ownership, and violate no legitimate rights and interests of the other persons;

148.2.3. To be liable for financing the maintenance and repair of objects of communal ownership and other commonly accepted costs in defined extent;

148.2.4. To be liable to permit an access to the individual ownership property, in order to ensure safety and normal operation of objects of communal ownership existing in the individually owned area;

148.2.5. To accept any measures necessary to install communication and supply lines and networks;

148.2.6. To be liable to share the responsibility for any consequences due to failure of transferee to fulfill duties stipulated in articles 148.2.1-148.2.7 of this Law, if the communal and other types of ownership objects were transferred to other person's use;

148.2.7. To be liable to recover the damages caused due to failure to execute own duties stated in articles 148.2.4 and 148.2.5 of this Law.

148.3. Non-use or refusal to use objects of individual or communal ownership shall not serve as grounds for full or partial exemption from paying any costs related to utilization, maintenance and repair of objects of the communal ownership.

#### **Article 149. Claiming rights of apartment owners**

149.1. Other owners of apartments shall have the right to demand to exclude the owner, who made the below-stated violations, from the Apartment owners' association, and to transfer the apartment ownership rights to other persons:

149.1.1. if an owner seriously and regularly violated his/her obligations stated in articles 148.2.1, 148.2.2 and 148.2.6 of this Law, and did not take measures to stop and eliminate the violation within three months, despite the written warning from the Association;

149.1.2. if an owner did not perform his/her obligations, stated in article 148.2.3 of this Law, over six months, or his/her outstanding payment exceeds 20 percent of the price of the apartment of individual ownership;

149.1.3. other grounds provided by law.

149.2. If the apartment owner does not satisfy voluntarily the demand stated in article 149.1 of this Law, then the Association of apartment owners shall be entitled to sue him/her in the Court through its representative.

**SUB-CHAPTER SIX**  
**LIMITING OTHERS' OWNERSHIP RIGHTS WITH THE**  
**PURPOSE TO EXERCISE OWN RIGHTS**

**Article 150. Right to build buildings and facilities on others' land**

150.1. Person, who obtained a right to build a building or facility on the land owned by others, shall transfer that land into own possession with the right to inherit, use as mortgage, or sell to a third party, or dispose of it in any other manner.

150.2 The land owner is obliged, at the request of the person obtaining the right to construct a building or facility, to transfer into his/her possession the land that provides an opportunity to use the land in a better way, despite it is not absolutely necessary to build the building and facility.

150.3 The right to build buildings and facilities shall necessarily have a specific term; however, this term shall not exceed 99 years. A transaction that conditions the premature termination of such rights shall be void.

150.4 In cases other than specified in article 150.7 of this Law, it is prohibited to terminate the rights to construct a building or facility, at one party's initiative.

150.5 The buildings or facilities that are built based on the right to construct a building or facility shall be deemed as a main component of such right, and destruction and break of the construction or facility shall not serve as grounds for termination of such rights.

150.6. If land owner's permit is required for selling, mortgaging and disposing of the right to construct a building or facility in any other way, the owner shall not be entitled to refuse giving permit except for situations when his/her rights and legal interests are seriously breached.

150.7 Unless stipulated otherwise by contract, a person who obtained the rights to construct a building or facility, shall pay the payments for possessing the rights to the land owner in accordance with the procedures stated in article 137.2 of this Law. In case of this payment is not done for two years, the land owner shall be entitled to cancel the contract at own initiative.

150.8 The parties may agree to revise every ten years the amount of the payment provisioned in article 150.7 of this Law.

150.9 Unless otherwise provided by law or contract, when the right to possess the land for the purpose to construct a building or facility expires, the owner of land shall be obliged to compensate the price of the building or facility to the person who possessed the right.

150.10. Possessor of land may extend the term of the right to possess land allocated with designation to construct a building or facility for the period of normal existence of construction or facility concerned, instead of compensation stipulated in article 150.9 of this Law.

150.11. If person, who used to possess land for the purpose of constructing refuses to extend the term stipulated in article 150.10 of this law, then he/she shall lose his/her rights to demand a compensation.

150.12. Unless otherwise provided by law or contract, a person, who used to possess land for the purpose to construct a building or facility, shall not be entitled to separate the building or facility and their components, and move them away, upon the expiry of the term of the right concerned.

150.13. Right to construct a building or facility shall be registered with the State register.

150.14. Right to demand compensation as provided in article 150.9 of this Law, shall be satisfied in the same order as the rights to construct a building or facility, and parties shall not be entitled to alter this order on negotiation basis.

150.15. If the rights to construct a building or facility are still under collateral at the moment of expiration of the right, then the person given the collateral shall be entitled to demand the performance of obligation secured by the collateral.

150.16. Owner of the land shall become a party to the rent contract concluded between the person, who used to have the right to construct a building or facility, and a third party.

150.17. The relevant part of the procedure on acquiring the immovable property provided by this law shall be applied as well for relations pertaining to creation of rights to construct building or facility and acquisition of such a right.

**Article 151. Right to limit immovable property ownership rights (servitude)**

151.1. For the purpose of exercising ownership rights, owners of immovable property shall have rights to limit the rights of other owners of immovable property (hereinafter called as servitude) in the following ways:

151.1.1. If provided by law or contract, to use immovable property of others in a limited way prior to others;

151.1.2. to assign other owners not to carry out activities conflicting with his/her rights and legitimate interests;

151.1.3. to restrict the exercise of some rights of owner limited by servitude towards the immovable property of party with servitude;

151.2. The authorized person while exercising the servitude shall be liable not to violate the legitimate rights of owner of the immovable property concerned.

151.3. If parties agreed, the party with servitude shall regularly pay appropriate payment and bonus to the party with limited rights for the fixed period.

151.4. As for a house or construction, person with servitude shall be obliged to maintain it safe and use it properly, and parties may agree so that the party with limited rights shall unilaterally or partially be responsible for relevant cost.

151.5. In case of the estate or other immovable property of person with servitude is split up and transferred into the ownership of several persons, then each of those owners shall keep the servitude, unless rights of owner with limited rights are deteriorating. If the servitude pertains to only one of the part of the estate or immovable property, which is split up, then servitude for the other area or part shall be terminated.

151.6. In case of the estate of owner with limited by servitude rights, is split up and transferred into several persons, then estate, other than that used be limited by servitude, shall be exempted from restriction of rights.

151.7. If somebody causes impediment to person with servitude in exercising his/her rights, then he/she shall be entitled to demand to eliminate the impediment.

151.8. Non-owner may on the grounds provided by law or contract exercise servitude rights to meet his/her household purpose likewise the person with servitude, then in this case this person shall not be entitled to transfer the servitude to others.

151.9. Owner with limited rights shall be entitled to transfer the servitude to other parts of his/her estate, unless serious difficulty may occur to entitled person in exercising his/her servitude. Any transaction that restricts such right shall be void.

151.10. Owner of limited rights shall be responsible for costs related to the transfer of servitude as provided by article 151.9 of this Law.

### **Article 152. Right to limited possession and use of others' property (usufruct)**

152.1. Rights to limited possession and use of other's property for the purpose to earn profit or benefit shall be called as a usufruct.

152.2. Usufruct possessor shall be entitled to same rights as the owner of the property to possess and use the property, except for disposal of property through complete transfer of it into the ownership of a third person. In case of pledge or rent of the property to the third party, then usufruct possessor must obtain a permission of the owner.

152.3. Upon termination of usufruct, the owner of the property concerned shall become a party to an agreement concluded between the usufruct possessor and a third party.

152.4. For acquisition of usufruct, the same procedure used for acquisition of similar types of movable and immovable properties as stated in this Law shall be applied.

152.5. Usufruct may by determined with or without charge, for certain or uncertain period or for lifetime of the usufruct possessor.

152.6. Usufruct may be terminated on the following grounds:

152.6.1. with the death of person possessing usufruct or dissolution of the juristic person ;

152.6.2. usufruct possessor and owner of property become one person.

152.6.3. termination of usufruct term.

152.7. Usufruct possessor shall be obliged to return the property concerned to the principal owner when usufruct is terminated on the grounds specified in articles 236-240 of this Law.

152.8. Usufruct possessor shall not change the type and designated use of usufruct objects without consent of the owner.

152.9. As for an estate, usufruct possessor shall enjoy a right to mine or construct other necessary facilities and install equipment in the estate without seriously modifying the commercial designation of the estate.

152.10. Parties may assign experts at their expense to evaluate the current state of the usufruct object.

152.11. If usufruct object is a complex of objects, then parties shall compile its list and document it by signing. At the request or cost of any party, parties may invite a competent person as a witness or request competent agencies or experts produce the list.

152.12. Unless otherwise provided by law or agreement, usufruct possessor shall be responsible for repairs, securing normal commercial operation, maintenance of usufruct object, relevant taxes and payments as well as be responsible for insurance of the usufruct object, however, the possessor shall not be responsible for normal depreciation of the usufruct object.

152.13. In case of insurance event, the owner of the property concerned likewise the usufruct possessor, shall be entitled to demand compensation from insurer.

152.14. Usufruct possessor shall be obliged to immediately notify of the principal owner if the usufruct object is destroyed, damaged, or unplanned excessive expenses are required to ensure the entirety of the usufruct object, as well as if a third party raised a claim over the usufruct object. Usufruct possessor shall not refuse, when the owner takes necessary measures to eliminate the circumstances.

152.15. If usufruct possessor notified of the owner and undertook the necessary measures specified in article 152.14 of this law in advance at own expenses, then he/she shall be entitled to demand the owner to return the repairs or improvements if they are separable, or to pay for repairs upon the termination of usufruct.

152.16. If usufruct possessor replaced some parts of the property concerned with new ones in order to improve them, then he/she shall transfer those parts that have replaced the old parts to the owner, upon the termination of usufruct.

152.17. Although usufruct possessor shall be owner of profit and benefit earned beyond normal commercial use or exceeding the normal amount, he/she shall be obliged to compensate for the damages caused to usufruct object due to such activities.

152.18. It is prohibited to transfer the usufruct without the owner's consent and set double usufruct on it.

152.19. If usufruct item is a right, then the right concerned may be altered and invalidated only with the consent of usufruct owner on contract basis.

**CHAPTER THIRTEEN**  
**RIGHTS TO PLEDGE**  
**SUB-CHAPTER ONE**  
**GENERAL PROVISIONS OF PLEDGE**

**Article 153. Pledge**

153.1. If an obligation performer fails to fulfil legal or contractual obligation secured by a pledge, then the creditor-pledgee shall be entitled to have his/her needs satisfied first from the value of the pledged property prior to other creditors.

153.2. With creation of the pledge rights, the person concerned shall exercise a prevailing right to demand the performance of obligations.

153.3. Pledge may be used to satisfy future requirements with the conditions possible to foresee at the pledge formation moment.

153.4. Rights to pledge shall belong to main requirements, other auxiliary rights pertaining to them and benefits provided in article 88 of this Law.

**Article. 154. Pledge objects**

154.1. Movable and immovable property and rights that can be transferred to ownership of others may be objects of pledge.

154.2. If the object of pledge was rights to demand and the obligation performer executed his/her obligations prior to termination of the period, then this performance shall be an object of pledge.

154.3. The object of pledge may be in the ownership of others. In this case demand shall be satisfied after the relevant property is be transferred to pledgee's ownership.

154.4. The item of pledge may be araised in the future. In this case demand shall be satisfied after relevant property will be araised and transferred to the pledgee's ownership.

154.5. If it is provided in this law, pledge objects may be pledged to several persons and in such case, the demand secured by the pledge shall be satisfied by contract execution order.

154.6. If person, who has no right to pledge the property despite keeping it under his/her possession, pledged the property through transfer of documents certifying the right to possess, and pledgee was not aware of or it is not possible to learn that the pledger has no right to pledge it, the pledgee shall be deemed as a fair possessor.

154.7. Pledgee referred to in article 154.6 of this Law shall have a prevailing right as a fair possessor over third persons.

154.8. A pledge contract may be altered by parties in order to replace the item of pledge with another.

### **Article. 155. Transfer of pledge rights**

155.1. Rights to pledge shall be transferred to a new creditor when creditor-pledgee transfers the demand secured by pledge to a third party.

155.2. For transfer of asset, securities that may be transferred to others, as well as rights to asset, the procedure to acquire them shall be applied alike.

155.3. If transfer of pledge to others might affect the interests of a third person, then the third person concerned may transfer the rights to pledge into his/her name by satisfying demands of creditor.

### **Article 156. Pledge contract**

156.1. Contract for pledge shall be concluded in writing.

156.2. Contract for pledge of immovable property must be certified by notary and registered with the State registrar. The contract for pledge shall contain the name, place of residence of the parties to it, the obligation secured by the pledge and its amount, the time for performance and the type and value, as well as the location of the pledged property.

156.3. Contract that does not meet requirements stated in articles 156.1 and 156.2 of this Law shall be void.

156.4. At request of a party to the contract for pledge of movable property may be certified by a notary or registered with registration authority.

### **Article 157. Rights and obligations of parties in regard to pledge object**

157.1. Pledgee shall be entitled to the following rights:

157.1.1. to acquire benefits from the pledge within the demand secured by pledge;

157.1.2. to have his/her demand satisfied from the sum of sales of pledge prior to other creditors;

157.1.3. to sell the pledge object in accordance with provisions of this Law, unless the pledger chooses other option or had other object pledged within the period stated in article 157.2.2 of this Law;

157.1.4. to demand to transfer the pledge to his/her possession if he/she considers that pledger does not perform obligations stated in article 157.6.1 of this Law.

157.1.5. to secure the completeness of pledge when the pledge is transferred to his/her possession and demand from pledger the necessary cost arising with this regard;

157.2. Pledgee shall have the following obligations:

157.2.1. to immediately inform the pledger, in case of a real situation of destruction and significant reduction of value of pledge object is emerged;

157.2.2. in the case stated in article 157.2.1 of this Law, to recommend the pledger to chose other options and possible period to replace another pledge object;

157.2.3. keep the money earned from sales of pledge until the end of the period stated in article 157.1.3 of this Law;

157.3. If several objects are pledged in order to secure the demand of creditor, then unless otherwise provided by law, the pledgee shall be entitled to choose the object that meets the demand, however, this should not exceed the quantity and size to satisfy the demand.

157.4. Pledgee shall exercise the rights stated in article 92 of this Law, in case of the condition, which impedes implementation of pledge rights, is emerged.

157.5. Pledger shall exercise the following rights:

157.5.1. to get benefits from pledge during the period of possessing it;

157.5.2. if the circumstances stated in article 157.2.1 emerge, to offer an alternative that may satisfy the demands of pledgee and demand the return of the pledge;

157.5.3. to demand to transfer the pledge object to a third party, who is capable to keep the pledge sound and safe, if he/she considers that pledgee can not perform properly his/her obligations stated in article 157.1.5 of this Law.

157.5.4. to demand to transfer the remaining income from sales of pledge at auction after deduction of creditor's demand, costs related to holding an auction and other necessary costs;

157.6. Pledger shall assume the following obligations:

157.6.1. to ensure safety and soundness of the pledge object, which is under her/his possession;

157.6.2. to inform a third party, if the third party has certain right to demand concerning the object to be pledged at the moment of conclusion of contract for pledge.

157.7. If the pledger is not obligation performer in the demand secured by pledge, then the pledger shall be entitled to make counter-demand that can be made from a obligation performer to a creditor.

157.8. If the demand secured by pledge can be satisfied by assets of obligation performer and a third party at the same time, then the pledger shall be entitled to demand the creditor to satisfy the demand with asset of the obligation performer first.

## **Article 158. Satisfying pledgee's demand**

158.1. The pledgee's demand shall be satisfied through sales of pledge or other forms of sale, if right to demand is begun or period of performing the obligations is over.

158.2. Pledgee's demand is deemed as satisfied, when obligation performer makes proper payment to creditor.

158.3. Pledgee shall be entitled to demand to sell the pledge object, if the period of complete and partial satisfaction of cash demand is due, and he/she shall exercise this right only to have own demand satisfied.

158.4. If it is necessary to take actions of legal significance in order to satisfy the demand secured by pledge, then the pledgee is entitled to demand the pledger to undertake actions, which may be taken by pledgee with a third party on behalf of the pledger unless the latter undertakes these actions within fourteen days.

158.5. If a pledge object is pledged to several persons, then the person, who first accepted as pledge shall have rights to demand to sell the pledge. If this person refuses to exercise this right, then the next pledger shall exercise this right to demand.

### **Article 159. Sale of pledge**

159.1. Unless otherwise provided by law or contract, a pledge shall be sold at the auction according to procedures set forth in this Law.

159.2. Price of the pledge may be determined by an expert prior to sale, if pledger demanded so, and in this case the pledger shall bear the relevant cost.

159.3. Owner of the pledge may take a part in the sale of the pledge and make an offer to purchase the pledge object.

159.4. Participants to the auction shall be explained that they shall lose the rights to purchase unless they had paid the price of the pledge object.

159.5. Pledge shall be transferred with unrestricted rights to a person who acquired the pledge object lawfully and in a fair manner.

### **Article 160. Termination of pledge rights**

160.1. Pledge rights shall be terminated in the following cases:

160.1.1. if demand secured by pledge is terminated;

160.1.2. if pledgee notified the pledger or owner about his/her refusal from pledge;

160.1.3. if pledgee returned the pledge object that was under his/her possession, back the pledger;

160.1.4. if right to possess the pledge object is transferred to pledgee;

160.1.5. if the pledge object was destroyed;

160.1.6. any other grounds set forth in the law;

160.2. As for the third person, the demand that is secured by pledge remains valid, the pledge right shall not be terminated in case of conditions specified in article 160.1.3 of this law.

160.3. In case of the pledge right is terminated on grounds other than that specified in articles 160.1.4 and 160.1.5 of this Law, then the pledgee shall be obliged to return the pledge object back to pledger or owner.

## **SUB-CHAPTER TWO**

### **SPECIAL REGULATION OF MOVABLE PROPERTY AND RIGHTS' PLEDGE**

#### **Article 161. Transfer of demand secured by pledge**

161.1. Creditor may transfer his/her rights to pledge to others by transferring the demand secured by pledge.

161.2. Rights to pledge shall not be created, if transfer of pledge objects along with transfer of demand is impossible.

### **Article 162. Obtaining a permission**

162.1. Unless otherwise provided by law or agreement, pledgee and pledger shall be obliged to obtain mutual permission in the following cases:

162.1.1. from pledger, if pledgee takes a pledge object;

162.1.2. from pledgee, if pledger is to make a transaction with a third party with regard to the pledge object.

### **Article 163. Sale of immovable property and rights**

163.1. Pledgee may entrust a special sales organization for sale of pledge through it, if the market or stock exchange price of pledge object is evident.

163.2. Pledgee shall be obliged to notify in advance the owner of the pledge object of the possible sale of pledge, as well as its price. The pledge shall not be sold within fourteen days from the notification.

### **Article 164. Pledge of rights**

164. 1. The relevant provisions of articles 153-160 of this Law shall be equally applicable to pledge of rights.

## **SUB-CHAPTER THREE**

### **MORTGAGE OF IMMOVABLE PROPERTY /HYPOTHEC/**

### **Article 165. Hypothec**

165.1. Creditor's mortgage of certain immovable property in order to have his/her demand satisfied first before all the other creditors shall be hypothec.

165.2. Maximum price of immovable property that may satisfy the demand of the creditor shall be identified and noted in the State register.

165.3. Possessor and creditor may mutually agree to replace the demand secured by hypothec with other demand, and in this case they shall have respective changes registered with state registration.

165.4. If demand of creditor is to be satisfied with hypothecs of several immovable properties, each immovable property shall be used for entire satisfaction of the demand concerned and the creditor may chose any of immovable property for having his/her demand satisfied.

165.5. Hypothec shall be equally applied to component of and benefit from immovable property, which was acquired by irregular commercial operations, or which has not been transferred to ownership of others although it was acquired by regular commercial operations.

165.6. If otherwise provided by agreement, interest, tort, damage caused and Court expenses, in addition to main obligations, shall be deducted from the price of immovable property that is a hypothec object.

### **Article 166. Registration of hypothec**

166.1. Hypothec is created with its registration with the State register.

166.2. Owner, obligation performer and creditor of immovable property shall make a document certifying the amount of demand secured by hypothec, its interest, and term of performance of the demand. The owner and creditor of the immovable property shall have hypothec registered in conformity with procedures set forth in the law.

### **Article 167. Secured hypothec**

167.1. Creditor may agree to satisfy his/her rights to hypothec through proving own demands only, instead of referring to the registration of hypothec right as a proof. This hypothec shall be registered with the State register as secured hypothec.

167.2. Secured hypothec may be used for the demand concerning payment obligations of non-bearer or inscribed securities, and in this case, the secured hypothec shall not necessarily be registered.

### **Article 168. Transfer of hypothec to owner**

168.1. Hypothec shall be transferred to owner of immovable property upon termination of creditor's demand or if the creditor refused from his/her demands.

168.2. In the case referred to in article 168.1 of this Law, the owner shall terminate the hypothec and write off the State register or may transfer it to another person, retaining the registration order.

168.3. If owner of immovable property is liable before a third person for terminating the hypothec, or the immovable property or hypothec should be transferred to the same person, then it may be noted in the State register in advance.

168.4. If an owner of the immovable property is not obliged before the pledgee in person, he/she shall exercise the same rights as the person, who is obliged in person, and be entitled to request the demand to be considered invalid or have the requested amount be reduced.

### **Article 169. Satisfying creditor's demand**

169.1. Owner of the immovable property shall be obliged to satisfy the demand of creditor if period of satisfaction of creditor's demand is due, or from the time when the obligation performer acquires the right to perform the obligation.

169.2. If the owner satisfied the demand of creditor, then he/she shall have rights to demand the creditor to provide him/her with documents necessary for making changes in the State register or termination of hypothec.

169.3. If an owner is not obliged in person, he/she may transfer the obligations from an obligation performer into his/her name with the consent of pledgee.

### **Article 170. Protection of creditor's rights**

170.1. Owner shall be obliged to have the value of immovable property under hypothec determined reasonably.

170.2. If there is an emerging situation that threatening danger to the immovable property, creditor may set a period of time for owner to eliminate the danger. If owner failed to take actions to eliminate the danger by expiration of the period, the creditor shall be entitled to have his/her demands immediately satisfied from the property concerned.

170.3. If immovable property is insured, then in the event of insurance, insurer shall be obliged to notify the creditor and then provide insurance compensation to the insured.

170.4. If there grounds exist to consider that insurance compensation shall not be used for rehabilitation or restoration purposes, then, the creditor shall be entitled to take necessary measures not to let insured receiving the insurance compensation.

170.5. If it is determined that the owner failed to perform obligations with regard to safety and soundness of immovable property under hypothec, then the creditor shall be entitled to demand the transfer of immovable property to his/her ownership.

#### **Article 171. Non-restriction of owner's transaction right**

171.1. Transaction, obliging the owner not to use the immovable property under hypothec, not to transfer it to ownership of others, and not to otherwise entitle rights to it to a third party, shall be void.

171.2. Validity of the transaction concluded by hypothec owner with a third party shall depend on the creditor's permission.

171.3. Unless otherwise provided in law, transaction about agreeing that right to ownership of immovable property shall be transferred to the creditor unless the latter's demand is satisfied completely or partially, shall be void.

#### **Article 172. Transfer of hypothec and demand**

172.1. Hypothec and demand serving as its grounds may be transferred together to others only in case stipulated in article 87.1 of this Law.

172.2. Demand is considered as transferred if documents of hypothec certified by notary are transferred to a new creditor and this new creditor is registered with State register.

172.3. If obligation performer executed his/her obligations before the previous creditor after the transfer of demand to the new creditor, but was not unaware of such a transfer, then the previous creditor shall perform obligations before the new creditor to the extent to which obligation was performed by the obligation performer.

172.4. Hypothec and demand shall be transferred to new creditor in the same amount as the previous creditor had.

172.5. Document that certified the transfer of hypothec to new creditor registered with the State register shall be considered true and reliable. Obligation performer shall not be entitled to make demand with regard to it. However, if new creditor was aware of that the registration is in error, this provision shall not be applied.

172.6. If rights and legitimate interests of a third party were damaged as a result of the hypothec, the person concerned shall be entitled to satisfy the demand of creditor and transfer the hypothec rights to him/herself.

172.7. If a third party satisfied the creditor's demand according to provision of article 172.6 of this Law, he/she shall be entitled to demand the transfer of registration into her/his name along with relevant documents.

172.8. If hypothec was transferred to a person who satisfied the creditor's demand as referred to in article 172.6 of this Law, he/she shall be entitled to demand the owner to compensate the damages caused.

172.9. If a creditor, who is entitled to demand, has the same amount of obligations as the obligation performer before the obligation performer, then their demands may be considered as mutually satisfied.

### **Article 173. Waiver of hypothec and rights to demand**

173.1. If creditor renounces the demand and hypothec and have this waiver registered with the State register according to appropriate procedures, hypothec shall be transferred to the owner of the property concerned.

173.2. If creditor declined the hypothec, but retained his/her demand as valid, then obligation performer shall be exempted from the obligation to the extent he/she already paid the compensation for damages caused by hypothec.

173.3. Owner of the immovable property shall be entitled to demand the creditor to decline the hypothec, in case the hypothec becomes impossible to use for long-term due to owner's acquisition of the right to dispute.

### **Article 174. Demand on sale of immovable property**

174.1. Creditor shall be entitled to demand to sell the immovable property, in case the obligation performer exceeded the period of satisfaction of hypothec demand.

174.2. Provision of this law shall be applied for sales of immovable properties, and the regulations of this law shall be deemed as more detailed regulation.

174.3 If the creditor is a bank or a non-banking financial institution, it shall submit the request to a court for selling hypothec through a judicial proceeding or to a registration office for selling through a non-judicial proceeding as prescribed in the law. The articles 175.5-175.7, 176 and 177 of this law shall not be applicable for sale hypothec in non-judicial way

174.4 The procedure for selling hypothec though a non-judicial proceeding shall be established by the law

### **Article 175. Mandatory sale of mortgage on basis of Court ruling**

175.1. Unless otherwise provided by law, the immovable property under hypothec shall be subject to mandatory sale at the decision of Court, if an obligation performer failed to fulfill obligations despite of demand in accordance with article 174 of this Law.

175.2. Court may determine other forms of sale of the immovable property upon consideration of the joint claims from owner of the immovable property and creditor, and proposals made by the authorized parties of the property concerned.

175.3. Creditor, obligation performer and owner shall be entitled to take a part in the auction.

175.4. Obligation performer shall lose his/her rights to keep the benefit from the property by issuance of decision on sale of the immovable property at the auction.

175.5. If obligation performer lives with his/her family members in a house or in a room of the house, that under hypothec, he/she shall become lessee by the moment of issuance of Court decision on mandatory sale of the immovable property and shall be obliged to pay the rent to creditor at the current rate.

175.6. Person, who assigned by Court to organize the auction, shall carry out the auction within 30 days from issuance of Court decision.

175.7. Person assigned by Court to organize the auction shall notify the public of the event through the mass media 14 days prior to it.

#### **Article 176. Ceasing and postponing auction**

176.1. In case of the owner or third person, whose rights may be affected by carrying out the auction, satisfies the creditor's demand in advance, then the auction may be ceased.

176.2. Court may postpone the auction on the basis of request from the owner or having considered proposals by authorized parties to ownership rights by up to six months in the following cases:

176.2.1. if it is possible to postpone the auction depending on the nature of debt to be paid by obligation performer;

176.2.2. if it is necessary to consider the personal and commercial relations of an owner.

176.3. If Court deems that temporary postponement of auction pursuant to article 176.2 of this Law may potentially create an explicitly negative consequences for the creditor, it may decline to satisfy the owner's request.

#### **Article 177. Auction price**

177.1. The price, offered for immovable property to be auctioned, shall be mutually agreed and fixed jointly by obligation performer, creditor and owner, however, there is no agreement was reached, the competent auctioneer shall determine the price based on expert's opinion. The expert shall be nominated by the auctioneer.

177.2. If no price offer was up to the level of the price offered at the initial auction, or no one participated in the auction, the second auction shall be conducted.

177.3. The second auction shall be organized within 30 days after the first one. Second auction shall be publicly announced as provided by law.

177.4. The price offered by auction participants shall be sufficient to cover the costs related to organizing the auction and meeting the creditor's demand.

If the offered price was not enough to cover these amounts, it shall be considered that the auction did not take place. Expenses related to the auction shall be born by the owner.

#### **Article 178. Ownership right over auctioned property**

178.1. The buyer, offered the highest price, shall be liable to transfer to the competent person conducted the auction the price, from which the auction conducting cost shall be deducted.

178.2 Buyer shall become the owner of the property from the time of paying fully the price of the auctioned property.

178.3. All limited rights for property and other hypothecs, registered after the hypothec, which is enforced by the creditor, shall be terminated with transferring the ownership right.

178.4. Nonetheless, other limited rights to be exercised with regard to that particular immovable property, shall remain valid.

178.5. New owner bought the immovable property, shall become a party to the lease or rent contract, which was effective during transferring the ownership right.

#### **Article 179. Distribution of auction proceeds**

179.1. If the creditor is the sole person registered with the State register with hypothec right, or if the auction proceeds were sufficient to satisfy the demands of all obligation creditors, after deducting from it the cost related to organizing the auction, the competent auctioneer shall distribute the remaining proceeds, after deducting from it all costs among creditors according to proper order and procedures, and transfer the residuals to the owner participated in the auction.

179.2. If the price for which the immovable property was sold is not enough to satisfy the demands of creditors, the competent auctioneer shall deduct the costs of organizing the auction, deposit the remaining amount on a special account and distribute it among creditors in the order they were registered with the State register.

#### **Article 180. Auctioneer's liability**

180.1. If damages were caused to others due to the failure of a competent person nominated to organize the auction properly, the damages shall be compensated as provided in article 497 of this Law.

#### **Article 181. Transfer of immovable property for others' management**

181.1. Court may rule to transfer the property for others' management instead of auctioning it based on the request of creditor with hypothec claiming rights. In this case, Court may nominate a competent person to manage the immovable property or transfer this right to the owner.

181.2. Before making decision provided by article 181.1 of this Law, Court shall be obliged to consider the opinions of all competent persons registered with the State register, whose rights and legitimate interests might be affected with mandatory transfer of the property for others' management.

181.3. Court shall rule as provided in article 181.1 of this Law only in case, when the proceeds from the immovable property after transferring for others' management would be more than the costs related to its management.

181.4. If the obligation performer and her/his family reside in the building or its part, which was transferred mandatory for others' management, he/she shall pay the rent at the current rate.

181.5. Competent person managing the immovable property shall get all benefits from the property, deduct from it all management and other related costs according to own proposal approved by Court, and distribute the residuals at the end of the year.

181.6. If the creditor's demands were satisfied, the competent person managing the immovable property shall return the immovable property to its owner.

181.7. If it became evident that the creditor's requirements cannot be satisfied by the mandatory management, it shall be terminated and the immovable property shall be sold through auction.

## **SUB-CHAPTER FOUR STATE REGISTER**

### **Article 182. Right to state registration**

182.1. Rights, except for the right to ownership to immovable properties and other rights of property related thereto, shall be registered with the State register.

182.2. If it is provided in law or contract, movable properties and related rights shall be registered with the State register.

182.3. Registration procedure of rights stated in this article shall be regulated by law.

### **Article 183. Accuracy of state registration note**

183.1. Note written in the State register shall be considered as accurate, unless the person, who receives, on the basis of transaction, the right registered with the State register under the name of transferor, was aware of that the note was inaccurate or refused to believe that it is accurate.

183.2. If the registration is made under the name of a person who is not entitled to register it, the person who is affected by the consequence of that registration in terms of rights and legal status, shall be entitled to demand from the person whose name is in the register to alter the records in the registration.

183.3. In order to identify the legitimate owner of the right registered with the State register, a person, whose right is violated, shall be entitled to submit to registration office an application about inadequate records in the State register.

#### **Article 184. Order of registered rights**

184.1. Order of registered rights in the State register shall be determined according to the submission order of application to register.

184.2. The order could be altered later based on the permission of parties that are exchanging their orders, and the alteration shall be recorded in the State register.

184.3. In order to register any rights, the owner of immovable properties may put a condition to register any right before another; such a condition shall be recorded in the State register.

#### **Article 185. Preliminary records in the State register**

185.1 In order to meet the requirements of registering immovable property rights, preliminary records may be made in the State register.

185.2. The recording specified in article 185.1 of this Law could be made in order to satisfy conditional demands or those may emerge in the future.

185.3. Unless the registration, which will be made after preliminary recordings, terminates or damages the demanding rights of a person, whose rights are protected by the preliminary records, such records shall not impact on the person.

185.4. The preliminary record shall be made in order to determine the possessor of right, with the permission of the owner of the immovable property.

185.5. If preliminary record is likely to reduce the opportunity to use the property for a long period of time, possessor of the property shall be entitled to demand from the person who made such recording to cancel it.

185.6. If any rights of the person insisted on preliminary recording are not valid, he/she shall be entitled to demand from the possessor of the property a permission to get registration, which is necessary to implement requirements that would be satisfied by preliminary record.

**PART II**  
**OBLIGATIONS**  
**SUB-PART ONE**  
**GENERAL BASIS**

**CHAPTER FOURTEEN**  
**GENERAL PROVISIONS**

**Article 186. Obligation relationship**

186.1 As provided by law or contract, an obligor has an obligation before an obligee, to perform an action or refuse to perform a particular one, and the obligee is entitled to demand the obligation performance.

186.2 Depending on characteristics and contents of the obligation, an exclusive obligation, regarding rights and property of the other party, may be delegated to either of two parties.

**Article 187. Grounds for obligation**

187.1. Obligation shall emerge on the grounds stipulated in article 8 of this Law.

187.2. Obligations stipulated in article 186 of this law may emerge at the preparatory stage of concluding a contract.

187.3. If contract was not concluded due to negligence of either party in the process of negotiations, the obligation may arise to pay to the other party the cost of conducting negotiations by the party who is at fault due to the negligence.

**Article 188. Obligation to provide information**

188.1. Obligation may create rights for any party to obtain information.

188.2. If the information possessor may provide with information, required for defining the obligation content, without harm to own rights and interests, the other party shall be entitled to access to such information.

188.3. Party receiving the information, shall be liable to reimburse the costs related to providing information to the other party.

**CHAPTER FIFTEEN**  
**CONTRACT LAW**  
**SUB-CHAPTER ONE**  
**GENERAL PROVISIONS**

**Article 189. Contracting parties' autonomy**

189.1. Parties to the contract shall be entitled within the legal frame-work to conclude contract freely and define its content.

189.2. In order to protect societal and individual interests, certain types of contracts may be concluded on the basis of special permission issued by government authorities. The procedure of issuing special permission shall be defined by law.

189.3. Contract concluded on the basis of special permission shall enter into effect after receiving special permission from the competent authority.

189.4. A person dominating the market of producing certain types of goods, or delivering services, or performing works, shall be liable to enter into contract with persons willing to make a deal with it in the areas mentioned herein-above, and shall not be entitled to put pressure on the other party to accept unequal terms and conditions or to refuse to conclude a contract.

189.5 A contract, which is not named directly or regulated by this law, but having specific content, expressing basic contract characteristics and forms shall be considered as an unnamed contract. General basis of obligation stipulated in this Law shall be applied to the unnamed contracts.

**Article 190. Contracts regarding the currently available or future acquired properties**

190.1. Contracts, under which a party assumes an obligation to transfer all his/her future acquired properties to another party's ownership, or limited use or possession (usufruct), shall be deemed as void.

190.2. Contracts under which a party assumes an obligation to transfer all or part of his/her currently available properties to another party's ownership or limited use or possession (usufruct), shall be certified by notary.

**Article 191. Contract on property to be inherited**

191.1. A contract regarding the property to be inherited by a citizen, concluded between third parties shall be deemed as void.

191.2. Article 191.1 of this Law shall be applied to the contract between third parties regarding a mandatory share of property to be inherited by to a citizen, as well as restrictions set by testator's written will.

191.3 Article 191.1 of this Law shall not be applied to the contract between lawful successors regarding shares of the property to be inherited.

**Article 192. Obligation applying to property accessories**

192.1. If a party assumes an obligation to transfer his/her property to another party's ownership, limited possession, or use, such an obligation shall apply equally to accompanying items of the property, unless otherwise stipulated in the contract.

**Article 193. Defining the obligation performance**

193.1. If method, form and procedure of the obligation performance, which determined by a party or a third party to the contract, may cause hesitation of the other party or parties, the matter shall be determined in accordance with principle of fairness and mutual expression of their intentions.

193.2 If determined method, form and procedure of obligation performance does not meet the principle of fairness, or are deemed by any of the parties that they slowing down the process of determining obligation performance, such party shall be entitled to seek a court ruling.

**Article 194. Regulation for non-contractual obligations**

194.1. Regulation relevant to contract obligation may be applied to non-contractual obligation relations, unless this conflicts with obligation nature.

**SUB-CHAPTER TWO  
FORMATION OF THE CONTRACT**

**Article 195. Contract offer**

195.1. Actual and sufficiently definite expression of an intention of a party addressed to one or more particular persons in order to be bound with someone who accepts her/his intention regarding rights and obligations, shall be deemed as an offer to enter into a contract.

195.2. Essential terms of a contract or procedure for their determination shall be stated in a contract offer.

195.3. The essential terms of a contract shall be those terms which are required by law, or which are necessary to the contract, or which are accepted by one party at request of the other party.

195.4. An expression of intention addressed to unidentified persons and which does not contain any provisions about an offer to be, shall be considered as a call for an offer.

195.5. A party, who proposed a contract offer, shall not be entitled to revoke the offer within the period of time stipulated by law, contract or the offer.

195.6. A response accepting to conclude a contract on different terms shall be deemed as a new offer to enter into a contract.

195.7. If a party, who sent a contract offer, receives the response late and immediately informs the other party about it, then, such a late response shall be deemed as a new offer to enter into a contract.

### **Article 196. Considering contract concluded**

196.1. A contract shall be considered to have been concluded on the following grounds:

196.1.1. if law provides that contract shall be concluded by transferring property, the parties agree on essential terms of the contract and transfer the property;

196.1.2. if law provides that contract shall be concluded in written or parties agreed that a document shall be executed and signed, or if a party receives documentation like letter, facsimile, or official note signed by the other party that expressed the acceptance of the offer to enter into a contract;

196.1.3. if a contract offer was sent with stated deadline, and accepting response from the other party was received within the deadline;

196.1.4. if a contract offer was sent in written form, without indicating the deadline, and the accepting response to it was received within normal and reasonable time;

196.1.5. if verbal offer made in person was accepted immediately;

196.1.6. if a party accepted the offer to enter into a contract, sent the positive response in time, but it was received late, and the other party, decided not to conclude a contract due to this delay, but did not notify immediately about it the responding party;

196.1.7. if a party who received an offer assumes that the offering party will accept the counter offer according to the customs established in business routine, and sends the counter offer with different terms and conditions than the original one, however, the former offering party fails to notify immediately the other party about its refusal.

196.2. Service providing entrepreneurs who receive an offer from their regular business partners to perform the particular type of activity, shall be obliged to respond within reasonable time. If they fail to fulfill this obligation, it shall be deemed that they have accepted the contract offer without notification.

196.3. If a party, who received an offer, gives a negative response within normal and reasonable time, however, the offering party sends the goods in accordance with the obligations stipulated in the offer due to non-awareness of such a refusal, the offer receiving party shall be obliged to receive and store the goods in order to prevent or reduce any potential damage to them, or take all possible measures to keep it safe and sound, and be entitled to demand the offering party to reimburse incurred expenses.

### **Article 197. Bidding**

197.1. A contract may be concluded through bidding.

197.2. A contract shall be concluded with a person that won in a bid, unless otherwise stipulated in law.

197.3. Owner, or right possessor, or an authorized person may be an organizer of the bidding process.

197.4. An authorized organization shall organize the bid on own behalf or in the name of owner or right possessor on the basis of contract concluded with them.

197.5. A contract to sell a property or property rights may be concluded through bidding when it is provided by law only.

197.6. Bidding process shall be organized in a form of auction or competition.

197.7. The winner of auction bidding shall be a person who offered the highest price.

197.8. The winner of competition shall be the best qualified person of all requirements that are determined in advance by the competition organizing commission. Unless otherwise stipulated in law, the form of the bidding process shall be determined by the owner of the property or possessor of the property rights.

197.9. If only one bidder was present, an auction or competition shall be deemed that it did not take place.

197.10. An auction or competition may be organized either open or closed.

197.11. Any person may attend in an open auction or competition.

197.12. Closed auction or competition may be attended exclusively by specially invited persons.

197.13. Unless stipulated otherwise in law, organizers shall announce the bidding notice that contains information on the form of the event, date and venue, contract object, starting price, procedure to register participants and determining the winner, and other information not less than 30 days prior to the event. If contract object is the right to conclude a contract, the date to conclude the contract shall be indicated.

197.14. Unless otherwise stipulated in law or the announcement, an organizer of the open auction or competition shall be entitled to refuse to organize it. However, such a refusal may be exercised within not less than three days prior to the auction date and not less than 30 days prior to the competition date.

197.15. An organizer, who refused to organize an auction or competition violating the date stated in article 197.14 of this Law, shall be liable to compensate direct damages to the participants.

197.16. An organizer of closed auction or competition shall be liable to compensate the damages caused to participants who invited to the event, regardless to when he/she refused to organize the events.

197.17. A participant in bidding process shall make a deposit in the amount and on time pursuant to the bidding procedure specified in the announcement.,.

197.18. The deposit shall be returned to the respective persons if the bidding has not taken place or who did not participate in it, or who did not win though participated in it.

197.19. While entering into a contract with the winner, the deposit shall be considered as part of the performance of the contractual obligation.

197.20. The winner of a bidding process or the event organizer shall sign notes about the results of the auction or competition on the day when the event took place and these notes shall be as valid as the contract.

197.21. If the winner avoids signing the notes, he/she shall lose the deposit.

197.22. If an organizer avoids signing the notes, the deposit made by the other party shall be returned and be liable to pay compensation for damages caused due to participation in the event in the amount exceeding the deposit.

197.23. If bidding process is organized with the condition to acquire a right to enter into a contract, the parties shall sign the contract within 20 days after completion of the event and signing the notes, or within the period of time specified in the announcement. If a party avoids entering into a contract, another party shall consider the contract is concluded and be entitled to demand obligation performance, as well as damage compensation.

197.24. Bidding that organized in violation of procedures set by law shall be deemed as invalid.

197.25. A contract, concluded with the winner of invalid bidding, shall be deemed as invalid.

197.26. The procedure stipulated in this article shall also be applied to auction that is subject to enforcement of judicial decisions.

#### **Article 198. Interpretation of contract**

198.1. While interpreting a contract, literal meaning of its words shall be considered.

198.2. If the meaning of any contract condition is not comprehensible, its content shall be defined by comparing with other conditions and overall content of the contract.

198.3. If some words and expressions of a contract could be interpreted differently due to the local dialects, they shall be interpreted in local context, where parties concluded the contract reside. If parties are residents in different areas, words and expressions shall be interpreted in the context of the area, where the accepting party to the contract resides.

198.4. If expressions conflict with each other or have various meanings, they shall be interpreted by a meaning more appropriate for the contract.

198.5. In order to interpret the content of mixed contract, the law provisions regulating a particular type of contract that is more similar to the contract execution, shall be taken into consideration.

198.6. If contract content is impossible to determine as provided by articles 198.1-198.5 of this Law, the integrated views of the parties shall be clarified while keeping in mind the contract objective, and for this purpose, the circumstances and conditions like negotiations, exchanged documents prior to entering into the contract, business practices or customs of business routines established between the parties shall be taken into consideration.

### **Article 199. Contract becomes effective upon acceptance**

199.1. In order to consider the contract certifying already established obligation relations as valid, an obligor shall inform of the acceptance of the obligation in written.

199.2 In order to create obligation relations in the form as negotiated by the parties, a contract shall be concluded in the negotiated form.

199.3 It is not necessary to conclude a contract in the form stipulated in law, if debt is accepted by making payment or parties are mutually agreed on.

## **SUB-CHAPTER THREE STANDARD CONDITIONS OF A CONTRACT**

### **Article 200. Standard conditions are inseparable parts of a contract**

200.1. Conditions offered by a party to another; that are not determined by law, but which specifies procedure clarifying law provisions, and that shall be used permanently and determined beforehand, shall be standard conditions of contract.

200.2. Conditions, which determined in detail subject to mutual negotiations between parties, shall not be considered as standard conditions of contract.

200.3. In the presence of the following circumstances, standard conditions shall become inseparable parts of contract concluded between parties:

200.3.1. if it is provided that the offering party clearly declares the standard conditions in a place, where the contract is concluded, and concludes contract with a person who accepts these conditions; and

200.3.2. if the other party was able to acquaint with the above-mentioned conditions and accepted them.

200.4. If the offer receiving party is a business entrepreneur, who must be aware of or should have known standard conditions beforehand due to its own business specifics the standard conditions shall be inseparable parts of the contract.

200.5. If the other party was not able to learn them beforehand due to the external circumstances expressing the standard conditions were different from the typical form, the standard conditions shall not be an inseparable part of the contract.

### **Article 201. Interpretation of standard conditions**

201.1 If meaning of words and expressions that express standard conditions are incomprehensible, they shall be interpreted in favor of the offer receiving party.

### **Article 202. Invalid standard conditions**

202.1. Standard conditions shall be invalid if they contradict with good faith of the parties and principles of fairness and are harmful to the accepting party, despite of their reflection in the contract. In this case, the circumstances forcing their inclusion into the contract, interests of the parties and other circumstances shall be taken into account.

202.2. If a party, who offers a contract with an individual that is engaged in non-commercial activities, incorporates the following conditions into the standard conditions of the contract, they shall be invalid:

202.2.1. excessively long and ambiguous deadlines are set for receiving and refusing from an offer;

202.2.2. excessively long or ambiguous or not in compliance with law deadlines are set for obligation performance;

202.2.3. it provides a right to annul the contract without concrete grounds or on the grounds which are not stipulated in the contract;

202.2.4. it provides a right to a party to alter or refuse the obligations which are already determined by contract in a manner not in the legal interests of the other party;

202.2.5. it provides a self-entitlement to demand the incurred expenses in a way that excessively high or exceeding the real amount of costs;

202.2.6. it provides to deem that exclusively important interpretation was already provided to the other party;

202.2.7. it provides groundless sharp increase of prices within a short span of time for long-term obligation relations;

202.2.8. legal rights of the other party to refuse executing rights or obligations are restricted or rejected;

202.2.9. the offering party is released from the liability, provided by law, to remind the other party to assume obligations or to give it sufficient time to perform obligations;

202.2.10. it provides that the offering party demands excessive amount of compensation for damages caused to him/her;

202.2.11. denying or limiting the responsibility for damages caused, due to an extreme negligent or deliberate actions by the offering party or its legal representative;

202.2.12. limiting the rights of the other party to demand compensation of damages caused, due to breach of obligations;

202.2.13. denying the entitlement to demand the entire damages caused due to non performance of obligation, or refusal, or renouncing the contract in case of the legal interests of the other party were damaged due to partial performance of obligations by the offering party;

202.2.14. the responsibility of the offering party for deficient delivery of goods, or poorly performed work or provided services, is determined lower than the limits stated in law;

202.2.15. it provides that the party, who annuls the contract due to non or improper performance of obligations by the offering party, shall pay forfeit to the offering party;

202.3. If the following conditions are incorporated into standard conditions of the contracts concerning the regular supply of goods and service and regularly performed work, then those conditions shall be deemed void:

202.3.1. if the other party is liable to perform the obligations for more than two years;

202.3.2. if it provides that contract shall be deemed to be extended for more than a year in case of neither of parties proposes to annul the contract; and

202.3.3. if the provision that the contract annulling period is three months longer than the period for which the contract is deemed to be extended, is against the legitimate interests of the other party.

202.4. Except for the cases mentioned below, standard conditions shall be deemed void if they provide that a third party shall participate in such particular contractual relationship instead of the offering party with equal rights, or provide an opportunity to participate:

202.4.1. a third party is indicated by its name;

202.4.2. if the other party is entitled to annul the contract unilaterally.

202.5. If any part of standard conditions of the contract is void or they become as non essential terms of the contract, the contract as a whole still shall be valid.

#### **SUB-CHAPTER FOUR**

#### **CONTRACTS FOR THE BENEFIT OF THIRD PARTIES**

##### **Article 203. Right to demand of contracts for the benefit of third parties**

203.1 Unless otherwise stipulated in law or contract, or if it does not contradict with the nature of obligation, either an obligee of contract that for the benefit of third party or a third party shall be entitled to demand an obligation performance from the obligor.

203.2. Unless specifically stipulated in the contract, its content and objectives shall determine whether third party is entitled to make decision independently, or whether this right is created directly or with specific pre-conditions needed, or whether parties to the contract, who conclude it without third party's permission, are entitled to alter or terminate the latter's rights.

203.3. The party included into the contract for the benefit of a third party special conditions related to rights and obligation, provided by article 203.2 of this Law, shall be entitled to replace the third party, regardless of the permission of the other party.

203.4. Unless otherwise provided by the contract, and if it does not conflict with the nature of obligation, an obligee may demand obligation performance, if the third party refuses the rights stated in the contract.

#### **SUB-CHAPTER FIVE**

#### **CONTRACT REFUSAL**

##### **Article 204. Procedure of contract refusal**

204.1. If either of parties refuses the contract, other party shall be informed of it.

204.2 Unless otherwise stipulated in law or contract, contract refusal period shall be determined by the party who did not propose refusal. If during this period, the other party was not informed of the contract refusal again, then the refusing party shall lose the right to refuse contract.

204.3. If several persons participate in one or both parties to the contract, they shall refuse contract jointly. If any of them loses the right to refuse contract, then others shall lose this right as well.

204.4. If the contract was concluded with condition that the obligor shall lose the right to refuse the contract upon non performance of its obligation, the obligee shall be entitled to refuse the contract as soon as such condition is emerged.

204.5. If contract was concluded with condition that the either party is entitled to refuse the contract upon failure of obligation performance by other party, and the obligor was entitled to terminate the mutually demanded obligations as being fulfilled subject to consideration, and the latter immediately informed the obligee about the obligation consideration after the contract refusal by the obligee, such a refusal of the obligee shall be invalid.

### **Article 205. Consequences of contract refusal by either of contracting parties**

205.1. If either party refuses the contract as provided by law or contract, the parties shall be obliged to mutually return contract accomplishments physically and profits from its implementation.

205.2. In the following cases, an obligor shall reimburse the obligation performance not physically, but rather in cash:

205.2.1. depending on characteristics of obligation performance, it is impossible to return it physically;

205.2.2. if the party receiving the executed obligation utilizes it, or transfers to others' ownership, or is restricted by others' rights, or changed it by processing or recycling it; and

205.2.3. if obligation item was damaged, spoiled, missing and destroyed with the exception of normal depreciation or loss.

205.3. If an obligor executed any obligation in response, as provided in contract, such an executed obligation in response may replace the cash payment.

205.4. In the following cases, an obligor shall not pay compensation:

205.4.1. if defected item, which transferred by obligee according to contract, served as grounds of the obligor to refuse the contract and was revealed by obligor in course of processing or recycling it;

205.4.2. if contract item was damaged, spoiled, missing or destroyed due to negligence of the obligee;

205.4.3. if contract item got damaged, spoiled or missing despite it was duly stored, maintained and protected by an obligor. In this case the remainder of the contract item shall be returned to the obligee.

205.5. If an obligor failed to earn potential profit due to violation of procedure to use the obligation item, he/she shall be liable to eliminate the harm caused to the obligee.

205.6. If an obligor returned contract item, or paid the cost, or there is no need to return the contract item or compensate the damages in accordance with articles 205.4.1 and 205.4.2 of this Law, the obligee shall be liable to reimburse

the inevitable costs to the obligor. Other costs shall be paid by obligor to the obligee only in the amount of profit earned by the obligee.

205.7. Parties shall be liable to perform the obligations, which stipulated in article 205.1 of this Law, in person and simultaneously.

## **CHAPTER SIXTEEN EXECUTING THE OBLIGATION**

### **SUB-CHAPTER ONE GENERAL PROVISIONS**

#### **Article 206. Principles to execute obligation**

206.1. An obligation shall be executed at determined place and on time properly and fairly.

#### **Article 207. Place to execute obligation**

207.1. Unless otherwise stipulated in law or contract, and if it does not conflict with the nature of obligation, place of obligation execution shall be determined as follows:

207.1.1. in respect to an obligation related to an immovable property-in the place, where the immovable property locates;

207.1.2. in respect to an obligation to transport any property – in the place, where property was transferred to the first carrier in order to deliver it to the obligee or an authorized person;

207.1.3. in respect to monetary obligation – in the place, where the obligee resides. If the obligee changed the residence and informed an obligor about it, the place shall be the new residence of the obligee; and

207.1.4. in respect to any other obligations – in the place where the obligor resides..

207.2. In the case stated in article 207.1.3 of this Law, the obligor shall be deemed as executed the obligations by transferring money to bank or other organizations similar to it, in order to send it to address of the obligee.

207.3. If an obligee or obligor were liable to inform each other about changing the place of residence, prior to executing the obligation, the expenses related to performing or receiving the obligation in a new place shall be covered by the relocating party, who shall also be responsible for any risk thereof.

#### **Article 208. Time period for obligation execution**

208.1. Obligation shall be executed within the time period stipulated in law or contract.

208.2. If the time period for obligation execution was not set or conditions were not made, or if it is impossible to set it due to the characteristics of the obligation, the obligee shall be entitled to demand any time the execution of obligation and the obligor shall be liable to execute the obligation immediately.

208.3. Unless otherwise stipulated in law or contract, depending on the characteristics of the obligation, the obligor shall be liable to execute the obligations within 10 days from the moment when the obligee demands the execution of obligation.

208.4. If time period for obligation execution was set by law or contract, the obligee shall not be entitled to demand execution of obligation prior to the time period.

208.5. If an obligee does not object, an obligor shall be entitled to execute the obligation before the set time.

208.6. If an obligor became insolvent, or the amount of property securing the obligation execution decreased, or left without property, the obligee shall be entitled to demand from the obligor the execution of obligation immediately before the time period stated in article 208.4 of this Law.

208.7. As for the transaction made with conditions, obligation execution shall commence from the day when the condition is emerged.

### **Article 209. Refusal to execute obligation**

209.1. Except for cases when the obligor is obliged to execute first the obligation pursuant to the bi-lateral contract, he/she may refuse to execute obligation before the other party executes counter obligation.

### **Article 210. Obligation execution by a third party**

210.1. Unless law or contract provides that the obligor must execute obligation in person or if it does not contradict with the nature of obligation, the obligation may be executed by a third party.

210.2. If an obligor refuses the execution of obligation by a third party, an obligee shall be entitled to refuse to receive the obligation execution.

210.3. Unless law stipulates that a third party shall be responsible, the principal obligor shall be responsible for the obligation that was not executed or not executed properly.

210.4. If obligation is forced to be executed from the property of the obligor, any person, who considers he/she might lose own rights regarding the property, shall be entitled to satisfy demands of the obligee. In this case, the obligee's right to demand shall be transferred to the third party, which performed the obligation.

### **Article 211. Submission of obligation execution**

211.1. Obligation execution shall be submitted to the obligee or an authorized person specified in law, contract or judicial decision.

211.2. If obligation execution was submitted to a person who is not entitled to receive it, the obligation shall be deemed executed only when the obligee permits or the obligee benefits from such execution.

### **Article 212. Obligation to select**

212.1. Unless otherwise stipulated in law or contract, or if it does not contradict with the nature of obligation, the obligor shall be entitled to choose and execute one obligation out of several.

212.2. If obligor is entitled to refuse any action out of several, which are subject to execution, and thus refused, the obligation to execute the rest of actions shall remain valid.

212.3. When selection is made as provided by article 212.2 of this Law, the obligor shall inform of it the obligee.

### **Article 213. Partial execution of obligation**

213.1. If it is stated in contract or the obligee permits, the obligor shall be entitled to execute the obligation partially.

213.2. The obligee shall be entitled to refuse receiving execution that is different from one indicated in the contract. This provision shall be equally applicable even if the execution of obligation was costly.

### **Article 214. Quality of obligation execution**

214.1. If the quality of obligation execution was not clearly stated in the contract, the obligor shall be liable to execute obligations meeting normal requirements and to transfer property with quality not below the average.

### **Article 215. Right to impede obligation execution**

215.1. Until the obligee assumes own obligations and makes possible to execute obligation, the obligor may impede obligation execution other than monetary obligation.

215.2. If obligation item is property that can be determined by characteristics of type, the obligor shall be liable to execute the obligation in any condition.

### **Article 216. Execution order of obligation**

216.1. If obligor is liable to execute several and same type obligations, but their execution is not enough to cover all debts, the obligor shall be entitled to select and execute any obligation. If the obligor did not make such selection, the debt with payment deadline is due, shall be paid first.

216.2. In case the payment deadline of several debts coincides, demand with most difficult conditions, shall be executed first.

216.3. If demands have similar conditions for the obligor, a priority shall be given to the obligation with less possible execution.

216.4. If obligation execution is not enough to cover all debts, first of all, judicial expenses, secondly, principal obligation, and lastly, interests, shall be paid.

## **SUB-CHAPTER TWO EXECUTION OF MONETARY OBLIGATION**

### **Article 217. Banknote to execute the payment**

217.1. Monetary obligation shall be executed by Mongolian banknote - togrog.

217.2. Unless prohibited by law, parties may execute monetary obligation in foreign currency banknotes.

### **Article 218. Currency rate to make the payment**

218.1. If currency rate appreciates or depreciates before the time of making the payment, the payment shall be made at currency rate existed when the obligation was created.

218.2. If the type of currency banknote is changed, the payment shall be calculated at currency rate existed when the banknote was changed.

## **CHAPTER SEVENTEEN CIRCUMSTANCES OBSTRUCTING OBLIGATION EXECUTION**

### **SUB-CHAPTER ONE GENERAL PROVISIONS**

### **Article 219. Impossibility to execute obligation due to obligor's fault**

219.1. If an obligor breaches the obligation, the obligee shall be entitled to demand compensation for damages caused.

219.2. If the obligor exceeds the deadline to execute obligation, the obligee may indicate additional time to execute obligation. If the obligation is overdue again, the obligee shall be entitled to demand compensation for damages caused.

219.3. If it is obvious that no results could be achieved with giving additional time, or exercising rights by the obligee to get compensation for caused damages is more in the interests of parties, then additional time shall not be given.

219.4. It shall be prohibited to agree in advance to release the obligor, who deliberately breaches his/her obligation, from the obligation to eliminate the caused damages.

219.5. The obligor, who executed his/her obligation through a legal representative or other parties, shall be fully responsible for the caused damages to the obligee due to their actions.

219.6. Unless otherwise stated in contract, or if it does not contradict with the characteristics of obligation, the obligor, who fails to fulfill obligation due to failure to receive the obligation items from another party, shall bear the responsibility resulted from such a failure.

**Article 220. Impossibility to execute obligation due to changes in circumstances**

220.1. If circumstances, which serve as the grounds for concluding the contract, have changed substantially after entering into contract, and the parties were aware of such a change beforehand, and it was possible not to enter into contract or conclude with different contents, the parties shall be entitled to mutually demand to adjust the contract to the changes in circumstances.

220.2. If assumption of parties about the grounds to enter into contract was erroneous, it shall be deemed as same as the changes in circumstances to conclude the contract.

220.3. Parties shall be liable to take measures to adjust the contract to change in circumstances as a priority.

220.4. If adjusting the contract to changes in circumstances is impossible or the other party does not allow it, the party whose interests are affected shall be entitled to renounce the contract.

**Article 221. Contract renouncing by parties on justifiable reasons**

221.1. If justifiable reasons exist, the parties who entered into long-term contract, may renounce the contract regardless its expiration date.

221.2. Emergency situation and force majeure condition, or circumstances that make impossible to demand to prolong or extend duration of the contract in order to protect legitimate interests and rights of the parties, shall be deemed as justifiable reasons.

221.3. If a breach of contractual obligation serves as grounds for its termination, the contract may be terminated only within the period to give prior warning or eliminate breaches as provided in articles 219.3 and 225.2 of this Law.

221.4. An authorized person may terminate a contract within normal and reasonable period of time after becoming aware of existence of termination grounds.

221.5. If previously executed obligation becomes meaningless with contract termination, it shall be terminated as well. The regulation provided by article 205 of this Law shall equally apply to such a termination.

221.6. Article 227 of this law shall equally apply to requirements concerning of an elimination of damages.

**SUB-CHAPTER TWO  
CONSEQUENCES OF OVERDUE**

**Article 222. Overdue by obligor**

222.1. In the following cases, obligor shall be deemed in overdue:

222.1.1. if obligation was not performed on time; and

222.1.2. a failure to perform obligations after notification by the obligee about expiration of the obligation performance term;

222.2. If circumstances led to the overdue were not caused by the obligor's fault, he/she shall not be deemed to be in overdue.

222.3. An obligor who is in overdue shall be responsible for any careless actions or inactivity.

222.4. An obligor who is in overdue shall be responsible for the caused damages regardless of any event had impact on it. However, he/she shall not be responsible for damages caused due to an inevitable event despite the obligation was executed on time.

222.5. If obligation of monetary payment was not executed on time, the obligor shall be liable to pay interest that fit to overdue period.

222.6. Forfeiture shall not be calculated from the interest.

222.7. An obligee shall be entitled to demand to eliminate the caused damages due to the obligor's overdue.

222.8. If an obligor executes the obligation before the deadline without getting obligee's permission, it shall be deemed as he/she is in overdue.

#### **Article 223. Overdue by obligee**

223.1. If an obligee did not receive an obligation performance on time, he/she shall be considered as in overdue.

223.2. If an obligee was liable to take certain actions in order to create conditions to execute obligation, but this did not happen causing an overdue, then the obligee shall deemed as in overdue.

#### **Article 224. Obligation emerging from obligee's overdue**

224.1. An obligee, who is in overdue due to his/her own fault as provided in article 223 of this law, shall be liable to eliminate the damages caused to the obligor.

224.2. The following obligation and consequences shall arise for the obligee that is in overdue regardless whether he/she is at fault or not:

224.2.1. to compensate additional costs incurred by the obligor due to storage of the contract items;

224.2.2. to be responsible for risks of accidental damage or destruction of the contract items;

224.2.3. to lose the right to get interest and forfeiture pursuant to monetary payment obligations.

### **SUB-CHAPTER THREE**

#### **BREACH OF BI-LATERAL CONTRACTUAL OBLIGATIONS**

#### **Article 225. Contract refusal due to breach of obligation by parties**

225.1. If either party breaches contractual obligations and an additional time was set though no results achieved, the other party shall be entitled to refuse the contract.

225.2. If the obligee did not set an additional time, but reminded the obligor to execute the obligations, additional time shall be deemed as being set.

225.3. Although obligor violated some parts of obligation, but performance of the rest of it is no longer beneficial for the obligee, the latter may be entitled to refuse the contract.

225.4. In the following cases, parties shall not refuse the contract:

225.4.1. slight violation of obligation;

225.4.2. if the obligee is entitled to demand the contract to be valid, despite of the requirements stated in article 186.2 of this Law were violated;

225.4.3. if the obligee him/herself is responsible fully or significantly for obligor's violation of the obligation;

225.4.4. if the obligor makes counter claim to the obligee prior to his/her refusal from the contract, or it is possible to make counter claim immediately after the obligee's refusal from the contract.

225.5. If it is inevitable or apparent that grounds to refuse the contract could happen in the future, the obligee shall be entitled to refuse the contract prior to expiration of the obligation performance.

225.6. An obligor may set a time period for the obligee to refuse the contract.

225.7. Although an obligee does not exercise the right to refuse the contract during the period stated in article 225.6 of this Law, but the obligor fails to perform contractual obligations during the period of prior warning or additional period to perform obligation, the obligee shall be entitled to refuse the contract.

### **Article 226. Circumstances not requiring additional period or prior warning**

226.1. If the following circumstances exist, setting additional period or giving prior warning as stated in articles 204.2 and 219.2 of this Law, is not required:

226.1.1. it is clear that no results could be achieved;

226.1.2. if contractual relations are supposed to be prolonged in case the obligor fails to perform the obligation within the period stated in the contract, but performed during the additional period; and

226.1.3. if it is necessary to terminate the contract immediately on special grounds in the interests of both parties.

### **Article 227. Responsibility for obligation breach**

227.1. If a contracting party violates one's obligation, the other party shall be entitled to demand compensation for caused damages due to contract refusing.

227.2. If a party is not responsible for the contract refusal by another party, the provision stipulated in article 227.1 of this Law shall not be applied.

227.3. Expenses paid by the obligee, property loss or damage, and inevitable income to be earned if the obligor had performed the obligation, shall be deemed as a loss.

227.4. If an obligor fails to perform the obligation to transfer certain property to the obligee's right to own or possess, use or dispose, the latter shall be entitled to demand the transfer of such property to oneself and compensation for the caused damages as well.

227.5. Unless otherwise provide in law or contract and if the obligor fails to perform the obligation to perform certain work or provide assistance, the obligee shall be entitled to perform the obligation him/herself or ask a third party to do so, and to demand the compensation for the caused damages.

## **CHAPTER EIGHTEEN RECOVERY OF DAMAGE**

### **Article 228. Right to recover damage**

228.1. A party that is responsible for recovery of the damage, shall be liable to restore the violated right of the other party to the condition existed before the damage inflicted. If it is impossible to restore the violated right or it requires considerably high cost, damage can be compensated in cash.

228.2. A victim may set a certain time period to the party responsible for recovery of the damage caused to him/her, and if the obligation is not performed within that period, the former may demand to perform in cash.

228.3. If a victim was incapacitated, or labor capacity decreased, or consumption increased due to health damage, the party responsible for recovery of the damage shall liable to recover the damages by paying the former money (subsidy to support and care) on monthly basis.

228.4. A victim shall be entitled to demand inevitable treatment costs in advance from the party responsible for recovery of the damage.

228.5. If a victim was professionally incapacitated, and it is necessary to acquire a new profession, this regulation shall similarly apply to compensation of costs related to it.

228.6. If justifiable reason exists, a victim may demand one-time compensation instead of monthly subsidy as stated in article 228.3 of this Law.

### **Article 229. Scope of damage recovery**

229.1. To recover the damage, the party responsible shall be liable to compensate for actual damage caused to the property and income to be earned.

229.2. In order to determine the size of damage, the victim's interests, circumstances in which harm was inflicted, and degree of guilt of the person who causes the damage, shall be taken into consideration.

### **Article 230. Recovery of non-material damage**

230.1. A victim shall be entitled to demand to recover the non-material damage.

230.2. If it is specifically provided in law, non-material damage shall be compensated in cash.

230.3. If an action or inactivity of an authorized person or victim had impact on causing the damage or its prevention, or increasing the size of damage caused by such harm, then degree of their guilt shall be taken into consideration when determining the obligation to recover the damage and its scope.

## **CHAPTER NINETEEN**

### **METHODS TO SECURE OBLIGATION PERFORMANCE**

#### **Article 231. Methods to secure obligation performance**

- 231.1. Obligation performance shall be secured by the following methods:
- 231.1.1. forfeiture;
  - 231.1. 2. deposit;
  - 231.1. 3. warranty;
  - 231.1.4. pledge;
  - 231.1.5. guarantee;
  - 231.1.6. contract to transfer the property to ownership, in order to ensure obligation performance /feduci/;
  - 231.1.7. other methods stated in law.

#### **Article 232. Forfeiture**

232.1. Forfeiture shall be monetary payment which must be forfeited by a party that failed to perform or performed improperly of one's obligation as provided by law or contract to the other party.

232.2. In case of failure to perform obligation of deposit, forfeiture may be used as well.

232.3. Forfeiture contract shall be concluded in written.

232.4. Forfeiture shall be classified as a penalty or fine. Total amount of forfeiture shall not exceed 50 percent of the value of the non-performed obligation.

232.5. Forfeiture, which is due by a party failed to perform or improperly performed his/her contractual obligations, in the amount as stipulated in advance by law or contract, or calculated on the basis of a fixed percentage of the value of the non-performed, or improperly performed obligations, shall constitute a penalty.

232.6. Forfeiture, which is due by a party in overdue of the period stipulated in law or contract, in the amount of no more then 0.5 percentage per day of the value of the non-performed obligation, shall constitute a fine.

232.7. If it is not provided in the contract that forfeiture shall be imposed on if the obligor fails to perform his/her obligation on time, the obligee shall not be entitled to demand forfeiture, however, entitled to demand recovery of the caused damage.

232.8. If forfeiture amount is obviously high, Court may reduce the amount depending on circumstances of the lawsuit.

### **Article 233. Deposit**

233.1. The money, paid in advance, included into the mandatory payment by a party to the contract to the other, as a proof of contract conclusion, shall be a deposit.

233.2. If contract is cancelled or the party offering deposit does not include the deposit into the obligation performance, the party received the deposit shall return it after performance of the obligation.

233.3. If a party offering deposit is responsible for the non-performed obligation, the deposit shall remain with the party which received the deposit. In this case, the deposit shall be included when the deposit receiver calculates compensation for the caused damage.

233.4. If a party received the deposit is responsible for the non-performed obligation, the deposit shall be returned to the party offered the deposit. In this case, the latter shall be entitled to demand compensation for the caused damage.

### **Article 234. Warranty**

234.1. In order to secure performance of obligation by the obligor, a third party may provide the obligee with warranty.

234.2. Warranty contract shall be concluded in written.

234.3. Unless otherwise provided in contract, contract shall not be cancelled by the unilateral motion of the warranty providing party.

234.4. If an obligor fails to perform his/her obligation, the obligee shall be entitled to demand the warranty provider to perform the obligation on incontestable proceeding.

234.5. Warrantor obliged before the obligee shall not be entitled to demand obligation performance from the obligor.

234.6. Bank warranty shall be regulated as provided in article 457 of this Law.

### **Article 235. Contract on transferring property to ownership to ensure obligation performance**

235.1. According to contract (feduci) concluded to ensure obligation performance by transferring property to ownership, an obligor transfers moveable property to the ownership of the obligee with the purpose of ensuring monetary obligation performance, and if the obligor executes the principal obligation on time, the obligee shall be obliged to return the property.

235.2. It may be stated in the contract that the obligor may be entitled to use the transferred property.

235.3. If the obligee disposed of the transferred properties in accordance with contract prior to performance of the principal obligation, the obligor, who performed his/her obligation shall be entitled to demand compensation for the caused damage.

235.4. Contract (feduci) concluded to ensure obligation performance by transferring property to ownership shall be expired when the obligor performed his/her obligation to make payment on time and retained the transferred property or failed to perform the obligation and obligee gained an actual entitlement over the transferred property.

235.5. Contract (feduci) concluded to ensure obligation performance by transferring property to ownership, shall be done in written.

## **CHAPTER TWENTY TERMINATION OF OBLIGATION**

### **Article 236. Termination of obligation upon performance**

236.1. Obligation shall be terminated on the following grounds:

236.1.1. if an obligor performed his/her obligation properly;

236.1.2. if an obligee receives another performed obligation instead of the one to be performed;

236.1.3. parties agreed to change the previous obligation;

236.2. In the case stated in article 236.1.3 of this Law, previous obligation relations shall be terminated.

236.3. At request of the obligor the obligee shall be liable to provide documentation that certifies the receipt of complete or parts of performance of obligation.

236.4. If the interest is not stated in the documentation of debt repayment, the interest shall be deemed paid and monetary obligation shall be terminated.

236.5. If debt was paid in several instalments, stage by stage, unless otherwise provided in the documentation about receiving the last part, previous parts shall be deemed paid.

236.6. Type and amount of debt, given name, surname of obligor, or of a person paid the debt, duration and place where the obligation was performed shall be indicated in the documentation about receipt of performance of obligation, executed by an authorized person or the obligee.

236.7. If an obligor presents a note proving requirements of the obligee, he/she shall be entitled to demand to return or annul the note together with documentation about performance of obligation.

236.8. If an obligee is unable to return the proof note, the obligor shall be entitled to demand to give a document about termination of the obligation.

236.9. Unless parties agreed otherwise, the obligor shall be obliged for the cost of issuing documentation about receiving obligation performance, but in case of death of the obligee and his/her successor resides in another place or if the obligee changed the place of residence, the obligee or the latter successor shall be obliged.

236.10. In case of obligee's refusal to perform the following actions, the obligor shall be entitled to refuse to submit the performance of obligation:

236.10.1 issuing documentation about receiving performance of obligation;

236.10.2 canceling or returning the proof note stated in article 236.7 of this Law; and

236.10.3 writing in the documentation about receiving performance of obligation about the impossibility of returning the proof note, or developing a document about the termination of obligation performance.

236.11. In the case stated in article 236.10 of this Law, the obligee shall be deemed as in overdue of the deadline of receiving obligation performance.

### **Article 237. Obligation termination with transferring it for storage**

237.1. If an obligee is in overdue of the deadline for receiving obligation performance or his/her place of residence is unknown, the obligor shall be liable to transfer obligation item to notary of place where the obligation shall be performed; and money or stocks to the bank, through notary, for storage. In this case, the obligor shall be deemed as performed his/her obligation and freed from the obligation.

237.2. Notary shall be obligated to transfer the obligation item, transferred by the obligor, to the obligee. The person, assigned to keep the item until its transfer, shall be selected at the notary's discretion while the documentation shall be kept with him/herself.

237.3. The obligation item should meet storing requirements; items that might decay easily or might lose the quality shall not be accepted.

237.4. Notary shall inform the obligee that performance of obligation was received for storage and shall demand him/her to receive the performance of obligation.

237.5. The obligee shall be liable for the costs related to storing of the obligation item.

237.6. The obligor shall be entitled to demand back the item, transferred to notary for storing, anytime before transferring it to the obligee. In case of getting back the obligation item, it shall be deemed as not been transferred for storage.

237.7. If the obligee refuses to accept obligation item or the time period stated in article 237.9 of this Law is expired, the obligor may get back the item transferred for storage.

237.8. As provided in articles 237.6 and 237.7 of this Law, the obligor, retained back the item transferred for storage, shall be responsible for the cost of storing.

237.9. Notary shall keep the item transferred to him/her for up to three years and if the obligee has not received the item during this period, the obligor shall be informed about it and the former shall demand from the latter to return back the item. If the item is not returned within the determined period, it shall be transferred to the state ownership.

**Article 238. Considering as terminated the obligation with mutual requirement**

238.1. Mutual and similar demands between two parties, deadline of which is due, may be mutually considered as performed and the obligation is terminated.

238.2. If a party that is entitled to demand agrees, mutual demands may be considered as performed and the obligation may be terminated prior to the deadline to satisfy the demand of the other party.

238.3. Demands which limitation period have expired may be mutually considered as the obligation terminated.

238.4. If the mutual demands to be considered as terminated are not equal, the small one shall be counted fully, while the balance after counting, shall be deemed valid.

238.5. If party received the proposal of obligations consideration, is obliged to satisfy several demands, regulation provided by articles 216.1 to 216.3 of this Law shall be applied.

238.6. If a party is liable in addition to the principal obligation to pay interest and other costs, regulation stated in article 216.4 of this Law shall be applied.

238.7. Obligations to be performed in different places may be agreed by the parties to consider as terminated.

238.8. In the following cases, obligation may not be mutually considered as terminated:

238.8.1. if parties agreed in advance that obligation shall not be mutually considered;

238.8.2. if obligation item cannot be taken as payment or the item is the source of living;

238.8.3. if obligation was formed due to recovery of damages to human life and health; and

238.8.4. other cases provided in law.

**Article 239. Termination of obligation upon annulling the debt**

239.1. If parties cancelled the debt subject to negotiation, the obligation shall be terminated.

239.2. In cases, other than the obligee retains the right to demand from other obligors, if one of joint obligors of obligation paid off all debt, other obligors shall be released from the obligation.

239.3. The obligee, after deducting the share of the released obligor, may consolidate into one all remaining parts and demand from other obligors.

239.4. With terminating the debt of the principal obligor, the warranty or guarantee issuer shall be released from their obligations.

239.5. Release of the guarantor or the guarantee issuer from the obligation shall not serve as grounds for freeing the principal obligor from the obligation.

239.6. Other guarantors shall be freed from their obligation if one of the co-guarantors freed from the debt.

239.7 Bi-lateral obligation relations shall not be terminated with one of the parties refusal from his/her demands. In this case, the party refused from the demands shall be liable to perform obligation provided by the contract until the other party refuses from his/her demands.

#### **Article 240. Other grounds for terminating obligation**

240.1. Obligation shall be terminated in the following cases:

240.1.1. if the obligee and the obligor become one party;

240.1.2. in case of performance of the obligation is inseparably connected to the personal condition of the obligor, when the obligor is considered without civil law capability, or announced as missed, or deceased or announced as deceased;

240.1.3. in case of the obligation performance is only relevant to the obligee, who is considered without civil law capability, or announced as missed, or deceased or announced as deceased;

240.1.4. if a legal person has been liquidated without legacy right and dismissed from the State register; and

240.1.5 other grounds stated in law or contract.

### **CHAPTER TWENTY-ONE**

#### **PARTICIPATION OF SEVERAL PERSONS IN THE OBLIGATION**

##### **Article 241.Co-obligees**

241.1. If several persons are entitled to demand complete or partial performance of obligation from the obligor, and the latter is obligated to provide complete or partial performance of obligation, they shall be deemed as competent co-obligees.

241.2. Competence of co-obligees shall be created on the grounds stated in the law or contract or in connection with non-divided characteristic of the obligation item.

241.3 If one of the obligees does not present demands as stated in article 241.1 of this Law, the obligor may transfer performance of obligation to any of the obligees at own discretion. In this case, the latter shall be freed from obligation before other obligees.

241.4. If one of the co-obligees refuses from his/her demand, the obligor shall be freed from the obligation as much as the share of obligee refused from demand.

241.5. If one of the co-obligees has several successors, each of them shall be entitled to inherit his/her part of right to claim the debt.

241.6. If one of the co-obligees receives complete performance of obligation from the obligor, the former shall be obliged to hand over the respective parts of the obligation to each of other obligees.

241.7. Unless co-obligees negotiated otherwise, their right to demand the performance of obligation shall be equal.

#### **Article 242. Co-obligors**

242.1. If any of co-obligors is obligated to provide complete or partial performance of obligation, and the obligee is entitled to demand complete or partial performance of obligation from each obligor, then they shall be deemed as co-obligors.

242.2. Joint obligation shall be created as provided by law or contract, or in connection with non-divided characteristics of the obligation item.

242.3. The obligee may demand, at own discretion, complete or partial performance of obligation from any obligor, and the obligation undertaken by co-obligors shall remain valid until the obligation is performed completely.

242.4. Any co-obligor shall be entitled to present to the obligees any counter demand provided by law or under the granted rights, or under the demand common for all co-obligors.

242.5. If any co-obligor handed over complete performance of obligation to the obligee, other co-obligors shall be freed from the obligation.

242.6. With presenting demands to obligors, the obligee shall not lose the right to demand from other co-obligors.

242.7. Consequences, arising from the delay of receiving obligation performance by the obligee from the obligor, shall be relevant to other co-obligors performers as well.

242.8. Consequences arising from violation of time-period to perform obligation by an obligor, shall not be relevant to other co-obligors.

242.9. If any co-obligor has several successors, each of them shall be liable for obligation equal to corresponding share in the overall inherited obligation, but if the demand is non-dividable, this regulation shall not apply.

242.10. If debt of co-obligors is integrated with the demand of the obligees, obligation of other co-obligors shall terminate in the amount of the debt of the obligor.

242.11. Unless otherwise provided in law or contract, or if the obligation of each co-obligor is impossible to determine, their obligation shall be equal.

242.12. Unless otherwise provided in law or contract, the obligor, who performed the joint obligation, shall be entitled to demand the part of obligation performance from each of obligor.

242.13. If any of co-obligors is insolvent, part of obligation imposed on him/her shall be equally divided among other solvent co-obligors.

242.14. Termination or suspension of limitation period for any co-obligor shall not be relevant to other obligors.

**PART III  
CONTRACT LAW**

**SUB-PART I  
CONTRACT OBLIGATION REALATED TO  
TRANSFERRING PROPERTY TO OTHER'S OWNERSHIP**

**CHAPTER TWENTY TWO  
SALE AND PURCHASE, TRADING**

**SUB-CHAPTER ONE.  
COMMON PROVISIONS**

**Artilce 243. Sale and purchase contract**

243.1. Under sale and purchase contract, a seller shall be obliged to deliver the goods and to transfer the property in the goods without any right violation and physical deficiency and related to them documentation, to the ownership of buyer, and a buyer shall be obliged to pay the agreed price to the seller and receive the purchased goods.

243.2. Seller shall be obligated to provide the buyer with complete, true and accurate information about the designation, characteristics of usage, storage, use and transportation condition and procedures, duration of warranty and durability of the goods sold.

**Article 244. Sale and purchase contract price**

244.1. Unless price is not directly stated in the sale and purchase contract, parties may negotiate and agree on instruments of setting price.

**Article 245. Distributing costs related to property transfer**

245.1. Unless otherwise provided in contract, seller shall be liable for cost related to the deliver of goods /weighing, packaging, etc/ and buyer shall be liable for costs related to transporting, delivering and receiving the goods from the place where the seller is located.

245.2. Unless otherwise provided in contract, buyer shall be liable for costs related to formulating the immovable property sale and purchase contract and required documentation, having the documentation certified by a notary and registration with the State register.

**Article 246. Seller's obligation to dispatch goods**

246.1. As provided by contract, seller transferred goods to the carrier, but did not put any recognition mark on them or any mark by other means, shall inform buyer about dispatching goods and send a comprehensive list of freight

246.2. If seller is bound to arrange for carriage of the goods, s/he is obliged to conclude such contracts as are necessary for carriage to the place of destination by means of transportation. according to the usual terms of certain transportation.

246.3. If seller is not bound to effect insurance in respect of the carriage of the goods, s/he shall be obliged, at the buyer's request to provide him/her with all available information necessary to enable him/her to effect such insurance.

#### **Article 247. Passing of benefit and risk to buyer**

247.1. Unless otherwise provided in contract, with their transfer of sold goods to buyer, benefits gained from using them, or the risk of their accidental damage or loss shall be passed to the buyer.

247.2. If seller delivered the sold goods to the place different from the one stated in contract, as requested by buyer, benefit and risk shall be passed to the buyer when goods are handed over to the carrier or an authorized person.

#### **Article 248. Goods deemed received**

248.1. Unless otherwise provided in the law, condition to receive goods shall be defined by contract.

248.2. If buyer performs certain action certifying the reception of goods, the goods shall be deemed received.

#### **Article 249. Contract parties refuse from their obligation**

249.1. If actual circumstances emerge when one of parties to the contract after concluding it, becomes unable to perform the majority of his/her obligation, the other party may refuse from his/her obligation.

249.2. If one party's obligation was performed in advance by the method to ensure the performance of obligation stated in the law, the other party shall not refuse from his/her obligation.

249.3. In case of delivery of sold goods in several installments, a party's failure to deliver the one part of goods lead practically to non-delivery of the following part the other party may refuse from his/her contract obligation after the expiration of period, stated in Items 204.2 and 219.2 of this law.

#### **Article 250. Prevailing right to possess sold goods**

250.1. If seller sold one good to several buyers, then the first buyer got the goods into own possession, or the one concluded contract first, shall have a prevailing right to get the goods into own possession if the goods has not been transferred to anyone else's possession.

#### **Article 251. Physical deficiency of sold goods**

251.1. Goods, which quantity and quality are stated in contract, shall be deemed non-deficient in terms of its physical condition.

251.2. If quality of the goods is not stated in contract, the goods which is possible to use for purpose stated in contract, shall be deemed physically non-deficient.

251.3. If it does not seriously affect performance of obligation, although some parts of it are missing or transferred goods are different from the ones stated in contract and in smaller amount, or a part of the goods has deficiency, the goods shall not be deemed completely deficient.

### **Article 252. Right deficiency of sold goods**

252.1. As for the sold goods, unless the third party has claim on the ownership right of the goods, the goods shall be deemed as goods without any right violated.

252.2. If void ownership right is registered as property, it shall be deemed defective.

### **Article 253. Right and duty of seller in terms of goods deficiency**

253.1. If a sold goods contain defects, the seller shall be obliged to eliminate the defect and replace it with the same type of goods if it is determined by characteristics of type, or replace it with other goods which is necessary for the buyer at that particular time.

253.2. According to Item 253.1 of this Law, all costs related to eliminating the defects (loading, transporting, payment for work performance, material cost and etc) shall be borne by the seller.

253.3. If the seller replaces the deficient goods with non-deficient goods, the seller shall be entitled to claim back the previous goods.

### **Article 254. Right and duty of buyer regarding goods deficiency**

254.1. The buyer shall be entitled to demand eliminating any good defect, its replacement with another same type one, or compensation for costs related to eliminating the defect, or the contract cancellation.

254.2. Unless presenting his/her official complaint stated in Item 254.1 of this Law within the warranty or refunding period, the buyer may request to reduce the original price by the amount that needs to eliminate the defect. In this case, the evaluation shall be made at price prevailed at the time of contract conclusion.

254.3. Except for cases other than stated in Item 251.3 of this Law, if seller delivered goods with less quantity than stated in the contract, buyer shall be entitled to refuse to receive the goods.

254.4. If buyer receives the goods stated in Item 254.3 of this Law, the seller shall pay back the price of missing parts in the proportion of this part in the overall contract price.

254.5. If seller delivered goods in quantity larger that stated in contract, buyer shall be entitled to accept it and pay the price of exceeded volume in proportion to the overall contract price, or send the seller back the excessive quantity at latter's cost.

254.6. If seller set warranty period for the goods, buyer shall be entitled to claim for compensation within the warranty period. If no warranty period was set, but buyer revealed the defect within six months since receiving the ownership right for the transferred goods, then s/he shall be entitled to claim for one of several claims stated Item 254.1 of this Law.

254.7. Goods warranty period shall started from the date of risk transfer to buyer. If the good's defect was identified within the warranty period, it shall be deemed that the goods had defects at the time of risk transfer to buyer.

### **Article 255. Buyer loses the right to claim**

255.1. In the following cases, buyer shall be deemed as lost the right to claim:

255.1.1. If buyer received the goods was aware or was possible to know the good's defect at the moment when s/he received it;

255.1.2. if business operating buyer fails to assume her/his obligation to immediately check the goods while receiving it; and

255.1.3. if the defect occurred due to buyer's failure to observe the procedure of transportation, storing and use, or if it occurred due to emergency or force majeure conditions.

255.2. Item 255.1 of this Law shall not be applied if seller intentionally hides the defects while transferring the goods.

### **Article 256. Contract cancellation in connection with goods deficiency**

256.1. Both seller and buyer shall be entitled to cancel the contract in connection with the goods defect. In this case, the seller shall be liable to compensate any losses incurred to buyer.

256.2. In case of selling several goods and some of them are deficient, the contract shall be canceled for the deficient part, but if this part should be used for the same purpose together with other parts or deficient part is inseparable from others or considered together as a complex set, the contract shall be canceled as a whole.

256.3. If the main part of the goods is deficient, the contract shall be entirely canceled, but if its the auxiliary parts or accessories are defected, the contract shall be partly canceled.

### **Article 257. Invalidity of transaction limiting the responsibility**

257.1. Parties may negotiate and state in the contract that no responsibility shall be borne for selling defected goods, or that responsibility shall not be limited, however, if seller intentionally hide the defects of the goods, such negotiations shall be deemed void.

### **Article 258. Obligation to store sold goods**

258.1. If buyer fails to receive the bought goods on time, seller shall be obliged to store the goods.

258.2. Seller shall be entitled to keep or detain the property until the buyer pays relevant price of the goods or reimburses any respective expenses.

258.3. In case buyer receives the goods, but wishes exercising her/his rights to return them, then s/he shall be obliged to store the goods and ensure its safety and shall be entitled to retain goods until seller pays the relevant costs related to storage.

258.4. Unless the cost is very high, the party liable to store the goods, may store the goods at the cost of the other party in the warehouse owned by a third party.

### **Article 259. Selling stored goods**

259.1. If a contract party delayed receiving the goods or fails to pay costs related to storing the goods, the party storing the goods shall be entitled to sell the goods according to the respective procedure. Thus doing, the selling party shall be obliged to notify about the sale to the other party within seven days.

259.2. From the proceeds from selling goods as provided by Item 259.1 of this Law relevant costs including selling and storing, shall be deduct from the total price of the goods, and the remaining money shall be transferred to the other party.

259.3. In the case stipulated in Article 258 of this Law, if the goods in storage is easily perishable or fast devaluating, or storing is relatively expensive, the party liable to store it, shall be entitled to sell the goods as provided by this provisions.

### **Article 260. Rights, requirements, selling and buying other properties**

260.1. If it does not conflict with the content of obligation, this provision shall be equally applied for rights, requirements, selling and buying other properties.

260.2. In case of selling any right, the seller shall be liable to bring sound grounds of the validity of right and cover costs related to transferring the right.

260.3. In case of selling a right giving an opportunity to own property, the seller shall be liable to transfer to buyer a property without any physical or ownership right defects.

### **Article 261. Eliminating harm done due to violation of contract obligation by parties**

261.1. Damages, caused to a party of sale and purchase contract due to the other party failure to fulfill the contract obligations, shall be eliminated according to common procedure for eliminating any caused damages.

## **SUB-CHAPTER TWO SALE AND PURCHASE ON CREDIT**

### **Article 262. Contract for sale and purchase on credit**

262.1. Under a contract for sale and purchase on credit, seller shall be obliged to transfer the property before the buyer pays the price of property, and buyer shall be obliged to make the payment of the price stated in contract in parts or completely after a certain period of time, or pay in parts during a certain period of time.

### **Article 263. Forms of sale and purchase contract on credit**

263.1. Contract for sale and purchase on credit shall be concluded in written form.

263.2. Following terms and conditions shall be included in the contract;

263.2.1. amount of payment due in cash;

263.2.2. amount and date of partial payment;

263.2.3. amount of interest should be paid;

263.2.4. price or regulation to set price

263.3. Seller shall be obliged to transfer to buyer copies of contract and accompanying documents.

263.4. If a contract conflicting with the procedure provide by this Article, was concluded, the contract shall be considered valid according to Item 196.1.1 of this Law. In this case, seller shall not pay interest, but the price of property. The payment shall be made within the period states in the contract.

### **Article 264. Seller refuses contract**

264.1. If buyer fails to perform his/her obligation stated under sale and purchase contract on credit or performed it improperly, seller shall be entitled to refuse the contract. The parties shall be obligated to return all properties acquired under the contract.

264.2. In the case of stated in Item 264.1 of this Law, seller shall be entitled to claim for compensation for damages caused by buyer.

## **SUB-CHAPTER THREE SALE AND PURCHASE CONTRACT WITH CONDITION TO RE- PURCHASE PROPERTY**

### **Article 265. Right of seller re-purchase the property**

265.1. If it is stated in the sale and purchase contract, seller shall be entitled to re-purchase/buy back the property sold to buyer. This right of seller shall be exercised depending on his/her will.

**Article 266. Contract price**

266.1. Unless otherwise stated in contract, seller shall be entitled to re-purchase the property at the initially sold price.

266.2. If value was added in the result of improving the property, party re-selling the property shall be entitled to demand the total price not exceeding the amount of added value.

**Article 267. Obligation of property re-seller**

267.1. Party re-selling property to the buyer, shall be obliged to transfer the property with accessories/accompanying items.

267.2. If party re-selling property caused damages to the property or lost it, replaced it with other one before seller exercises rights stated in Article 265 of this Law, the former, shall be liable for eliminating caused damages.

267.3. Party re-selling the property shall not be entitled to transfer the property to a third party for ownership before seller exercises the right stated in Article 265 of this Law. Transaction concluded by violating this regulation shall not be deemed valid.

**Article 268. Exercise of re-purchasing right**

268.1. Time period to exercise the right to re-purchase property shall be determined by mutual agreement of parties, and the duration shall not exceed five years.

**SUB- CHAPTER FOUR**

**SALE AND PURCHASE OF PROPERTY IN FUTURE /OPTION/**

**Article 269. Contract for sale and purchase property in future**

269.1. Parties may agree about selling or buying certain object before a concrete time or any particular event, or may conclude a contract to acquire certain item at the initiative of buying party.

269.2. Respective provisions of this Law about sale and purchase contract shall equally relevant to contract stated in Item 269.1 of this Law.

**SUB-CHAPTER FIVE**

**PREVAILING PURCHASE RIGHT**

**Article 270. Exercising prevailing purchase right**

270.1. In case of selling property to a third person by the seller, the latter shall be obliged to notify a person who has prevailing right purchase the property.

270.2. Seller shall set a period for buyer with prevailing right to exercise her/his right, but if the latter fails to exercise the right, seller shall be entitled to conclude sale and purchase contract with a third person.

270.3. If seller fails to perform his/her obligation stated in Item 270.1 of this Law, the buyer with prevailing right shall be entitled to demand from seller to conclude sale and purchase contract on the same condition as was proposed to the third person by seller.

**Article 271. Invalidity of seller's contract with the third person**

271.1. In case the prevailing right to purchase was not performed or the right was exercised, the transaction, concluded by seller with a third person envisaging to refuse the contract concluded with the buyer with prevailing right, shall be invalid.

**Article 272. Additional obligations of the third party**

272.1. If third person took an obligation to deliver additional services or extra obligations according to contract concluded with seller, the buyer with prevailing right shall be obliged to pay for the additional service or obligation.

272.2. If additional service or obligation are impossible to expressed in money term, the prevailing right shall not be exercised.

272.3. Transaction, concluded by the third person with the seller to take additional obligation with the purpose disqualify the prevailing right to purchase, shall be deemed void.

**Article 273. Non-transfer of the prevailing right to purchase**

273.1. Unless otherwise stated in law or contract, the prevailing right to purchase shall not be transferred to others.

**SUB-CHAPTER SIX**

**TRADING**

**Article 274. Trading contract**

274.1. Under trading contract, parties shall be are obligated to mutually transfer certain properties for ownership.

274.2. Under a trading contract, parties shall be considered sellers with regard to selling property and buyers with regard to properties buying.

274.3. Respective provisions of this Law related to sale and purchase contract shall be equally relevant to trading contracts.

274.4. Regulations on trading of state owned assets and securities shall be determined by separate laws.

**Article 275. Calculating price balance of properties for trading**

275.1. If prices of properties exchanged under a trading contract, are not equal, the price difference shall be calculated in money term.

## **CHAPTER TWENTY-THREE**

### **GIFT**

#### **Article 276. Gift contract**

276.1. Under a gift contract, with the consent a person to receive the gift, grantor shall transfer certain property to the latter's ownership without any repayment.

276.2. By transferring the property, gift contract shall be deemed concluded.

276.3. As to property which ownership right is created by concluding a contract in a form determined by law, the gift contract shall be established in the same form.

276.4. If gift promise to present with certain property is certified by notary, then obligation shall be created.

276.5. Certain property may be donated as contribution for a special purpose.

276.6. A person, who receives the contribution, shall possess, use and dispose the property of contribution according to designation, and if recipient fails perform this obligation or performs improperly, the grantor shall be entitled to demand from latter duly to possess, use and dispose of the contributed property.

#### **Article 277. Limiting grantor's right**

277.1. Grantor shall not be entitled to gift property in demand for subsistence of persons under her/his care.

#### **Article 278. Responsibility of grantor**

278.1. Grantor shall liable to eliminate damages caused to gift receiver due to the intentional hiding by grantor the defects of gifted property.

#### **Article 279. Gift contract concluded for special purposes**

279.1. Parties may agree that gift contract becomes effective upon creating certain conditions or reaching certain goals.

279.2. Conditions and goals stated in Item 279.1 of this Law may be devoted to others' or common benefits. In this case, the grantor or interested person shall be entitled to demand to create conditions and the achieve goals.

279.3 If party entitled to receive the gift fails to create conditions or achieve goals, grantor may refuse the contract.

279.4 Gift contract for special purpose shall be concluded in written form.

#### **Article 280. Revocation of gift contract**

280.1. In the following cases, grantor and his/her heir shall be entitled to demand to revoke the gift from the receiver:

280.1.1. if person, received the gift, performed serious misconduct offending the grantor;

280.1.2. if person, received the gift, intentionally damaged the health or life of the grantor or his/her relatives or intended to do so;

280.2. If the gift contract was revoked, the gift items shall be returned to the grantor or his/her heir.

280.3. If a year passed since emerging the right to demand revoking the gift, the gift shall not be revoked.

## **CHAPTER TWENTY-FOUR**

### **LOAN**

#### **Article 281. Loan contract**

281.1. Under a loan contract lender shall be obliged to transfer to the ownership of borrower money or other property that shall be determined by characteristics of type, and a borrower shall be obliged to return the property of the same type, amount, quality, and quantity or money that was received by him/her within negotiated time.

#### **Article 282. Interest of loan contract**

282.1. Under loan contract, parties may negotiate and determine the interest.

282.2. If interest rate was set in the amount obviously damaging the right and legitimate interests of borrower, then Court may reduce the interest rate at the request borrower.

282.3. If interest rate is set, loan contract shall be concluded in written form. If this requirement is not satisfied, right to receive interest shall be lost.

282.4 Loan contract shall be deemed concluded by transferring money or other property to the borrower.

#### **Article 283. Loan contract term**

283.1. If the time of loan repayment is not fixed by the contract, borrowers shall be obliged to repay the loan on lender's request within one month from the time of request.

283.2. If interest rate was not fixed by the contract, the borrower may repay the loan before expiration date specified in the contract.

283.3. If interest rate was fixed in the contract, borrowers may repay the loan with interest rates only if the interest rate was fixed by contract with the lender's consent.

283.4. Unless otherwise provided by contract, the interest rate must be paid each year.

#### **Article 284. Demand on immediate loan repayment**

284.1. If financial situation of the lender deteriorates and the borrower failed to perform obligations, lender is entitled to demand immediate repayment of the loan.

284.2. If circumstances stated in Item 284.1 of this law existed before conclusion of the contract, but the lender becomes aware of it after concluding the contract, he or she shall be entitled to demand immediate return of the loan.

#### **Article 285. Refusal to issue a loan**

285.1. If certain circumstances arise under which a borrower may fail to repay a loan due to deterioration of assets' condition, the lender shall be entitled to refuse to issue promised loan.

#### **Article 286. Issuing loan with pledge**

286.1. In order to ensure the fulfillment of loan contract obligations, lender shall be entitled to require immovable property pledge.

286.2. Interest rate on a pledged loan shall be determined by parties.

286.3. In case borrower fails to repay the loan and interest on time, lender shall immediately notify borrower in writing of intention to sell pledged property to ensure obligation fulfillment. If the borrower fails to perform its obligations within 10 days from the date of notification, pledged property may be sold on a commission basis or auction sale, and proceeds shall be used to perform obligations, and remaining money shall be returned.

286.4. Lender is obliged to ensure full safety of pledged property but it shall not have the ownership or disposal rights.

286.5. Contract for a loan with pledge issued by a lender shall be concluded in writing. A contract not complying with this requirement shall be deemed void.

286.6. Items 157.1.3, 157.2.1, 157.2.2, 157.3, 159.2, 159.5 of this law shall apply to loans issued by lender under pledge.

**SUB- PART 2**  
**CONTRACTUAL LIABILITY IN RESPECT OF THE PROPERTY**  
**TRANSFER INTO THE POSSESSION AND USE OF OTHER PERSON**

**CHAPTER TWENTY FIVE**  
**LEASE OF PROPERTY**

**SUB-CHAPTER ONE**  
**COMMON PROVISIONS**

**Article 287. Contract for lease of property**

287.1 Under contract for lease of property, a lessor undertakes to transfer property for temporary use of a lessee, and the lessee undertakes to pay rental fees for use of that property.

**Article 288. Rights and obligations of lessor**

288.1. A lessor shall have the following obligations:

288.1.1 Lessor shall transfer property in conformity with the contract terms;

288.1.2 If provided by law or contract, lessor shall reimburse necessary expenses related to leased assets;

288.1.3 Unless otherwise provided by contract, lessor must repair leased assets;

288.1.4 Lessor shall perform other obligations stated in law or contract;

288.2. Lessor shall have the following rights:

288.2.1. Lessor shall have the right to keep improvements made to leased assets and that can be separated;

288.2.2. Lessor shall have the right to claim for damage caused by the failure of lessee to implements duties specified by Item 289.1.3, 289.1.4;

288.2.3. If lessee allows assets to deteriorate, break or created conditions leading to deterioration and breakage or does not pay rental fees for three months despite repeated warnings, lessor may terminate contract and claim for losses caused;

288.2.4. Unless otherwise provided by contract, lessor may refuse to pay costs of improvements to assets made without permission and that can not be separated;

288.2.5. Lessor shall have other rights provided by law or contract;

**Article 289. Rights and obligations of lessee**

289.1. A lessee shall have the following obligations:

289.1.1 to use leased assets in accordance with terms of contract;

289.1.2 to pay regularly rental fees for use of properties;

289.1.3 not to repair or alter leased properties structure or design without consent of lessor;

289.1.4 not to allow assets to deteriorate to more than normal depreciation as reflected by law or contract;

289.1.5 to return assets to lessor upon expiry of contract in complete;

289.1.6 to inform lessor promptly if discovering a defect in properties or circumstances require immediate action in order to protect assets;

## 289.2. Rights of lessee

289.2.1 Lessee shall have right not to pay rental fees if it is impossible to use leased properties without his or her fault;

289.2.2 Lessee has right to claim from lessor rented properties maintenance costs;

289.2.3. Lessee may terminate contract for lease of assets any time regardless of term stated in Item 294.3 if leased assets may cause harm to health and life of others;

289.2.4. Lessee may cancel contract before contract expiry if finds a person, financially capable and willing to lease properties for remaining contract period, and notifies lessor not less than one month before contract cancellation;

289.2.5. Unless otherwise agreed by parties, lessee can demand compensation for repair and improvements made with consent of lessor upon expiry of contract;

289.2.6. Lessee may separate any improvements made from leased assets upon expiry of contract;

289.2.7. Lessee may transfer and sublease assets to third parties with consent of lessor;

289.2.8. Lessee shall have other rights provided by law or contract.

289.3. In case specified in Item 289.2.7, lessor shall have no right to refuse without good grounds.

289.4. Item 289.2.3 shall apply even if lessee was aware of dangers before concluding a contract for lease of property and does not present any complaint.

289.5. If property had hidden defects which become known during or after contract conclusion for assets leasing and lessor refuses to repair defects or procrastinates, lessee may demand to reduce rental fee or claim for damages caused.

289.6. According to Item 289.2.7 duration of contract for sub-lease shall not exceed duration of original assets leasing contract.

289.7. Lessee which properly performs obligations under contract for lease of property shall have a priority right to conclude new rental contract upon expiry of previous contract. If leasing contract is concluded with another party in breach of this provision, former lessee may demand from lessor to transfer rights and obligations of a new lessee.

## **Article 290. Property deficiency**

290.1. Assets with quality, amount and size complying with contract terms shall be considered as physically non-deficient.

290.2. If condition of assets is not specified in contract, assets that can be used for purposes stipulated in contract shall be considered as non-deficient.

290.3. If third parties have no rights to make any claim as to leased property, such property shall be considered as legally non-deficient.

290.4. Lessor shall be liable for any consequences arising from limitation of leased property by third party rights.

290.5. Rental fee shall be reduced correspondingly to decrease in use of leased property due to its inadequate condition.

290.6. Item 290.5 shall not apply if lessor repaired property or defects are not significant to restrict proper use of property.

290.7. If lessor does not perform obligations to repair property, lessee may carry out necessary repairs and require reimbursement of repair costs.

290.8. If lessee knew of defects at time of contract conclusion, it shall not be entitled to raise a claim unless otherwise provided by law.

### **Article 291. Grounds for exempting lessee from liability**

291.1. Lessee shall not be liable for deterioration of leased property quality if used according to contract terms and purpose;

### **Article 292. Rental fee payment methods**

292.1. Unless otherwise provided by law or contract, lessee shall pay rental fees for leased property upon completion of contract

292.2. Lessee shall be obliged to pay rental fees in instalments according to agreed schedule.

292.3. If agreed by parties, additional expenses shall be paid.

292.4. Lessee shall not be exempt to pay fees if properties were not used properly due to lessee's fault

292.5. Lessee shall have right to raise a claim related to rented properties and demand its satisfaction or consideration and any terms of contract limiting such rights shall not be valid.

### **Article 293. Duration of contract**

293.1. A contract for lease of property shall be concluded for definite or indefinite periods of time.

293.2. If a contract for lease of property is concluded for more than 10 years, after its expiry any of parties may terminate contract within time stated in Item 294.3

### **Article 294. Termination of leasing contract**

294.1. A contract for lease of property shall be terminated on the following grounds:

294.1.1. expiry of contract

294.1.2. if leasing contract is concluded for indefinite period and period specified in contract or law passes after notification on contract cancellation by any party;

294.1.3. contract is cancelled according to terms stated in contract;

294.2. Parties may cancel contract according to the following good reasons:

294.2.1. if obligations under leasing contract are not performed or performed improperly by one party, other party may cancel contract;

294.2.2. if lessor or close relatives need leased apartment;

294.2.3. if lessee refuses to pay market based rental fee proposed by lessor;

294.2.4. other grounds specified by law

294.3. Unless otherwise provided by contract, and no circumstances for cancellation arise, either party may cancel contract anytime but must give three months advance notice to other party. Such a period shall be counted since day of notification.

294.4. If contract is concluded for lease of furnished apartment, lessor shall comply with Item 294.3. when canceling contract.

294.5. Item 294.4 shall not apply to hotels and hostels.

294.6. Lessor shall request cancellation of contract for apartment leasing in writing.

#### **Article 295. Consequences of leasing contract termination**

295.1. Lessee shall return properties to lessor upon termination of contract with allowance for natural wear out and depreciation or as agreed in contract.

295.2. Lessee of land shall not retain it upon termination of contract in order to satisfy any claim.

295.3. If lessee transfers assets for a use to a third party without consent and knowledge of lessor, latter may require leased property from third party upon termination of contract

295.4. If lessee extends time of returning leased property upon termination of contract, lessor may claim for losses in form of rental fees for overdue period of time.

#### **Article 296. Extension or continuation of contract for lease of property**

296.1. If lessor does not object to a further lease of property by lessee upon contract expiration, it shall be deemed extended for indefinite period on same terms and conditions.

296.2. If contract is concluded for definite period, lessee may request in writing its extension for definite or indefinite period no less than two months prior to contract termination and lessor may extend contract except grounds specified by Item 294.2.

#### **Article 297. Consequences of ownership rights transfer**

297.1. If lessor transfers ownership of leased assets to a third party, all rights and obligations of lessors shall be passed on to new owner.

### **Article 298. Limitation period**

298.1. Within six months from contract termination lessor shall have right to raise a claim for damage caused by improper use, deterioration of leased property, and lessee may demand reimbursement of expenses related to maintenance of properties in proper condition.

298.2. Limitation period shall be counted according to provisions of Article 76.

### **Article 299. Rights of lessee to protect assets**

299.1. Lessee has right to protect leased properties by legal means from infringement by the owner or others.

### **Article 300. Void contract for lease of property**

300.1. Following contracts and agreements for lease of property shall be considered void:

300.1.1. Exemption of the lessor from or the reduction of liability in case he or she knew about defected property but deliberately did not inform the lessee about them;

300.1.2. limitation or .... of the right to cancel contract;

300.1.3. if lessee is obligated to reimburse higher price than the actual damage;

300.1.4. other cases specified in law;

### **Article 301. Lessor right to retain**

301.1. Lessor of a land, building or apartment has the right to retain properties of the lessee located on his or her land, building or apartment in order to fulfill contract.

301.2. If properties pledged by the lessor are returned back to lessee for normal use or to ensure normal living conditions, lessor's pledging right shall be expired.

## **SUB- PART TWO**

### **LEASE OF APARTMENT**

#### **Article 302. Contracts for apartment leasing**

302.1. Under contract for apartment leasing, lessor shall undertake to transfer residential houses, apartment buildings and apartments to possession and use by lessee, and lessee shall undertake to pay rental fee for its use on time.

302.2. Unless provided otherwise by law or contract, lessees who live in one apartment shall have equal rights to use its common areas (kitchen, bathroom, entrances, stairways, etc) that cannot be leased separately.

302.3. If lessor undertakes measures to improve apartment buildings, apartments or residential houses, he or she must inform lessee of impending works, and lessee is obliged not to hamper this works.

302.4. Related provisions of law shall equally apply to contract for apartment leasing.

### **Article 303. Prevailing right of lessee**

303.1. Lessee who properly performed obligations for last three years, has the prevailing right to conclude a new leasing contract or purchase the property.

### **Article 304. Refusal of lessee from contract**

304.1. Irrespective of time specified in Item 294.3, lessee may cancel the contract if it becomes disadvantageous to him or her as a result of not transferring all or parts of apartment on time or lessee loses later rights to use the apartment.

### **Article 305. Sublease of apartments**

305.1. Lessee may sub-lease all or parts of the leased apartment to a third party with the consent of the lessor.

305.2. In case described in Item 305.1, the lessor has no right to refuse without good reason.

305.3. The following grounds shall be considered as good reasons:

305.3.1. if lessor has serious grounds to refuse or it depends on a personal situation of a sub-lessee;

305.3.2. leased area becomes overburdened;

305.3.3. other grounds stated by law or contract

305.4. Parties shall determine the duration of contract for sublease, but it may not exceed the remaining period of the original contract for apartment leasing.

305.5. Contract for sublease may be concluded for indefinite period of time. In this case, parties may cancel the contract anytime, but they are obliged to comply with the period of time referred in Item 294.3 of this law.

305.6. If apartment is subleased, the rights and obligations of sublessor shall be transferred upon termination of the contract to the lessor.

### **Article 306. Rights of lessee family members**

306.1. Spouses, children, parents who live permanently with the lessee shall be considered as family members

306.2. Relatives other than specified in Item 306.1 and/or disabled persons under the lessee's care who are living permanently with him or her for no less than one year in one household, may be considered to be family members.

306.3. Any dispute in respect of family members shall be decided by the Court.

306.4. A family member living permanently with lessee shall have all rights and obligations of lessee provided by law or contract of apartment leasing.

306.5. Upon request by lessee or family members, a contract of apartment leasing may be concluded with any of family members.

306.6. If an adult family member leaves the family, any disputes arising in respect of possession and use of the apartment shall be decided by the Court irrespective of whom contract for apartment leasing was concluded with.

306.7. In case of lessee death, the rights and obligations shall be transferred to family members who live permanently with lessee and they have the right to cancel contract within time specified in Item 294.3

306.8. If disputes arise in respect of possession and use of the apartment between divorced spouses, the Court shall resolve these disputes. If the Court decides to give apartment to a spouse who was not a lessee, this spouse shall be considered the lessee.

### **Article 307. Lodgers**

307.1. Lessee may permit a lodger to live in the leased apartment without contract and free of charge. The lodger must vacate apartment on lessee's request.

### **Article 308. Transfer of apartment ownership**

308.1. If right of ownership of the leased apartment is transferred to another person, the contract for apartment leasing shall remain in force.

### **Article 309. Termination of contract due to demolition**

309.1. The contract for apartment leasing shall be terminated if relevant authorities decide to demolish the apartment building.

309.2. If contract is terminated under Item 309.1 of this article, the lessee shall be given another apartment and, if impossible, expenses borne by the lessee shall be reimbursed by the authorities.

309.3. If the leased apartment is demolished as a result of not complying with maintenance requirements, provisions of this article shall not apply.

### **Article 310. Contract for apartment leasing between employer and employee**

310.1. If an employer concludes contract for apartment leasing under its possession with an employee for indefinite period of time and the contract for works between parties is terminated, the employer is entitled to terminate the contract for apartment leasing.

310.2. If the employer concludes a contract for apartment leasing with the employee for definite period of time and the contract for works expires before leasing contract, Items 294.2, 294.3 of this law shall equally apply in respect of the termination of contract for apartment leasing.

### **Article 311. Official apartment**

311.1. Apartments transferred for temporary use to certain persons due to the rights and privileges related to their official status according to the law, shall be considered official.

311.2. If persons referred in Item 311.1 of this law possess certain rights and privileges related to their official status, and these rights and privileges are terminated, the relevant authorities shall recover official apartment.

311.3. Unless otherwise provided by law, regulation of contracts for lease of property shall equally apply to possession of official apartments.

## **CHAPTER TWENTY SIX FINANCIAL LEASING**

### **Article 312. Contracts for financial leasing**

312.1. Under the contract for financial leasing, the lessor shall undertake to transfer assets to the use of a lessee within a period specified in the contract, and the lessee shall undertake to pay the fees for its use on a regular basis.

312.2. The lessor shall be obligated to produce itself or through a third party, or purchase an object of contract upon request from the lessee.

312.3. Parties may include in the contract for financial leasing that the lessee shall purchase or continue to lease the objects of the contract after the contract expiration.

312.4. If the lessee compensates depreciation and cost of contract object upon the contract expiration, he/she may have the right and obligation to purchase or lease contract object.

### **Article 313. Forms and terms of contracts**

313.1. Contracts for financial leasing shall be concluded in written.

313.2. The contract shall contain total price, rental fees, methods of payment, duration of contract, rules governing the payment procedures in case of early termination of contract.

313.3. If provisions of this article are breached, the contract for financial leasing shall be void.

### **Article 314. Obligations of lessor**

314.1. Lessor shall be held liable as specified in the violation of provisions of this property lease contract for the failure to transfer contract object or for a late transfer, or if transferred assets do not conform to contract terms.

314.2. If provided by the contract, prior to filing a complaint against the lessor, lessee may claim for damages caused by the seller or carrier of contract object.

### **Article 315. Consideration of lessor's claim amount**

315.1. If the financial leasing contract is terminated due to the lessee's fault, depreciation, unpaid fees and other expenses saved shall be taken into account when determining lessor's claim.

### **Article 316. Rights and obligations of third parties**

316.1. If provided by contract, a third party may produce or supply contract object upon request of lessor and require reasonable award or reimbursement of expenses from the lessor.

316.2. If provided by contract, the third party is obligated to give accurate information to the lessee on repair, adjustment, installation, use of the contract object.

### **Article 317. Other provisions on financial leasing contract**

317.1. Unless provided otherwise in this chapter, provisions concerning governing contracts for property leasing specified in this law shall equally apply to financial leasing contracts.

## **CHAPTER TWENTY SEVEN LEASING CONTRACT**

### **Article 318. Leasing contract**

318.1. Under leasing contract, a lessor shall undertake to transfer to a lessee's possession and use named assets in order to conduct economic activities or accomplishment of the purposes stated in its charter, and the lessee shall undertake to pay fees according to the contract.

318.2. Lessee shall have the right to possess revenue and profits derived from the leased assets within the period and in accordance with the contract duration.

318.3. Leasing contract shall be concluded in writing and leased immovable property shall be registered at real estate registration agency.

318.4. A contract which does not comply with requirements of article 318.3 of this law shall be deemed void.

318.5. Unless otherwise provided in this article, regulations of contracts for property lease shall equally apply to leasing contracts.

### **Article 319. Rental fee**

319.1. Payment of rental fee can be made in cash or in other agreed form.

319.2. If the quality of leased assets deteriorates due to unexpected circumstances or force majeure, parties may change the lease fees by mutual agreement.

### **Article 320. Duration of lease contract**

320.1. Duration of a lease contract shall be determined by the parties.

320.2. If a lease contract is concluded for more than 10 years, it may be terminated after 10 years according to the provisions of the law and upon the initiative of any one party.

320.3. If a lease contract on land or right to lease land is concluded for indefinite period, this contract may be terminated after one year or within one month at the end of a one year lease period.

320.4. If parties terminate the lease contract before its expiration, they shall comply with article 320.3 of this law.

### **Article 321. Lease of land with assets**

321.1. Lessee of land with its assets has an obligation to protect the land and each asset from damage and deterioration.

321.2. If the property or assets are damaged or destroyed due to reasons beyond the lessee's control, the lessor is obligated to replace them.

321.3. If the lessee agrees by a contract and make separate appraisal of assets on leased land and to return them upon the termination of contract, he or she shall be liable for any damages or destructions caused to the assets by unexpected circumstances or force majeure.

321.4. If it is provided by the contract, the lessee may use some parts of the assets for economic activities.

321.5. The lessee shall be responsible for keeping the assets according to the requirements of using land assets for economic purposes.

321.6. After the completion of a lease contract of land, the property and improvements on assets that are impossible to separate shall be transferred to the ownership of the lessor

321.7. Upon the termination of a lease contract, lessee shall be obligated to return leased land assets to the lessor.

321.8. If the price of the assets at the moment of transfer from lessor to lessee differs from its price when returning them, the lessee shall compensate the lessor of the difference. Price of the assets shall be determined according to ongoing market rates at the termination of leasing contract.

321.9. The lessor may refuse to accept or pay for an asset which has no importance for economic activities or is too expensive.

321.10. In order to satisfy claims concerning leased land assets, the lessee may pledge the assets. If the lessor satisfies claims in other forms, the lessee may relinquish its pledge right. If certain parts of the claim are satisfied in monetary form, the lessee may release some parts of the pledged assets.

### **Article 322. Leasing of factories, businesses**

322.1. Factories and businesses may be leased with its assets.

322.2. If livestock and domestic animals that are part of the assets, die or are injured, the lessee shall compensate damage to the lessor irrespective of proper business conduct.

322.3. The provisions of article 321 of this law shall equally be applied to lease of factories and businesses.

**Article 323. Sublease**

323.1. Unless otherwise provided by the contract, the lessee may sub-lease the rented assets only with the lessor's consent.

323.2. If a sub-lessee does not use rented assets in accordance with terms agreed with the principal lessor, he or she shall be liable for any consequences arising from misuse, to principal lessor. In this case, principal lessor may demand to revoke the rights of sub-lessee.

**Article 324. Substitution of lessee**

324.1 If the lessee returns rented assets to the lessor before the contract expiration, he or she shall not be exempted from rental fees.

324.2 If the lessee proposes a new legal person who agrees with terms of contract and is capable of paying the rental fees to the consent of the lessor, the lessee shall be exempt from obligations under article 324.1 of this law.

**325 Continuation of leasing contract after lessee death**

325.1. If a lessee dies, his successor may terminate the contract within six months from the end of the respective quarter.

325.2. If the lessee's successor considers it possible to continue to use rented assets him/herself or through a third party for economic activities, he or she may refuse to terminate and request the lessor to extend contract.

**Article 326. Obligations of lessee**

326.1. Upon termination of a lease contract, the lessee shall return leased assets allowing for normal depreciation or as agreed in contract.

326.2. The lessor may raise claim for damages caused and demand payment of rental fee for overdue period of time.

**CHAPTER TWENTY EIGHT**

**LEASE OF LAND FOR AGRICULTURAL PURPOSES**

**Article 327. Contracts for lease of agricultural land**

327.1. Land for agricultural purposes may be leased with or without residential or business facilities.

327.2. Unless provided otherwise in this article, regulations of lease contracts shall equally apply to lease of agricultural land.

**Article 328. Property transfer according to contract**

328.1. A lessor shall be responsible to transfer to a lessee land with assets to be used for purposes specified in contract.

328.2. Unless otherwise provided by the contract, lessee shall be responsible for the maintenance of the property and repair assets under lease

such as residential and commercial buildings, roads, fences and walls and use that property for economic activities.

328.3. Upon conclusion and termination of lease contract, parties shall jointly make a list of property to be transferred under lease contract reflecting amount, size, price, quality of assets at time of transfer and confirming it by signatures of parties.

#### **Article 329. Pledging rights of lessors**

329.1. In order to satisfy own demands under lease contract, the lessor may pledge revenues and profits derived from leased assets.

#### **Article 330. Extension of contract**

330.1. Lease contract of agricultural land for more than two years shall be concluded in writing, and contracts not complying with this term shall be considered as being concluded for indefinite period and these contracts shall be terminated after one year from the date they come into effect.

330.2. If any party proposes to extend a contract concluded for more than three years, and the other party does not reject it within three months upon the receipt of proposal, the contract shall be considered extended for indefinite period.

330.3. A proposal or refusal to extend contract shall be made in writing.

#### **Article 331. Obligation on necessitated expenses**

331.1. A lessor shall be obligated to compensate a lessee necessitated expenses.

331.2. If the lessor agrees to compensate expenses other than stated in Article 331.1, he or she shall make the payment upon the termination of lease contract.

#### **Article 332. Rights and obligations of parties upon contract termination**

332.1 If a harvest resulting from the lessee business operation is not collected before the contract expiration, the lessee may request to the lessor to extend the lease contract, or lessor is obligated to compensate to lessee the cost of the harvest.

332.2. When agricultural land lease expires, the lessee is obligated to return leased land, buildings and equipment in normal condition, complying with the requirements of regular business activities, with allowing for natural wear out and depreciation or as agreed in the contract.

332.3. If the lessee returns leased assets in better condition than it was at time of lease, he or she may request compensation from the lessor.

332.4. The lessee may separate improvements made to the leased assets or the lessor may purchase those improvements for proper price upon the termination of lease contract.

## **CHAPTER TWENTY NINE FRANCHISING**

### **Article 333. Franchising contract**

333.1 Under franchising contract a franchisor shall undertake to transfer a license, obtained according to established procedures and allow the use of non-material property, to a franchisee, and the latter shall undertake to conduct activities in accordance with structures and cooperative program agreed with franchisor, as well as to pay proper fees or a certain part of revenues. Non-material property shall include a name of a company, trademark, product design, packaging, planning, management and communication, main guidelines on goods and services procurement.

### **Article 334. Obligations of parties**

334.1 A franchisor shall have the following obligations:

- 334.1.1. to protect a cooperation program from involvement of third parties;
- 334.1.2. to regularly update program;
- 334.1.3. to supply necessary information to the franchisee;
- 334.1.4. to provide technical assistance to the franchisee;
- 334.1.5. to offer training for franchisee's employees;

334.2 A franchisee shall have the following obligations:

- 334.2.1. to use rights and property received under contract productively and in accordance with purpose;
- 334.2.2. to pay fees and certain parts of revenue on time;
- 334.2.3. to insure transferred rights and property in favor of franchisor if provided by the contract;
- 334.2.4. not to transfer license and franchising to third party without franchisor's consent;
- 334.2.5. to involve own employees to training programs offered by the franchisor and bear respective expenses;
- 334.2.6. to inform clients and customers that the franchisor trade name is being used under a license;

334.3. Parties shall exchange all necessary information if a contract is concluded and maintain the confidentiality of received information if a contract is not concluded.

### **Article 335. Forms of franchising contract**

335.1. Franchising contract shall be made in writing.

335.2. Franchising contract shall contain such basic terms as the contract duration, procedures of termination and extension of the contract, obligations of parties, other necessary main conditions and the program for franchise implementation.

### **Article 336. Duration of franchising contract**

336.1. Parties shall determine duration of franchising contract depending on the demand for particular product or service and market share.

336.2. If franchising contract was concluded for more than 10 years, and the duration of contract is not fixed, either party may terminate the contract after 10 years within one year since notifying the other party on termination.

336.3. If the contract term expires, parties, guided by principles of mutual trust and business cooperation, may extend the contract for definite or indefinite period on same or renewed terms at initiative of either party until their business relationship comes to end.

#### **Article 337. Limiting competition**

337.1. Upon the expiration of the franchising contract, the franchisor shall have the right to prohibit the franchisee's successor to compete in a specific territory for up to one year.

337.2. If this prohibition stated in article 337.1 of this law causes serious damage to the main business of the franchisee, the franchisor shall award a reasonable compensation to franchisee.

#### **Article 338. Mutual liabilities of parties**

338.1. Parties shall be liable for implementation of contractual obligations and accuracy of information provided.

338.2. Franchisee shall be obligated to compensate damage and expenses caused to the franchisor in relation to obligations under franchising contract

338.3. Franchisor shall not be obliged to issue any guarantee as to possible revenues the franchisee may earn under franchising contract.

338.4. Franchisor shall not be liable for any damage caused to clients as a result of a conduct by franchisee.

### **CHAPTER THIRTY GRATUITOUS USE OF ASSETS**

#### **Article 339. Contracts for gratuitous use of assets**

339.1. Under contract for gratuitous use of assets property one party shall undertake to transfer to the other party's disposal specific assets for gratuitous use, and the other party shall undertake to use assets in accordance with its purposes and return them upon termination of contract in normal condition.

339.2. The provisions of articles 289.1.3, 289.1.6, 289.2.6, 293, 295.3, 296, 297, 298 of this law related to contracts for property lease shall also apply to contracts for gratuitous use of assets.

#### **Article 340. Obligations of grantee**

340.1. Grantees of gratuitous use of property shall have the following obligations:

340.1.1. to use assets in conformity with the contract terms and prevent their deterioration other than regular wear out;

340.1.2. not to transfer assets for use and possession to a third party without the consent of the grantor;

340.1.3. to pay any inevitable expenses necessary to maintain assets in normal condition;

340.1.4. to return assets in normal condition upon the expiration of the contract.

#### **Article 341. Termination of contract for gratuitous use**

341.1. A grantor of assets, transferred for gratuitous use may terminate contract in the following cases:

341.1.1. if assets are agreed to be used for specific purpose and for indefinite period, and the specified period of time expires; or at any time if the purpose was not determined;

341.1.2. if the grantor needs the assets for own use;

341.1.3. if the grantee of assets for gratuitous use fails to perform its obligations provided in Articles 340.1.1.-340.1.3 or performs improperly;

341.1.4. if the grantee passes away;

341.2. The grantee of assets for gratuitous use may return the assets anytime.

#### **Article 342. Liabilities of parties**

342.1. The grantor of assets for gratuitous use who intentionally did not inform the other party of any defects in body or in legal status of assets, shall be obligated to compensate any damage caused to the user of the assets.

342.2. The grantee of assets for gratuitous use shall be liable for any damages incurred to assets as a result of his or her improper action.

342.3. The grantee of assets for gratuitous use shall be liable for any damage caused to the other party as a result of a damage, loss, alteration or deterioration of assets to a greater extent than natural wear out.

342.4. If the grantee of assets for gratuitous use transfers assets to a third party with the consent of the grantor, he or she shall not be exempt from any liabilities before the grantor.

**SUB- PART 3.**  
**OBLIGATIONS RELATED TO PERFORMANCE**  
**OF WORKS AND RENDERING ASSISTANCE**

**CHAPTER THIRTY ONE**  
**CONTRACTED WORK**

**Article 343. Contract for works**

343.1. Under the contract for works, a contractor shall undertake to carry out a particular work stipulated in the contract using own or provided by employer materials, and an employer shall undertake to accept the result of the work and pay agreed remuneration.

343.2. An object of the contract for works shall be the results of execution of works.

343.3. Any tangible result of contractor's work shall be transferred to the other party's ownership.

343.4. If the contractor produces goods which can be specified by type and form and transfers it into ownership of the employer, procedures regulating contracts for sale and purchase shall apply.

343.5. Depending on the nature of certain kind of works other laws may apply to the contract for works.

**Article 344. Work remuneration**

344.1. Unless provided otherwise by law, remuneration for work execution, methods, procedures and time for payment shall be agreed by parties.

344.2. If remuneration for work execution is not specified, the employer shall make payment depending on the nature of executed work and reasons and based on tariffs for particular work confirmed by entitled authorities. In case no such list of tariffs is available, the employer shall base the award on the ongoing average market rate.

**Article 345. Budget for work execution**

345.1. Contractor may fix a budget for execution of works stipulated in the contract.

345.2. If the planned budget for execution of works tends to go over the proposed budget due to unforeseen factors, contractor shall immediately inform the employer.

345.3. If the employer decides to terminate the contract due to the exceeding budget, he or she shall be obligated to pay the remuneration due for performed work according to the planned budget.

345.4. If the contractor included unreasonably high value in costs when fixing the budget, the employer may refuse to pay remuneration for the executed work.

#### **Article 346. Remuneration duration**

346.1 Unless otherwise agreed by parties, the payment shall be made upon the completion of work and acceptance of work results.

346.2 If parties agree to execute work in stages or parts and set a premium for each part or stage separately, payments shall be made upon the completion and acceptance of work results of each stage.

#### **Article 347. Head contractor and subcontractor**

347.1. Contractors may engage other legal persons (subcontractors) for execution of work stipulated in the contract. In this case, the contractor shall act as a head contractor in relation to the employer, and as an employer in relation to the subcontractor.

347.2 Unless otherwise provided by law or contract, the contractor shall be liable to employer for subcontractors work result.

#### **Article 348. Duration of work contract**

348.1. Unless otherwise provided by the law, parties shall determine the duration of the contract for work, and they may set a work schedule depending on the nature of the work involved.

348.2. Unless otherwise provided by the law, parties may agree on mutual liabilities arising from a disruption of work schedule, but not exceeding the liability arising from a breach of main contract term.

#### **Article 349. Period for raising a claim**

349.1. If a contractor breaches contract terms or executes work with defects, the employer may raise a claim within six months from the date of accepting work, and, if defects are not possible to detect at the time of work acceptance, the employer may raise a claim within one year from accepting the work, unless otherwise provided by law or contract. Employer may make a claim within three years from accepting the work for such defects of a construction work.

349.2. If the law or contract provides a warranty period during which a claim can be raised on any detected work defect, the period for presenting claims shall be counted from the date of discovering the defect.

349.3. Liability period shall be counted from the date on which time limit for presentation of claims referred to in this article expires.

#### **Article 350. Obligations of a contractor**

350.1. Contractor shall undertake the following obligations:

350.1.1. to execute work stipulated in the contract on time;

350.1.2. to personally execute work to be carried out in person due to the nature of work or the personal nature of a contractor;

350.1.3. to immediately inform the employer in following cases:

a) if employer's materials supplied for works and instructions on work methods tend to negatively affect the quality and results of work;

b) if conditions arise beyond the control of the contractor that may negatively affect the quality and results of work;

350.1.4. to take all necessary measures to ensure proper condition of materials supplied by employer;

350.1.5. to economically use the materials supplied by the employer and according to the purpose, to report to the employer on disposal of materials, to transfer to the employer the remaining materials after the completion of work;

350.1.6. to transfer results of work without any defects to the employer;

350.1.7. to be liable for all expenses, cost of materials, road fees, transportation and other expenses necessary to remedy any defects in work results;

350.1.8. to use materials of proper quality if obligated to execute work with own materials;

### **Article 351. Obligations of employer**

351.1. An employer shall undertake the following obligations:

351.1.1. to pay remuneration according to set procedures on the dates stipulated by the contract or after accepting the work;

351.1.2 to accept the work results within the time stipulated in the contract;

351.1.3 to provide the contractor with materials, tools, equipment and working space necessary to do the work if provided by the contract;

351.1.4 to take all measures to replace, upon request of the contractor, materials that do not meet requirements or are of poor quality, to amend improper instructions, to remove obstacles that negatively affect work quality and results;

351.2. Work result shall be deemed accepted if an employer fails to accept it on time.

### **Article 352. Demands of parties under work contact**

352.1. Claims for damage caused by failure or improper performance of obligations by any parties shall be regulated by the general rules provided in this law.

352.2. Employer shall have the right to issue the following demands:

352.2.1. to remedy any work defect or do the work again at contractor's initiative and expense if the result of work has defects;

352.2.2. if the contractor does not remedy defects within specified time, the employer may remedy those defects and claim a compensation;

352.2.3. to reduce the remuneration correspondingly to for the work result value decrease due to defects;

352.3. If contractor refuses to conclude contract due to relatively high cost of liquidating defects, the employer's rights referred to in article 352.2.2 shall be revoked.

352.4. If an employer was aware of any defects at time of handing over work results, he or she shall lose the right to raise a claim provided in article 352.2 of this law.

352.5. Contractor shall have the right to issue the following demands:

352.5.1. to claim compensation for damage caused by non-acceptance of executed work or non-performance of obligations by employer specified in Article 351.1 of this law or latter's failure to do necessary actions;

352.5.2. to take back the work results handed over to the employer earlier, if the work is executed again to remedy defects and new results of work are produced;

352.5.3. to demand remuneration in case employer's failure to accept the work results on time and they are destroyed or damaged as a result of force majeure or unexpected disaster or it was impossible to accomplish the work in time due to the employer's fault.

### **Article 353. Defects in work result**

353.1. If a third party does not have any rights to raise any claim to an employer regarding the result of work, those work results shall be deemed as legally defect less.

353.2. If the number, size and quality conform with the contract, work results shall be deemed as physically defect less.

353.3. If the contract does not specify the number, size and quality, results of work that may be used in accordance with the contract shall be considered as physically defect less

### **Article 354. Contractor's pledge right**

354.1. Contractor may pledge the movable property in his or her possession which is a result of the work ordered by the employer in order to satisfy his or her claims.

354.2. If objects of contract are buildings or specific part of a building, contractor shall be entitled to mortgage land for buildings in order to satisfy his or her claims.

### **Article 355. Termination of contract**

355.1. If anyone of the parties seriously breach the contract, other party may terminate the contract according to grounds and procedures provided in articles 225, 226 of this law and claim for compensation of damages caused.

355.2. Employer may terminate the contract anytime before the completion of works.

355.3. It is not required to set additional duration in cases other than described in article 226, if contractor does not perform its obligations to remedy defects.

355.4. If an employer's order can be executed in other form, the contractor may terminate the contract according to article 355.2 of this law.

355.5. If a contractor is not guilty or special circumstances arise, the contractor may terminate the contract anytime irrespective of article 355.4 of this law and shall be exempted from any liabilities resulting to damage to the employer. And he or she may request to be paid for the executed work if the employer has interest to obtain results of work executed by the contractor before the contract termination.

355.6. In a case when the employer terminates the contract, it shall be obliged to compensate the damage to the contractor after deducting from the due payment the amount of remuneration issued before.

### **Article 356. Sharing risks of contingency**

356.1. Contractor shall be liable for all risks if results of executed work are destroyed and damaged due to contingency and force majeure before delivery of the results.

356.2. Employer shall be liable for consequences of destruction or damage caused by force majeure or contingency to the work results remaining in the possession of contractor if it fails to accept them on time.

356.3. If the work materials are destroyed or damaged in cases described in articles 356.1, 356.2 of this law, the party who supplied the materials shall be liable for the risks.

### **Article 357. Void contract for works**

357.1. If contractor does not intentionally inform the other party of any defects in work results and these defects are discovered later, any agreements as to full or partial exemption from liabilities shall be deemed void.

### **Article 358 Regulation of specific types of work contract**

358.1. Related provisions of this chapter shall apply to all specific types of contracts for works.

## **CHAPTER THIRTY TWO HIRED WORK**

### **Article 359. Hired work**

359.1. Under a hired work contract, employee undertakes to perform specific job order and employer undertakes to issue due wages.

359.2. Any kind of job can fall under this category of contract.

**Article 360. Payment for hired work**

360.1. If it is not specified otherwise in the contract, wages shall be issued after completion of job order or service.

360.2. It can be agreed that wages be issued in instalments and according to an agreed schedule.

**Article 361. Execution of work order**

361.1. Unless specified otherwise by the law or contract, employee shall execute the job order personally and is not allowed to pass it to third party.

**Article 362. Refusal to accept work or service**

362.1. If an employer postpones or refuses to accept job result, employee shall have the right to discontinue execution of job order and to demand due payment.

**Article 363. Working conditions**

363.1. Employer shall have the duty of providing office standards and work specific requirements of space, tools and equipments necessary to ensure employees' health and safety.

**Article 364. Termination of contract**

364.1. Hired employment shall end with expiration of agreed contract term.

364.2. If a contract does not specify employment terms or due to the nature and aims of the specific job or service, parties shall have the right to terminate contract at agreed time.

**Article 365. Contract termination period**

365.1 Depending on the schedule of payments, a contract can be terminated in the following cases:

365.1.1. if it is agreed to be paid on a daily basis, on the next day after the last payment;

365.1.2. if it is agreed to be paid on a weekly basis, on the next week's first working day after the last payment;

365.1.3. if it is agreed to be paid on a monthly basis, within the 15<sup>th</sup> day of the of month of payment ;

365.1.4. if it is agreed to be paid on a quarterly or longer term basis, after making payment 30 days prior the term expiration;

365.1.5. if a duration is not agreed, after issuing due payment 14 days prior contract termination;

365.2. For contracts of more than five years term, employee shall have the right to terminate the contract after five years, with six-month prior notice to the other party.

### **Article 366. Contract extension**

366.1. If an employee notifies the employer about expiry of contract and expresses an interest to extend it, and latter consents it, contract shall be deemed extended for unspecified period of time.

### **Article 367. Contract termination**

367.1. Employee shall have the right to demand remuneration for the work accomplished until the termination of contract due to reasons specified in article 221 of this law.

367.2. Employee shall not have the right to demand remuneration if contract was terminated due to failure of the employee to meet its contract obligations or involvement in activities contrary to contract and with the employer performing all its obligations.

367.3. In a case when a contract is terminated after the advance payment or some part of the remuneration was issued, an employer shall have the right to demand it back.

367.4. An employer shall be responsible for damages caused by the termination of contract due to activities contrary to contract.

### **Article 368 Proof of contracted employment**

368.1. An employee shall have the right to request from employer a written statement confirming contracted employment and its duration.

## **CHAPTER THIRTY THREE**

### **LABOUR**

#### **Article 369. Labour contract**

369.1. Citizens may conclude labour contracts with legal persons or citizens.

369.2. The procedure for conclusion and terms of labour contracts shall be determined by law.

369.3. Unless otherwise provided by law, general grounds of this law shall be applied for labour contracts.

## **CHAPTER THIRTY FOUR**

### **TOURISM**

#### **Article 370. Tourism contract**

370.1. Under tourism contract travel agency takes an obligation to provide agreed services, and the tourist takes the obligation to pay for such services.

#### **Article 371. Involving third party into tourism**

371.1. A tourist may involve a third party into the tourism on behalf of him/herself, and is entitled to submit a request to the agency engaged in tourism before the tour.

371.2. If travel agency deems that the third party stated in article 371.1. does not meet required conditions of the trip, it shall be entitled to request for replacement of the person with another, before the trip.

371.3. A travel agency shall be entitled to demand from the tourist to pay for the extra costs incurred in connection with the third party involvement in the trip.

### **Article 372. Obligation not to make a mistake**

372.1. Travel agency shall be liable to organise the trip without making any mistakes like lowering the magnitude of the trip, mentioned in the contract, or making the trip senseless.

372.2. If the travel agency fails to fulfil obligations stated in article 372.1 of this Law, the tourist shall be entitled to demand to eliminate the mistake, however if such an elimination is relatively costly, the travel agency may refuse to eliminate the mistake.

372.3. If the travel agency fails to eliminate the mistake within a time given by the tourist, the latter may eliminate it at own cost and shall be entitled to demand the former to reimburse respective costs.

372.4. If a travel agency flatly refuses or is unable to eliminate the mistake, it shall not be required to set the time stated in article 372.3 of this law.

372.5. In a case where the trip has faults, the trip cost may be reduced, taking into consideration the time required for its elimination.

372.6. If a tourist did not inform the travel agency to eliminate the fault due to his/her own mistake, the trip cost shall not be reduced.

### **Article 373. Termination of contract**

373.1. Contract shall be terminated on the following grounds:

373.1.1. if due to the trip fault a substantive damage was caused to the tourist;

373.1.2. if a tourist informed the travel agency about the impossibility to participate in the trip due to sound reasons;

373.1.3. if travel agency failed to eliminate the fault on time set by the tourist;

373.2. If contract was cancelled due to grounds stated in article 373.1., travel agency shall fail to get the agreed payment. However, it could be paid for the in-deficient part of the organised trip.

373.3. If a travel agency is liable for sending back the tourist after the trip, according to the contract obligation, it shall be liable to fulfil the contract obligation. In this case the travel agency shall be responsible to pay the cost related to sending back the tourist.

373.4. If serious difficulties for the trip or other circumstances, which might cause damages to the tourist, emerge due to emergency or force majeure conditions, which was impossible to foresee when entering into the contract, either party to the contract shall be entitled to terminate the contract, and the cost of sending the tourist back shall be equally shared by both parties.

#### **Article 374. Damage compensation**

374.1. If a fault was made due to travel agency's mistake, the tourist shall be entitled to demand from the travel agency in addition to terminating the contract to compensate for damages caused.

374.2. If the trip did not take place or it was not organised properly, the tourist shall be entitled to demand from the travel agency to compensate for the time wasted in money term.

#### **Article 375. Time to present claims**

375.1. Tourist may present claims with regard to requirements stated in articles 372.3 and 374 of this law to the travel agency within one month after the trip.

375.2. If tourist was not at fault in the expiration of the time stated in article 375.1 of this law, a claim may be presented even after the expiration of the above time.

#### **Article 376. Transcription**

376.1. Transcription for presenting claims by tourist shall be six months.

376.2. Transcription term shall be counted from the day of expiration of presenting claims or from the day when the travel agency refused to accept claims.

#### **Article 377. Limitation of responsibility**

377.1. Travel agency may limit its responsibilities by three-fold cost of services based on the consent of the tourist, in the following cases:

377.1.1. damage caused by the travel agency to the tourist was not intentional or wasn't due to former's carelessness;

377.1.2. if a travel agency was not liable to bear the responsibility alone for the damages caused to the tourist due to mistakes made by other participants of the organisation of the trip.

#### **Article. 378. Right to renounce the contract**

378.1. Tourist may renounce the contract any time before the trip, in such case he/she shall be entitled to get back the costs saved due to cancelling the trip or the advance payments to the travel agency designated to pay for other services.

378.2. In the case stated in article 378.1 of this law travel agency shall lose the right to get the fees agreed in the contract, however, it shall be entitled to demand from the tourist to compensate for damages.

**Article 379. No alterations to procedures stated in the law**

379.1. While concluding a contract, parties to it shall be prohibited to change procedures stipulated in this article, in a way affecting the tourist.

**CHAPTER THIRTY FIVE  
CARRIAGE**

**Article 379. Contract for carriage**

379.1. Under contract for carriage, a carrier shall take an obligation to transport passengers or the cargo entrusted to it by the sender to an agreed destination, and the sender shall take an obligation to pay the agreed price.

379.2. Conditions for the carriage of cargo, passengers and luggage, and the responsibilities of parties to the contract for carriage shall be determined by law, or by rules for particular kinds of carriage, enacted in compliance with law.

**Article 381. Concluding contract**

381.1. Person publicly proposing to transport passengers, cargo and luggage shall conclude a contract for transportation, unless there are sound reasons for refusal to do so.

**Article 382. Passenger transportation**

382.1. Contract with passengers shall be considered concluded when they are given tickets or boarding cards.

382.2. Tickets and boarding cards could be done in a transferable and non-transferable ways, but the possibility to transfer them shall be terminated when the transport means start moving.

**Article 383. Contract termination**

383.1. Passenger may cancel transportation contract any time without causing damage to the contract, but s/he shall compensate to the carrier any damage caused due to contract cancellation.

383.2. If from the side of a carrier circumstances were revealed, which were not possible to know, but if known, could serve as reason for not concluding contract, or in case there is a potential delay in reaching the place of destination or the trip time may take longer than expected, the passenger may refuse to enter into the contract. In this case the liability to compensate the damage shall not arise.

**Article 384. Carrier liabilities**

384.1. If during transportation any damage was caused to the passenger or to her/his property, or the carried luggage was lost or damaged, the carrier shall bear the responsibility stated in the law or rules of particular transport kinds.

384.2. Carrier shall not bear any responsibility for the damage caused by emergency or force majeure circumstances, or due to the passenger's fault, or luggage carried by the passenger.

384.3. Damage caused to the passenger by the driver or other staff of the carrier due to their failure to perform duties, breakage, shortage or poor quality of transportation and its equipments shall not serve as grounds for exempting the carrier from responsibility.

384.4. Damages caused to passenger due to delay shall not be borne by carrier unless stipulated otherwise in the contract, or unless caused on purpose or by carelessness.

384.5. Carrier's responsibility shall not be limited or lifted by the contract.

### **Article 385. Passenger liabilities**

385.1. Passengers shall be responsible for the damage caused to the carrier due to her/his faulty activity, or luggage or cargo, or other stuff carried by her/him.

385.2. Passengers who have strictly observed conditions and procedures on storage and transportation, shall not bear any responsibility for the damage.

### **Article 386. Freight transportation contract**

386.1. Freight transportation contract shall be accompanied with consignment documents.

386.2. The consignment document shall be made in three copies and signed, with one copy accompanying the shipment, the second one going to the carrier and the third remaining in consignor's possession.

386.3. If the shipment transportation shall be made by various or several means or types of transportation, or in parts, the consignor can demand to file documents for each type or means of transportation or part of shipment.

386.4. Irrespective of missing, incomplete or lost consignment documents, respective provisions of this Chapter shall be relevant to transportation content and conditions of validity.

### **Article 387. Consignment documentation**

387.1. The consignment documentation shall reflect the following information:

387.1.1. date and place the documents were filed;

387.1.2. name and address of the consignor;

387.1.3. name and address of the transportation agent;

387.1.4. date and place of handing over the shipment to the agent, the final destination;

387.1.5. name and address of the consignee;

387.1.6. normal name of shipment and packaging, accepted special marks for dangerous shipments;

387.1.7. number of pieces, sizes, markings and shipment registration number

387.1.8. shipment weight and other measurement notes;

387.1.9. transportation costs (transportation price, extra expenses, customs duties, other expenses related to the forwarding of shipment during the contract term);

387.1.10. other provisions specified by the law;

387.2. The parties to contract can include in the consignment documentation the following information if necessary:

387.2.1. prohibition of the transfer or loading of the shipment to other means of transportation ;

387.2.2. expenses to be borne by the transportation agent ;

387.2.3. the amount of additional expenses to be paid at the shipment dispatch time;

387.2.4. the shipment value, special instructions for handling ;

387.2.5. instructions on the shipment insurance;

387.2.6. the limit for delivery time;

387.2.7. the list of documents presented to the transportation agent;

### **Article 388. Transfer of shipment to transportation agent**

388.1 When receiving the shipment, the transportation agent shall check the following:

388.1.1. if documents accurately reflect the shipment number, sizes and markings;

388.1.2. the shipment packaging and appearance;

388.2. If the transportation agent has no possibility to examine shipment as specified in article 388.1.1 of this law, it shall make entries into the consignment document about it and about the shipment appearance and package .

388.3. The consignor can demand from the transportation agent to examine the number of pieces, sizes and its parts and to reflect these in the consignment document, and the transportation agent shall bear the costs involved.

388.4. The fact of the shipment transfer to the transportation agent and consignment documents shall serve as a proof of concluding a contract unless proven contrary.

388.5. If the notes required by article 388.2 of this Law were not filed, it shall be assumed that the consignment accurately reflects the shipment appearance, number of pieces, sizes and markings.

388.6. If transportation agent discovers any discrepancy while receiving the shipment, the consignor shall be responsible for the damages caused to other

parties due to the shipment packaging, unless the former did not present conditions to this end.

388.7. The consignor shall supply the transportation agent with custom declaration, other additional documents, as well as all the information necessary to deliver the shipment to the destination point.

388.8. The transportation agent is not responsible for the accuracy of information provided by the consignor according to article 388.7 of this Law.

388.9. The consignor shall be responsible for the damages to the transportation agent in case of incomplete or inaccurate information and documents, unless the damage results from the transportation agent's own fault.

388.10. The transportation agent shall be responsible for losing or misusing the received or attached documents but in the amount not exceeding of the responsibility for the lost shipment.

### **Article 389. Shipment disposal**

389.1. The consignor has the right of disposal over the shipment up to canceling freight forwarding operation to prevent the delivery of shipment to a destination other than reflected in the consignment document.

389.2. This right of disposal ends with the transfer of the second copy of the consignment to the consignee, and thereafter the transportation agent shall follow the latter's instructions.

389.3. If the consignor does not file special instructions, the consignee will take disposal right over the shipment at the moment of receiving the consignment.

389.4. If the consignee instructs the transportation agent to deliver the shipment to a third party, the latter shall not have a right to name other consignees.

389.5. The following procedure shall be observed in exercising the disposal right over the shipment:

389.5.1. the consignor or the consignee with shipment disposal right can give the transportation agent new instructions entered in the consignment document and compensate expenses and cost involved after the execution of the instruction;

389.5.2. the new instructions shall be possible to implement immediately upon receiving them, and shall not be harmful to normal operation of the transportation company and pose hazard for the consignor's or the consignee's other shipments;

389.5.3. instructions for opening or dividing the shipment are not allowed;

389.6. In case it is not possible to fulfill other instructions because of the instruction to open the shipment, the transportation agent shall immediately notify the party that issued it.

389.7. The transportation agent shall bear sole responsibility before the authorized person for harm caused due to its failure to execute the instructions or

to executing them without receiving the original copy of the consignment provided by article 389.5.1 of this Law.

### **Article 390. Transfer of shipment to consignee**

390.1. The consignee shall exercise the right to demand the second set of consignment documents from the transportation agent as a proof of receiving the shipment when receiving the shipment.

390.2. The consignee shall be entitled on behalf of him/herself to claim the lost, missing or not receiving the shipment on time, as specified in the contract.

390.3. To exercise the rights specified in article 390.2 of this Law, the consignee shall reimburse all expenses reflected in the consignment document. The transportation agent may retain the right to refuse to hand over the shipment in case a dispute arises over the payment of such expenses until its requirements are satisfied.

### **Article 391. Circumstances preventing transportation**

391.1. If it is impossible to implement the transportation contract fully or under conditions stated in the consignment document before delivering the shipment to the place of designation and handing it over to the consignee, the transportation agent may demand from the party with disposal right over the shipment according to article 389 of this Law.

391.2. In situations when delivery according to instructions is not possible or no new instructions provided by article 389 of this Law was received in time, the transportation agent shall be liable to take measures most suitable to the interests of the authorized person.

391.3. The transportation agent shall be entitled to sell the shipment in cases of spoilage, storage costs exceeding that of transportation and other unavoidable situations without waiting for instructions from the authorized person.

391.4. If the shipment sold according to article 391.3 of this Law, the transportation expenses shall be deducted from the proceeds and the remainder shall be transferred to the authorized person. The transportation agent shall have the right to demand compensation if the revenue from the shipment sale does not cover the transportation costs.

391.5. The transportation agent shall be entitled to demand further instructions from the consignor if circumstances impeding handing over the shipment after its delivery to the point of destination.

391.6. The transportation agent shall be entitled to demand to accept the shipment in case the consignee refuses to receive the shipment, if no other instructions came from the consignor.

391.7. If conditions, impeding handing over the shipment, emerge after the consignee gives instructions to transfer the shipment to a third party as stated in article 389.4 of this Law and provisions of articles 391.1 and 391.2 of this Law shall be applied, the consignee shall exercise rights and obligations of the consignor and the third party shall exercise the rights and obligations of the consignee.

391.8. In circumstances provided by articles 391.1, 391.3, 391.5-391.7 of this Law, the transportation agent can unload the shipment at the expense of the authorized person. In such case, the delivery of shipment shall be deemed completed and the transporting agent may store the shipment or a third party may be assigned to do so.

**Article 392. Transportation agent's right to take the shipment as pledge**

392.1. The transportation agent shall be entitled to retain the shipment as pledge until the right to dispose of the shipment arises in order to have the transportation costs paid.

**Article 393. Transportation agent's liability**

393.1. The transportation agent shall bear full or partial responsibility for lost, incomplete, damaged or delayed shipment from the moment of receiving and delivering the shipment.

393.2. The transportation agent shall be exempted from liability for lost, incomplete, damaged or delayed shipment due to the authorized person's fault or in a case of following the instructions of the latter, or if the transportation agent could not prevent the above conditions or its consequences.

393.3. The provisions of this law on limiting the transportation agent's responsibility or relieving it from the duty to prove shall not apply in case of direct fault of the transportation agent.

393.4. The transportation agent shall be relieved from liability for lost, incomplete or damaged shipment in the following cases:

393.4.1. the parties agreed to transport the shipment by transportation means with open access and this was reflected in the consignment;

393.4.2. the shipment was not packaged and was of low quality;

393.4.3. the consignor, the consignee or a third person representing them examined and loaded or unloaded the shipment ;

393.4.4. the inherent danger of breaking down, rusting, drying up, wearing out, shrinking, spilling or be affected by rodents fully or partially due to its specific nature;

393.4.5. the registration number or notes did not match requirements;

393.4.6. transportation of animals;

393.5. The transportation agent shall be liable for damages caused for reasons other than reflected in article 393.4 of this Law which might exist.

393.6. The transportation agent shall be exempted from responsibility if it can prove that it was not guilty in the loss, incompleteness or damage to the shipment which was caused by one or more reasons stipulated in article 393.4 of this Law.

393.7. In case of the shipment being lost, incomplete or damaged due to force majeure during the transportation as stipulated in article 393.4.1 of this Law, the provisions of article 393.6 of this law shall not be relevant.

393.8. Article 384.3 of this Law shall apply to the transportation agent as well.

#### **Article 394. Filing a complaint**

394.1. The shipment shall be deemed as matching the consignment and accepted if the consignor did not inspect the shipment together with the transportation agent or did not express any complaint for the lost, incomplete or damaged shipment until it is proven contrary,

394.2. The consignee shall file a written complaint regarding obvious damage or shortage on the day of receiving the shipment or within one week after the receiving the shipment in case of complaints regarding invisible ones .

394.3. If the consignee and the carrier checked the shipment, but failed to reveal hidden defects, the opposite proof of result of examination may be presented within a week time.

394.4. The consignee shall have the right to demand compensation for the damages caused by late delivery in case of filing a written complaint to the carrier within 21 days after receiving the shipment.

394.5. The time period stated in this article shall not include days of dispatching, checking and delivery.

394.6. The transportation agent and the consignee shall be liable to assist each other in conducting relevant inspection and identification of critical factors.

#### **Article 395. Transcription period**

395.1. The transcription period for claiming rights arising from transportation contract shall be one year, and in case of intentional damages or due to carelessness the transcription shall be three years.

395.2. The transcription period shall be counted from the following occurrences:

395.2.1. from the day the shipment was lost or damaged; or the day when it became known or should have been known; or the day of expected delivery in case of delay;

395.2.2. in case of incomplete shipment delivery- from the 30<sup>th</sup> day after the expiration of the time to deliver the shipment agreed by the transportation contract, if such date was not specified, from the 60<sup>th</sup> days since the date of actual receiving the shipment by the carrier;

395.2.3. in other cases, from the day the response to the complaint was received or the day when the time of presenting complaint expires.

#### **Article 396. Chain freight forwarding**

396.1. If the transportation is handled by several carriers, each carrier shall bear full responsibility for transportation and assume disposal right at the moment of receiving the shipment and consignment documents from the previous carrier.

396.2. Upon the receipt of the shipment each forwarding agent shall file in the date and provide a signed copy to the previous agent, and enter own name and address in the second copy of the consignment document.

396.3. If necessary, the carrier receiving the shipment shall reflect on the second copy of the consignment document a proof of the shipment receipt and put the marks stipulated in article 388.2 of this Law.

396.4. In all successive shipment transfers, articles 388.4 and 388.5 of this law shall apply to both the passing and receiving carriers.

396.5. If the shipment was lost, incomplete or damaged, the compensation claim may be issued to the first and the last carrier, or directly to the carrier responsible for the loss, damage or delay, one demand may be presented to several carriers.

396.6. The transportation agent shall have the right to file a counter-claim in the following cases:

396.6.1. one transportation agent paid solely for the damage inflicted by several agents that should have shared responsibility for lost, incomplete or damaged shipment on equal basis.

396.6.2. carriers had borne responsibility commensurate to payment each received due to impossibility of establishing personal liability, despite the requirement to pay according to the degree of liability for each lost, incomplete or damaged part of the shipment.

396.6.3. in case no responsibility of specific carrier can be established, the responsibility has been spread equally.

396.7. If one of carriers is insolvent other carriers shall spread the payment according to the share of revenues received.

396.8. If the transportation agent filing a claim paid without grounds or the plaintiff failed to appear at court despite advance notice, the latter shall have no right to refuse to accept the claim or file a counter claim.

396.9. Carriers in charge of the chain transportation may come to an agreement on issues other than stipulated in articles 396.6 and 396.7 of this Law.

### **Article 397. Some void transportation transactions**

397.1. Transactions contrary to the provisions of this Chapter, other than stipulated in article 396.9 of this Law, shall be deemed void.

397.2. Any transaction on transfer to others by the carrier of claims arising in connection with insurance of freight or transfer of right to prove shall be deemed not valid.

### **Article 398. Additional compensation liability**

398.1. The consignor or the consignee may agree in advance with the carrier that in case a shipment of special importance is lost or incomplete, the agent responsible shall pay double price.

## **CHAPTER THIRTY SIX ASSIGNEE CONTRACT**

### **Article 399. Assignee contract**

399.1. Under the assignee contract an attorney undertakes to perform on behalf of and at the expense of the principal certain actions, and the principal undertakes to pay for the service, unless otherwise stipulated in the Law or contract.

399.2. If the particular conduct of the assignee is of counter payment character it shall be deemed that parties have mutually agreed on the payment

399.3. The attorney shall perform the assigned task personally unless specified otherwise by the law or contract.

399.4. The principal has the right to cancel the assignment and the attorney to refuse from the task at any time. No contract restricting this right shall be considered valid.

### **Article 400. Attorney's duties**

400.1. The attorney shall execute the assignment in accordance with the instructions of the principal.

400.2. The attorney shall have the right, in the interest of the principal, to recede from the instructions in a case of necessity and if it was impossible to inform about it in advance, or even though previously notified the principal, further instructions have not been received in due time.

400.3. The attorney shall be liable to inform at principal's request on the progress of the assignment and to promptly pass on to the principal all articles received in the course of executing the assignment.

400.4. If attorney recedes from the assignment, it shall return all the remaining articles received for the execution of the assignment.

### **Article 401. The Principal's duties**

401.1. The principal shall accept the results of the assignment and provide the attorney with articles necessary for the execution of the assignment, reimburse the expenses paid by the attorney, unless otherwise specified by the contract.

### **Article 402. Compensation for contract cancellation**

402.1. If the principal alters or cancels the assignment before its complete execution, the principal shall be liable to reimburse the expenses paid in the course of the assignment execution and compensate for the damages incurred. If it was agreed to pay a fee, a portion of the fee due for executed tasks shall be paid.

402.2. If the attorney was not guilty in executing the principal's instructions under dangerous conditions, the principal shall be responsible for the damages caused.

#### **Article 403. Death of attorney or legal entity's dissolution**

403.1. In case of the attorney's death, its successor shall be liable to notify the principal on the termination of the contract and take action to protect the his/her property.

403.2. In case of the dissolution of the legal entity the dissolution group or individual who is in charge of the dissolution of the legal entity shall be liable to notify the principal on the termination of the contract and take action to protect the his/her property.

#### **Article 404. Transfer of assignment to another person**

404.1. If it is stipulated in the contract, or if the principal delegated the rights, or personal implementation is impossible, and if implementation of the assignment by another person is in the best interests of the principal, the attorney may transfer the assignment to another person.

404.2. The attorney, delegating the assigned tasks fully or partially to a person replacing him/her, shall promptly inform the principal and provide the necessary information of the replacing person.

404.3. The attorney shall bear responsibility for the failure or improper execution of the assignment due to the nomination of the replacement not meeting the requirements or violation of articles 404.1 and 404.2 of this Law.

404.4. The principal shall be entitled to change the replacing person nominated by the attorney at any time.

#### **Article 405. Termination of assignee contract**

405.1. The assignee contract may be terminated on following grounds, other than stipulated in the law or contract:

405.1.1. The principal cancels the assignment;

405.1.2. Refusal of the attorney to execute the assignment;

### **CHAPTER THIRTY SEVEN**

#### **ENTRUSTED ASSETS**

#### **Article 406. Property entrusting contract**

406.1. Under the property entrusting contract the settler undertakes to transfer the right of disposal over movable property or assets to the trustee, and the latter undertakes the obligation, upon receiving them, to manage and dispose the trust funds in the best interests of the settler.

406.2. Trust contract shall be concluded in a written form.

406.3. The trustee shall dispose the entrusted assets on its own and at the expense and risk of the settler.

406.4. The trustee shall exercise the ownership mandate while entering into legal relations with the third person and shall be responsible for the consequences and shall compensate damages caused by actions contradictory to the interests of the settler.

406.5. The trustee shall not receive any reward from the settler for managing entrusted assets unless specified otherwise by the contract.

406.6. The settler shall own the proceeds and revenues from managing the entrusted assets.

## **CHAPTER THIRTY EIGHT PARCEL FORWARDING CONTRACT**

### **Article 407. Parcel forwarding contract**

407.1. Under the parcel forwarding contract the forwarding agent undertakes to transport parcel or shipment on behalf of its own name, but at the expense of the consignor, and the latter undertakes to pay the service fee.

407.2. Unless specified otherwise in this chapter, the general provision for assignee contract shall apply.

### **Article 408. Forwarding agent rights and liabilities**

408.1. The agent shall be obliged to transport the parcel and shipment, to choose a carrier, and to fulfill the orders in the interest of the consignor according to the requirements and conditions reflected in the contract.

408.2. The agent shall insure the shipment if the consignor expressed a wish to do so. In case of no expression of such wish is made from the consignor, the agent shall insure the parcel under regular insurance terms.

408.3. Unless the consignor expressed disagreement in writing, the agent shall insure the shipment against any damage from the consignor's own default actions at the expense of the latter with the insurance agent of its own choice and should inform the consignor about this.

408.4. The consignor shall promptly notify the agent about any damage in accordance with article 408.3 of this Law and the latter should pass on the information to the insurance company.

408.5. If the recipient of the parcel refuses or unable to accept the shipment for other reasons, the rights and obligations of the forwarding agent shall be determined by the transportation rules.

408.6. The parcel shall be deemed accepted complete and without any defect except for the case when it was impossible to check the parcel in the presence of the client and the recipient which discovered the damage reports it to the agent.

408.7. The recipient shall inform the sender about any obvious damage or shortage within the day of receiving the parcel.

408.8. Unless specified otherwise by the contract, the forwarding agent can transport the parcel by own means of transportation and at own expense. In such case, the forwarding agent shall exercise rights and obligation equal to that of transportation agent and this will not be deemed detriment of the consignor interests.

408.9. The forwarding agent shall bear responsibility for any damage resulting from its own or employee's fault.

408.10. In a case where a third party afflicts damage to the parties of the contract, the forwarding agent shall exercise the claim right at the consignor's expense only with the consent of the latter. Otherwise the client has the priority right over the claims.

408.11. If the forwarding agent or its employee inflicted damage to the consignor, the provision of the contract limiting their liability or transferring the obligation to prove the damage to others shall be void.

#### **Article 409. Consignor rights and liabilities**

409.1. The consignor shall be obliged to present the forwarding agent information on the parcel and other necessary data and transportation documents.

409.2. The consignor shall be obliged to provide documents proving that the information provided in accordance with article 409.1 of this law is true.

409.3. The consignor shall inform the forwarding agent about the parcel's appearance, possible dangers and safety instructions.

409.4. If the consignor failed to provide information in accordance with article 409.3 of this Law, the forwarding agent shall have the right to dislodge the shipment, destroy or take other measures at any time to prevent the threat and be exempted from any liability for damage inflicted to the consignor by such actions.

409.5. The consignor shall pack the parcel according to the requirements of the forwarding agent.

409.6. if it is necessary to separate the parcel from other shipment the consignor shall put special markings on the parcel before handing it over to the entitled party

409.7. The consignor shall bear responsibility for any damage resulting from its failure to comply to articles 409.5 and 409.6 of this Law except in the case when the forwarding agent failed to report on parcel without or missing or improper packaging or markings.

409.8. The consignor has the right to demand the forwarding agent with the task of inspecting the parcel for additional payment.

409.9. The consignor shall pay the service fee to the forwarding agent only after the delivery.

**CHAPTER THIRTY NINE  
BROKERAGE**

**SUB-CHAPTER ONE.  
COMMON PROVISIONS**

**Article 410. Brokerage contract**

410.1. Under the brokerage contract a broker undertakes, by the authority given and in the interests of the principal, to connect latter with other parties to conclude transactions, and the principal undertakes to pay the service fees and rewards unless otherwise specified in the contract.

410.2. If the amount of award or fee is not agreed upon, the commonly accepted average rates shall apply.

410.3. If the duration of the contract is not specified it can be terminated at any time.

**Article 411. Exclusive brokerage rights**

411.1. Under the exclusive brokerage contract the principal undertakes to refrain from contracting other broker's service, and the broker undertakes to assist in signing a contract within this period.

411.2. The broker shall have the right to demand compensation for the damage caused by the principal's decision to hire another broker within the period specified in article 411.1 of this Law. In a case of being contracted for brokering a purchase and sale contract, the compensation shall not exceed two percent of the amount involved.

411.3. The principal shall retain the right to sign deals with the third party directly and in this case a fee or award can be agreed upon. In case of brokering a purchase and sale contract such reward shall not exceed five percent of the amount involved.

411.4. The exclusive brokerage contract shall be made in a written form.

411.5. The exclusive brokerage contract can be terminated only in a case of special circumstances.

411.6. Irrespective of the result the contract can be terminated after six months since the date of issuing the brokerage order if it's not specified otherwise by the contract.

411.7. If the contracted article belonged to the third party broker the principal shall pay no brokering commission, award or reimbursement for the expenses. This provision shall apply even if this fact is revealed afterwards in the following cases:

411.7.1. the broker was the third party

411.7.2. the third party has legal involvement with the broker

411.7.3. the broker has legal involvement with the third party

411.7.4. the broker and the third party had official or business relations

411.7.5. the broker is the family member of the third party

411.8. The broker shall have the right to demand commission, award or compensation of expenses in a case where it has informed the principal about the article 411.7 of this Law before concluding the contract with the third party.

411.9. The broker shall lose the right for commission, award or compensation if it starts working for the interest of the third party, violating brokerage contract.

411.10. Any agreement contradicting articles 411.7 and 411.8 of this Law, shall not be deemed valid.

#### **Article 412. Credit brokerage**

412.1. Unless specified otherwise by the law, the general provisions of the brokerage contract shall apply to credit brokerage.

412.2. Credit brokerage contract shall be made in a written form.

412.3. The contract shall specify the remuneration or commission, the credit amount, repayment schedule, interest rate, exchange rate, additional expenses and the creditor's full name and address.

412.4. The principal shall pay agreed remuneration or commission to the broker in the case of securing a credit.

### **SUB-CHAPTER TWO.**

#### **TRADING BROKERAGE AND COMMISSION**

#### **Article 413. A trading broker**

413.1. A broker specializing in a purchase and sale, insurance, transportation, asset rentals or other none trading activities shall have rights and obligations of a trading broker.

413.2. In cases other than specified in article 413.1 of this Law brokering services involving agreements and real estate property with the assistance of a trading broker shall not be deemed as a trading brokerage.

413.3. If the parties to the contract do not prohibit or release from the duty, the broker shall provide the parties after concluding the contract with signed a document specifying the contract terms and conditions, parties to, goods and type, number, size, contract price and duration if it involves securities.

413.4. In cases not requiring immediate action, the parties shall sign all documents as specified in article 413.3 of this law.

413.5. If one party to agreement refuses to sign or accept the documents, the broker shall immediately notify the other party.

413.6. If one party accepted the brokerage document without specifying the other party and does not file a complaint against the other party such document shall be deemed as an official agreement.

413.7. The broker serving only one party shall inform in a possible or most suitable time to the other party.

413.8. If one party is not identified, or files a complaint on good grounds against the identified party in the agreement document, the other party can demand to hold responsible for the consequences of signing such document.

413.9. In a case where the agreement is signed based on samples it should be marked clearly as such and the broker should keep it until the purchasing side consigns the goods without complaints.

413.10. The trading broker shall not have the right to receive any payment or profit from the agreement signed as the result of a brokerage made between the parties themselves.

413.11. Trading broker shall be liable for the damages caused by his/her fault.

413.12. If no prior agreement was reached on which party shall pay the brokering commission, the parties shall share the agreed amount between themselves.

#### **Article 414. Trading broker records**

414.1. The trading broker shall maintain up-to-date daily records and regularly enter all records and sign each record made.

414.2. The trading broker shall supply upon request from the parties to the agreement a personally signed document with all information in regard of the agreement.

#### **Article 415. Trading agent, commission**

415.1. A citizen or legal entity concluding a contract or brokering the sale of goods, rights and services on behalf and at the expenses of the client shall be deemed as a trading agent.

415.2. A citizen or legal entity selling good or acting on its own but at others' expense shall be deemed as a commission.

415.3. The trading agent or commission shall undertake to fulfill the instructions of the client and in his/her best interests and general standards of conduct, provide the client with necessary information. If it's not stated otherwise in the contract, the trading agent or the commission shall provide in the last ten days of a season a report containing the results of the service, service fee, profit margin and commission's payment.

415.4. At the end of each month the principal shall pay to the agent due fees and commission, and the commission shall give proceeds from the profit.

415.5. If the principal does not fulfill its obligations under the contract or failed to secure an agreement already brokered by the trading agent or commission, they shall have the right to demand due fees and bonuses.

415.6. If the agreement was not secured because of the other party this will nullify the right to demand fees and bonuses.

415.7. If the other party is found incapable of meeting its obligations under the agreement, the trading agent/ commission shall lose its right for fee/bonus and return the received funds back to the principal.

415.8. If the commission sells the client's goods for a different price it shall promptly inform the client and receives no response it shall consider it as granting permission.

415.9. If goods are sold at a higher price the client shall retain the difference.

#### **Article 416. Volume of remuneration, bonus and due payments**

416.1. If no amount of remuneration, bonus or percentage was mutually agreed upon, the commonly accepted rates and tariffs shall apply.

416.2. Fees and bonuses shall be calculated on the basis of the amount due from the paying party, and such additional expenses as cash payment discounts, accounting, packaging, customs duty, taxes shall be deducted.

416.3. If additional expenses are paid by the third party article 416.2 of this law shall not be applied.

416.4. Fees and commission for an insurance contract shall be calculated based on the overall insurance amount, and if the contract does not specify the amount, it can be based on the insurance payments.

#### **Article 417. Trading brokerage, commission contract duration**

417.1. If it is not agreed otherwise by the parties, trading agent contract duration shall be one year. Unless any party expresses a wish to terminate it within three months prior to its expiration, the contract shall be deemed extended for one more year.

#### **Article 418. Compensation for an agent**

418.1. The trading agent has the right to demand compensation after the expiry of the contract, in the following cases:

418.1.1. the principal obtained exclusive rights with the new customer because of the brokering services of the trading agent.

418.1.2. the trading agent lost the right for fees and bonuses due to the extension of the agreement with new customers by the principal.

418.2. Attracting new customers shall mean the principal establishing business relations that can bring in bigger profits.

418.3. The compensation shall not exceed the trading agent's average revenue for the last five years of operation or annual revenue. If the contract is signed for less than one year, the compensation shall be calculated based on the average revenue the trading agent can earn within the specified period.

418.4. It is prohibited to demand compensation before the contract expires or refusal from the right to demand compensation.

418.5. The complaint shall not be deemed valid in the following cases:

418.5.1. in cases other than termination of the contract due to default production operation, the trading agent terminates the contract on its own initiative, or as a result of his/her age or disease preventing him/her from continuing to perform the obligations.

418.5.2. the principal cancels the contract due to the trading agents default actions.

418.5.3. a third party enters into the contract concluded between the principal and the trading agent on behalf of the latter.

418.6. An agreement specified in article 418.3 of this law must not be concluded before the expiry of the brokering service contract.

418.7. The liability term for compensation shall be one year after the expiration of the contract.

### **Article 419. Liability**

419.1. The trading commission shall compensate for the damages caused by its deviation from the principal's instructions under circumstances limiting its right to power to withdraw or failure to transfer all revenues to the customer.

419.2. The trading commission shall compensate for the loss, incompleteness or damages to the assets entrusted by the principal except cases when such damage was caused by force majeure.

419.3. The trading commission or agent can receive additional bonus in case he/she produces a written guarantee to the client to undertake full responsibility to the agreement participants to which are identified.

419.4. The trading commission or agent is prohibited to represent interests of the client's competitors without the former's consent, and such consent shall be deemed granted if the client knew, at the time of signing a brokerage service contract that the trading agency or commission is representing the client's competitor.

419.5. The client has the right to demand compensation for the caused damage if the trading agent violates article 419.4 of this law.

419.6. If the contract contains a prohibition for the trading agent to serve the competing company after the contract expiration, such provision shall be valid only if the client pays compensation amount of which shall be calculated according to article 418 of this law.

419.7. The contract containing prohibition to serve the competing company after the contract expiration shall not exceed more than one year's term.

## **CHAPTER FORTY**

### **PUBLIC PROMISE OF AWARD AND COMPETITION**

#### **Article 420. Announcing public promise of award**

420.1. A citizen or legal entity that makes a public promise of award for a specific action or result shall undertake to issue the award.

420.2. The citizen or legal entity shall have the right to receive the award in case it met the announced conditions securing result as specified in Article 420.1 of this law without following the public announcement.

420.3. The party, which promised the award, may alter the award before the actual performance or result, through publicising by the same means, method, procedure and other ways of communication as the initial public announcement.

420.4. It is allowed to include in the public announcement a reference to a possible cancellation of award in case conditions to meet within the announced period are doubtful.

420.5. If several citizens or legal entities meet the conditions for the award, the first to perform the task or secure a result shall be given the award.

420.6. If several citizens or legal entities met the conditions simultaneously, the award shall be divided between them.

420.7. If it is not possible to divide the award or according to the announced conditions it's stated that there will be just one winner, the award shall be given by drawing lots.

#### **Article 421. Competition**

421.1. The citizen or legal entity that announced a public competition and promised an award or to grant the right to a winner who performed the required task undertakes to issue the award or the right as specified by the conditions of the competition.

421.2. The competition conditions shall specify the task to perform, time frame, special right issuing conditions, number and amount of awards, executed work selection procedure and time and other conditions that it deems necessary.

421.3. If it is necessary to change the conditions for the competition for reasons beyond the control of the announcing party, it can be amended within the submission period.

421.4. The party announcing the competition has the right to extend the competition duration, as required, if the requirements to the task change significantly.

421.5. The notice on change of conditions should be made in the same way the competition was announced, and without such notice the initial conditions shall remain valid.

421.6. The party announcing the competition shall not after receiving the consent of participants to take part or relevant material revoke the competition and the winner has the right to claim the award in case of such cancellation.

421.7. If the party announcing a competition breaches the procedure set out in this article, it shall compensate for the damages resulted to participants.

421.8. If a work subject to copyright regulation is created as the result of the competition and receives the award, the competition announcer shall have the right to use it in accordance with the conditions of the competition. Unless specified otherwise by the terms of the competition, the author shall be entitled to receive fees and awards for use of the work.

421.9. Unless specified otherwise by the law or the competition terms, works not awarded or granted a right or which have received an award or were granted a right has not been agreed to be used after the competition according to the competition terms, it shall be returned immediately at the end of the competition.

421.10. If several citizens or legal entities performed the announced task the award shall be issued in accordance to articles 420.5, 420.6 of this law.

## **CHAPTER FORTY ONE**

### **STORAGE**

#### **Article 422. Storage contract**

422.1. Under a storage contract the agent undertakes to store items assigned by the client.

422.2. Unless specified otherwise by the contract the storage shall be free. If the agent specializes in storing within the core business services then it will be assumed that even though there has been no mutual preliminary agreement the storage is for a charge.

422.3. The storage agent has the following rights and obligations:

422.3.1. to store and maintain the assigned assets on equal terms as if its own even if it is on a free service base;

422.3.2. not to transfer the stored assets to a third party without the consent of the client;

422.3.3. not to use the stored assets without the consent of the client unless circumstances force it to;

422.3.4. to change the storing terms and conditions after notifying the client of the necessity;

422.3.5. to notify the client about a third party's claims;

422.3.6. to take all necessary measures to maintain the stored assets in a proper conditions;

422.3.7. to transfer the proceeds resulting from the stored assets to the client during the storage period;

422.3.8. to refuse to release the stored assets until the payment for storage fee, reward or storage expenses are fully paid;

422.4. The client has the following rights and obligations:

422.4.1. to pay the agent the necessary storage costs;

422.4.2. if it is a paid service, to pay to the storing agent, the storage fees after the contract expiration;

422.4.3. to compensate for the damages resulting from the stored assets except in the cases where it was impossible to know about the dangerous nature of the goods.

422.5. The client shall bear the responsibility for the consequences of consented transferring the stored assets to the third party

422.6. The keeper shall bear responsibility for the damages caused deliberately or on negligence after the expiration of the contract and at the time of handing over the stored items.

422.7. Unless agreed otherwise, the stored items shall be delivered to a place specified in the contract and the client shall bear the transportation costs.

### **Article 423. Storage contract duration**

423.1. Storage contracts can be made for definite and indefinite period.

424.3. The parties to the contract concluded for indefinite term shall have the right to terminate it at any time but allow sufficient time for the other party to fulfill the obligations.

### **Article 424. Storage contract liabilities**

424.1. Unless specified otherwise the keeper shall compensate the damages to the client caused by lost, incomplete or damaged assets.

424.2. The client shall be responsible for the damage caused by the failure to inform the keeper about the known or could have known quality defects, and in a case where both parties did not know about or did not have the possibility to know about;

424.3. The party responsible for the failure to store or for the delay in the assigned storage period shall be responsible to pay a penalty fee.

### **Article 425. The right for claim to demand stored items**

425.1. Irrespective of the storage contract period the client has the right to claim the stored items at any time.

### **Article 426. Special storage contract**

426.1. The general procedure for a loan contract shall apply to a special storage contract under which the client assigns to the custody of the keeper an item that can be replaced and on the condition that the same amount and number of items of equal quality will be returned.

### **Article 427. Storing at hotels**

427.1. Hotel, resort, sanatorium or legal person engaged in similar services shall bear responsibility for the perseverance of the property in the clients room other than money, valuables that is required to be stored under special procedure. If the hotel fails to fulfill its obligations it shall be responsible for the loss, shortage or damage caused to the client.

427.2. If the damage specified in article 427.1 of this law is resulted due to unexpected or force majeure circumstances or activities of the client or his/her companion or characteristics of that particular property, hotel, resort sanatorium shall not be responsible for such damage.

427.3. Obligation to compensate the damages shall not be relevant to the property that left in the vehicles.

## **CHAPTER FORTY TWO WAREHOUSE STORAGE**

### **Article 428. Warehousing contract**

428.1. Unless specified otherwise by law the warehouseman shall not be responsible for checking the quality, type, weights and amount, quantity and other properties of the items assigned for warehouse storage.

428.2. If at the time of assignment of property for storage the warehouseman finds apparent defects or lack of component it shall immediately notify the client and be liable for the damage caused to the client from the failure to fulfill this obligation.

428.3. The warehouseman shall bear responsibility for damage in case it fails to inform promptly the last bearer of the storage documents, known to him or her, on the change of or threat to the properties of the stored goods, or transfer of the stored goods to another warehouse.

428.4. The warehouseman shall store at the warehouse goods of similar type together only with the consent of the client. In such case the goods shall become a joint property and the due share of goods shall be determined based on the amount submitted to the storage.

428.5. The warehouseman shall be entitled to return the due share of the goods to the client without permission of other clients.

428.6. The warehouseman shall inform the relevant persons in case of damage or deterioration of the stored goods significantly affecting their value, and sell the stored goods if there is no sufficient time or possibility to inform.

428.7. The general procedures for a storage contract shall apply to a warehouse storage contract unless specified otherwise in this chapter.

### **Article 429. Warehousing documentation**

429.1. The warehouseman shall provide the client with storage documents upon the assignment of the goods.

429.2. The storage documents shall include the following information:

429.2.1. date of issuance and registration number;

429.2.2. names and addresses of the parties to contract;

429.2.3. place of storage;

429.2.4. a number of pieces, amount, weight, color, quality, and packaging description of the stored goods;

- 429.2.5. storage fee and other necessary expenses;
- 429.2.6. insurance fee in case of insuring is involved;
- 429.2.7. term of contract;
- 429.2.8. signature, seal or stamp of a warehouseman.

429.3. The parties may include additional conditions, other than specified in article 429.2 of this law, into storage documents.

429.4. The parties shall not be released from responsibility for failing to include information, required by article 429.2 of this law, in every respect.

429.5. The bearer of the storage documents may put the stored goods on pledge by producing a confirmation of not withdrawing the goods from the storage for purposes to execute other obligations.

429.6. The client may transfer the storage documents to the third party through making a record on it if the warehouseman provides consent.

429.7. The warehouseman shall bear responsibility for the accuracy of the information mentioned in the storage documents in relation to the bearer of the documents if the storage documents were transferred by making records but he/she shall be relieved from such responsibility if records are marked as "according to information submitted by the client or the third party."

429.8. The warehouseman shall bear responsibility in accordance to article 429.7 if he or she knew the information was false although the record was made in relation to it.

429.9. The warehouseman shall not be entitled to enter the records pursuant to article 429.7 if similar goods are stored together.

429.10. The warehouseman that issued the storage consent documents shall release the stored goods only to the lawful bearer of the storage documents.

429.11. The warehouseman has the right to demand to return a storage pledge document if such document was provided.

429.12. The warehouseman shall not bear an obligation to check the accuracy of the documents transferred by making records but to secure the entrance of such transfer in the warehouse records.

429.13. If storage or pledge documents are lost or destroyed the lawful owner may lodge a writ to a court to annul the lost or destroyed documents and a warehouseman shall issue the new storage or pledge documents on basis of the court's ruling.

429.14. In order to pledge the assigned goods for storage the owner of the stored goods shall transfer the pledge document with special records on it.

429.15. The transferred pledge document shall contain information on the client and the creditor and their obligations.

429.16. The warehouseman shall be notified on the transfer of the storage document and make appropriate records.

429.17. The warehouseman shall have the right to retain the stored goods until the payment of the expenses related to storage.

429.18. If the storage documents are transferred through making all necessary records the new owner shall have the right to pledge the stored goods.

#### **Article 430. Expiration of storage term**

430.1. Warehouseman shall have no right to demand the client to withdraw the stored goods until the expiry of terms of a storage contract or if the storage term was not specified –within three months from the date of the assigning the goods for storage.

430.2. If an owner of storage documents fails to remove the stored goods after the expiry of terms of a storage contract, warehouseman shall extend the terms of the storage contract for another two weeks and if the stored goods were not withdrawn within the extended period, have the right to sell the stored goods.

430.3. The remaining of proceeds of sale of the stored goods after deduction of storage fees and other necessary expenses related to the storage shall be transferred to the owner of the storage documents.

### **CHAPTER FORTY THREE**

#### **INSURANCE**

#### **Article 431. A contract of Insurance**

431.1. Under an insurance contract, an insurer shall undertake to compensate fully or agreed amount for any damage caused to the insured party if the insurance event occurs and the insured shall undertake to pay the insurance premium.

431.2. The insurance items can be property, citizen's life, health and other non material interests not contradicting the law.

431.3. A contract of insurance shall be made in writing. A contract which does not comply with this requirement shall be void.

431.4. The insurance contract shall contain the following provisions:

431.4.1. insurance items;

431.4.2. type of insurance perils;

431.4.3. insurable value;

431.4.4. terms of insurance, and conditions for its extension;

431.4.5. insurance premium, and payment schedule;

431.4.6. rights and obligations, and liabilities of the insurer and

insured;

431.4.7. Appraisal, termination or amendment conditions of a policy.

#### **Article 432. Type and form of insurance**

432.1. Insurance shall be voluntary or mandatory.

432.2. Types of mandatory insurance shall be specified by law.

432.3. All types of insurance except specified in article 432.2 shall be voluntary.

### **Article 433. Insurance policies**

433.1. The insurer shall provide the insured party with a signed insurance policy.

433.2. The insurer may request same requirements as those to which the initial insured was obliged by a contract of insurance, from an owner of the insurance policy if the insurance policy was granted indicating a name of particular person or in form of This provision shall not apply in case of the insured party notification of the insurer about the transfer of the insurance certificate or the assignee promptly claimed its rights.

433.3. If prerequisite for fulfillment of obligations under the insurance contract was presentation of the insurance policy pursuant to the insurance contract and the insurance policy was lost, the insured party shall demand performance of the insurance contract only after notifying the nullity of the policy in accordance with the particular proceedings.

433.4. The insured may demand a copy of the lost insurance policy nullity of which was notified in accordance with article 433.3 of this law. Expenses related to such issuance shall be born by the insured party.

### **Article 434. Grounds for discharge of an insurance contract**

434.1. Terms of an insurance contract shall be agreed upon by the insurer and the insured.

434.2. The insurance contract shall be deemed as discharged in the following cases:

434.2.1. the expiration of the term as specified by the contract or law;

434.2.2. the bankruptcy or dissolution of either the insurer or the insured;

434.2.3. a court ruling announcing the contract is invalid;

434.2.4. confiscation of the insured property by a court ruling;

434.2.5. the parties to the contract consented to discharge the contract;

434.2.6. the insurer has fulfilled its obligations under the contract;

### **Article 435. Termination of the insurance contract**

435.1. The insurance contract, concluded for more than five years, may be terminated after three months from the date of notification of the intention to terminate the contract by one of the parties.

435.2. if the contract is concluded with conditions to extend its terms for more than one year, clause on self-extension of the terms of the contract in case of the parties' inaction or not to terminate the contract before the expiration of its terms shall be deemed invalid. The insured shall apply the proceedings specified in article 435.1 of this law in order terminate the contract.

435.3. The insured may terminate the contract within one month if the insurer has increased the insurance premiums.

#### **Article 436. Serious circumstances to terminate the contract**

436.1. The insured shall be obliged to inform promptly the insurer about serious circumstances known to him or her that may cause danger or occurrence of the insurance event at the time of concluding the contract as well as after the conclusion of the contract.

436.2. Circumstances that may cause the insurer to renounce the contract, or to alter conditions of the contract, as well as, which were directly asked by the insurer in written form without double meanings, shall be considered as serious circumstances.

436.3. If the insured fails to fulfill the obligations specified in article 436.1 of this law, the insurer shall have the right to renounce the contract, or to terminate the contract or to increase the insurance premium within one month from the moment acknowledging of such circumstances. The insurer shall be entitled to terminate the contract at any time if the insured has intentionally increased the danger.

436.4. the proceedings specified in article 436.3 of this law shall not apply if the insured attempted to inform the insurer about the serious circumstances but the latter deliberately evaded or knew about the serious circumstances.

436.5. The insurer may renounce the contract if the report on serious circumstances contains false information. But the insurer shall not be entitled to exercise the right to renounce the contract if it was known to the insurer that the report contained false information or the insured was not responsible for submission of such report.

436.6. The insurer has the right to terminate the contract if the insured has deliberately failed to report in writing to the insurer on the circumstances of potential occurrence of the danger.

436.7. If the insurer has informed about the insurance contract termination after the occurrence of the insurance event, and the failure of the insured to report on the potential danger does not lead to the occurrence of the insurance event and affect the implementation of the insurer's obligations, the insurer shall not be entitled to be released from performance of its obligations under the contract.

#### **Article 437. Obligations to pay the insurance premium**

437.1. If the insured fails to pay the insurance premium on time, the insurer may extend the due period for 15 days. If the insured fails again, the insurer shall inform the insured in writing on the consequences of the overdue within the extended period.

437.2. If an insurance event occurs during the period of the overdue of the insurance premium, the insurer shall not be responsible to fulfill its obligations under the contract.

437.3. If the insured renounced the contract before the occurrence of the insurance event, the insurer has the right to claim the insurance premium due for

the duration for that it has been bearing the insurance perils and the fees due for services rendered under the contract.

437.4. If the financial situation of the insurer deteriorates leading to the failure to perform its obligations under the contract, the insured has the right to refuse to pay the insurance premium.

#### **Article 438. The amount of the insurable value**

438.1. The parties shall agree on the amount of the insurable value.

438.2. The insurer has the right to check the insured property and determine its insurable value.

438.3. The insurable value of the insured property shall not exceed the total value of the property.

438.4. If the insurance value of the insured property provided in the insurance contract is higher than the cost of the property, the insurance policy shall be void in respect to the excess value of the property.

438.5. If the insurable value of the insured property is less than the cost of the property, in case of the occurrence of the insurance event, the indemnity value shall be calculated taking the insurable value proportionally to the cost of the property.

438.6. The insurance contract may stipulate higher indemnity value than specified in article 438.5 but this value shall not exceed the total amount of the insurable value of the insured property.

438.7. Loss of the potential profit or income due to the occurrence of the insurance event may be included into the insurable value if it was stipulated the insurance contract.

438.8. If it is determined that the insurable value is considerably higher than the the cost of the insured property, the insurer and the insured have the right to demand to reduce the insurable value, and to lower the insurance premium respectfully.

438.9. The insurance contract shall be considered void if the insured has deliberately increased the insurable value and if the insurer has not acknowledged this fact at the time of concluding the contract, the insurance premium paid before the renouncement of the contract shall be retained by the insurer.

#### **Article 439. Obligations borne by the insurer and the insured in case of the occurrence of insurance event**

439.1. The insured shall promptly notify the insurer about the occurrence of the insurance event.

439.2. The insurer has the right to demand all necessary information relevant to the insurance event or for establishing the indemnity value.

439.3. If the insured has failed to inform about the occurrence of the insurance event but this failure has not caused any substantial damage to the insurer's interests, the insurer shall not be entitled to be released from its obligations under the contract.

439.4. The insurer is obliged to fulfill its obligations under the contract once the indemnity value was determined after the occurrence of the insurance event.

439.5. The insured shall undertake actions according to the insurer's instructions aimed at repelling the danger or reducing the damage, and the insurer shall reimburse the expenses involved in such activities.

#### **Article 440. Rights of the insurance agent**

440.1. The insurance agent shall have the right to conclude insurance contracts.

440.2. If the insurance agent is authorized to conclude insurance contracts, the insurance agent may also have the right to change the contract conditions, to extend the contract terms or terminate the contract.

#### **Article 441. Insurance for the benefit of the third party**

441.1. The insured has the right on its own behalf to conclude an insurance contract for the benefit of the third party (hereafter "interested party"), whose interests are insured, and the latter shall enjoy all rights associated with the insurance policy except the right to demand from the insurer the insurance policy.

441.2. The interested party shall have the right to exercise the rights given in the insurance contract or claim to a court to do so without the insured's consent only in case of possessing the insurance policy.

441.3. If the insurer provided the insured with the insurance policy, the latter shall exercise the all rights arising out of the contract without the consent of the interested party, receive the insurance indemnification or transfer the rights to the interested party if the insurance policy is transferred to the interested party.

441.4. If the insured provides a proof of the third party's consent to the insurance contract, the insurer shall be obliged to indemnify the interested party.

#### **Article 442. Social insurance**

442.1. Types and forms of the social insurance shall be specified by a law.

442.2. The relations arising from the social insurance shall be regulated by a law.

#### **Article 443. Insurance against damages**

443.1. Under the insurance against damages, the insurer shall be obliged to indemnify the insured in the form of money for the damages inflicted to his/her life, health, property or non tangible interests in accordance with the insurable value.

443.2. If a compound property is insured, the insurance policy shall equally cover all its components.

443.3. Irrespective of whether the amount paid as the insurance premium exceeds the indemnity value in case of the occurrence of the insurance event, the insurer shall compensate the insured shall indemnify equal to the damages incurred.

443.4. If the insured has simultaneously insured the same insurable interest with several insurers, the insured shall promptly notify each insurer of that fact.

443.5. In case of the circumstances specified in article 443.4 of this law, the sum of the indemnity values of the insurers is considerably exceeding the cost of the insured interests or the sum of other compensations for the damage for different reasons in form of money are exceeding the cost of the damage incurred to the insured interest, the insurers shall jointly fulfill their obligations. The insured shall not have the right to demand indemnification exceeding the cost of the damage.

443.6. The insurer shall be liable for damages incurred during a war if it was provided in a special contract.

443.7. If the insured claims compensation for damage from the third party the insurer can transfer the claim right but paying out the compensation to the client. In this case insurer shall be relieved from its obligations to the client in the amount it claims from the third party or underwrites.

443.8. If the right to claim under the insurance policy is related to family member residing with the insured, it shall not be allowed to transfer the right to claim without the consent of the family member unless there is a damage deliberately caused by the family member.

443.9. If the insured property is transferred to an other owner, the rights of the insured shall also be transferred to the new owner. The insured shall promptly notify the insurer of the occurrence of such transfer.

443.10. If an insurance event occurs within 1 month from the date when the insurer should have known that the insured had failed to fulfill the obligation specified in article 443.9 of this law, the insurer shall be relieved from obligations under the insurance contract.

443.11. The insurer has the right to terminate the insurance contract following the 1 month rule to terminate the contract.

443.12. The insurer shall lose the right to terminate the insurance contract with the new owner if it fails to exercise the right to terminate the contract within one month from the date receiving a notification of property transfer according to the Item 443.9.

443.13. The person to whom the insurance contract is transferred has the right to terminate the contract promptly or upon the expiry of the terms of the contract.

443.14. The new owner shall lose the right to terminate the contract if the new owner did not know about the existence of the insurance contract at the time of the transfer and did not exercise the right to terminate the contract within one month from the date of acknowledgment of the existence of the insurance contract.

443.15. If the insurance contract was terminated on grounds specified by articles 443.11 and 443.13 of this law, the insured shall be obliged to pay due insurance premium but not exceeding the total for the period the contract was valid including the period of termination. In that case the person to whom the

insurance contract was transferred shall not be liable to pay the due insurance premium.

443.16. If a life insurance contract is concluded for the benefit of a third person, a written consent from either that person or his/her legal representative shall be obtained.

443.17. The insurer shall be relieved from obligations under contract if the person, concluded the life insurance contract, has committed a suicide.

443.18. The person for whose benefit the life insurance contract was drawn shall lose the right to be indemnified if the insured was deceased as the result of an unlawful action of that person.

443.19. If the court ruling on insurance claim is being executed through the compulsory proceeding or bankruptcy case of the insurer is at the court hearing, the person, entitled by the insurance policy to receive the indemnification, shall have the right to participate at the proceedings on the behalf of the insured. If the insurance contract is terminated due to the bankruptcy of the insured, the person, entitled to receive the indemnification by the contract, shall be obliged to be involved in creating a fund, which is distributed to the other by the insured in case of the bankruptcy, in proportion to the due amount of the indemnification, claimed from the insurer.

443.20. If the legal person entitled to receive the indemnification pursuant to the insurance contract is not willing to exercise the right specified in article 443.19 of this law or the insurance contract does not mention any name as a beneficiary, the legal heir of the insured shall be entitled to exercise that right.

#### **Article 444. Liability insurance**

444.1. Under the liability insurance, the insurer shall bear obligations to relieve the insured from the liability to the third person arising during the terms of the contract.

444.2. If the insured was directly claimed to compensate the losses suffered by a third person, the insurer shall bear obligations to indemnify the losses within the limit specified by the insurance contract.

444.3. If it is necessary to compensate expenses, which were incurred in relation to judicial and other proceedings in order to protect against the third person's claim, due to surrounding circumstances of the case in question, those expenses shall be similarly covered by the insurance policy .

444.4. The insurer shall be relieved from its obligations under the insurance contract if the insured has deliberately created circumstances under which the insurer was obliged to be liable to a third person.

444.5. Even if the insurer has been fully or partially relieved from its obligations to the insured, the insurer's liability to the third party shall remain valid under the compulsory insurance policy.

444.6. If the insurer has satisfied the third person's claim pursuant to article 444.5 of this law, the third person's right to claim shall be transferred to the insurer.

**CHAPTER FORTY FOUR  
CREDIT AND PAYMENT LIABILITY**

**SUB-CHAPTER ONE**

**PAYMENT**

**Article 445. Payment contract**

445.1. Under the payment contract, banks or other authorized juristic persons (hereafter shall be referred as the “payment executor”) shall bear the obligation to make non-cash payments of natural or juristic persons (hereafter shall be referred as the “customer”).

445.2. Cash payments may be executed through banks and authorized juristic persons unless otherwise provided by a law.

445.3. Non-cash payments may be made by a payment order, a letter of credit, the collection, a check, a bill of exchange, a debit card, the electronic transaction, the account credit, loan, and other means of financial payments.

445.4. The payment executor shall execute the payment upon the customer’s order or permission for the payment in accordance to the payment contract.

445.5. The payment executor shall not be entitled to limit or supervise the right to dispose the financial assets deposited into the account by the customer unless otherwise specified by a law.

445.6. Banks or authorized juristic persons shall have the right to check completeness of the payment documents.

445.7. The parties to the financial transaction contract may agree to pay the service fee for settling payments under the contract.

445.8. The relationship of the payment settlements through banks or authorized juristic persons shall be regulated by a law.

**Article 446. Obligations of the payer**

446.1. The payment executor shall bear the following obligations:

446.1.1. To maintain a book keeping records on cash and non-cash payments;

446.1.2. To provide the customer with a bank account statement or other information of the account within the period specified in the contract;

446.1.3. To execute transactions from the customer’s account upon the customer’s order or permission for the payment;

446.1.4. To maintain confidentiality of accounts and transactions unless otherwise provided by a law;

446.1.5. To correct any wrongful payment transactions and replace the loss sustained by the customer;

446.1.6. Not to disturb the normal operations of the customer;

446.1.7. Other obligations specified by a law;

**Article 447. The customer’s rights**

447.1. The customer shall enjoy the following rights:

447.1.1. To get information of the account and its transactions at whatever time;

447.1.2. To cancel the payment order before the execution of the payment transaction;

447.1.3. Other rights specified by a law;

447.2. In circumstances as specified in article 447.1.2 of this law, the customer shall promptly notify the payer and the latter shall transfer the amount specified in the payment order back into the account of the customer.

#### **Article 448. Termination of the payment contract**

448.1. The parties shall have the right to terminate the payment contract at whatever time upon the mutual agreement unless otherwise provided by a law or the contract.

#### **Article 449. Letter of credit**

449.1. Upon receiving of the specific documents from the third party (“thereafter shall be referred as the “payee”) the bank, which issued a letter of credit, shall execute the payment to the payee or a person assigned by the payee, or make or accept the payment according to the payee’s bill of exchange, or assign an other bank to execute the payment pursuant to the request, order and instruction of the customer.

449.2. The customer shall pay the agreed service fees to the bank.

449.3. The internationally applicable common regulations and customs, accepted in business routine shall be followed in order to make payments by a letter of credit.

#### **Article 450. Payment by the collection**

450.1. Under payment collection service, the payment executor shall bear obligations to collect payments from the payer, or to make payments to the payee by the order and at the expense of the customer.

450.2. The laws, internationally applicable common regulations and customs, accepted in business routine shall apply for executing the payments in order to make payments by the collection.

### **SUBCHAPTER TWO**

#### **PROVIDING LOANS BY BANKS AND OTHER JURISTIC PERSONS, AUTHORIZED TO CARRY OUT LENDING ACTIVITIES**

#### **Article 451. A contract to provide loans by banks and other juristic persons, authorized to carry out lending activities**

451.1. Under a loan contract, banks and other juristic persons, authorized to carry out lending activities (thereafter shall be referred as the “creditor”) shall bear duties to transfer monetary assets to the borrower for certain period of time in accordance with basis and procedures set out in laws and the borrower shall

bear obligations to pay back that monetary assets and interest on it, if it was provided so in the loan contract, within the agreed period of time.

451.2. The loan contract shall be concluded in writing.

451.3. The lending operations by banks and other juristic persons, authorized to carry out lending activities shall be regulated by laws.

#### **Article 452. Interest on a loan provided by banks and other juristic persons authorized to carry out lending activities**

452.1. Loans may be provided by the creditor with or without interest.

452.2. It may be specified in the loan contract that the borrower shall pay additional interest, not exceeding 20 percent of the main interest, if the borrower fails to pay back the loan within the period specified in the contract. Banks or other juristic persons, authorized to carry out lending activities shall not exploit punitive damages for the issued loans.

452.3. The lender shall be obliged to make interest on its loan are publicly available.

#### **Article 453. The borrower's liabilities**

453.1. The borrower shall bear interest if it is provided so by the loan contract, and additional interest in case of failure to pay back the loan on time.

453.2. If the contract provides that the pledge will be transferred to the creditor without right of action in case of the failure of the borrower to perform the obligations under the loan contract, the creditor shall be entitled to exercise the right to dispose the pledged assets from the expiration day of the contract.

### **SUBCHAPTER THREE**

#### **SAVINGS**

#### **Article 454. Contracts for savings**

454.1. Under a contract for savings, a bank or juristic person authorised to take savings shall undertake to hold the money of the customer on deposit and to redeliver it in the same currency as deposited together with accrued interest.

454.2. A contract for savings shall state the period of deposit, the interest rate or the method of its calculation and the liability of parties in case of the failure to fulfil its obligations.

454.3. A contract for savings shall be concluded in writing, by issuing a savings' book or certificate, or other means defined by laws.

454.4. A customer has the right to terminate the contract at whatever time and withdraw the deposited money together with the interest.

454.5. A bank or juristic person authorised to take savings shall maintain the confidentiality of the customer's savings and transactions related to it unless otherwise provided by laws.

454.6. The bank or juristic person authorised to take savings can insure the savings.

454.7. The activities related to savings by banks and juristic person authorised to take savings shall be regulated by laws.

454.8. The limitation period to claim shall not apply to request to redeliver the deposited money as saving.

#### **Article 455. Period of a contract for savings**

455.1. A contract for savings shall be concluded for a definite or indefinite period.

455.2. If a contract for savings is concluded for an indefinite period, the depository shall return the deposited money and pay interest on it to the customer upon his/her demand.

455.3. If a contract for savings is concluded for a definite period, the bank must return the money and pay interest on the first demand after the expiry of the contract. If the customer does not demand the deposited money at the expiry of the period of the contract, the contract shall be deemed to have been further extended for an indefinite period.

455.4. A bank or juristic person authorised to take savings shall not be entitled to amend the savings contract concluded for a definite period on its own initiative and terminate prior to its expiry.

#### **Article 456. Information on a bank and juristic person authorised to take savings**

456.1. Banks and juristic persons authorised to take savings shall duly notify the public about their annual reports, balance statements and other related information as specified by laws.

456.2. Banks and juristic persons authorised to take savings are obliged to provide customers with information on their financial solvency and credibility.

456.3. Banks, which have released not true and accurate information specified in article 456.2 of this law, shall bear responsibility for damages.

### **SUBCHAPTER FOUR**

#### **BANK GUARANTEE**

#### **Article 457. Contracts for bank guarantee**

457.1. Under a contract for bank guarantee, the bank shall be obliged to settle payments on the behalf of the obligor upon a written demand of the obligee, and the obligor shall be obliged to pay the payment to the bank, issued the guarantee.

457.2. The bank issued a guarantee shall fulfill its obligations irrespective of the obligor's obligations to the obligee under the main contract.

457.3. The bank issued a guarantee shall not have the right to terminate the contract on its own imitative unless otherwise stipulated in the contract.

457.4. The obligee shall not be entitled to transfer the right to demand from the guarantee bank to others unless otherwise specified by the contract.

457.5. If the obligor fails to fulfill its guaranteed obligations born to the obligee, the obligee has the right to demand the payment from the bank in writing.

457.6. The demand specified in 457.5 of this law shall be issued within the period specified in the contract for bank guarantee.

457.7. A bank shall promptly notify the obligor upon receiving the obligee's claim and forward to him/her the claim with copies of the attached documents.

457.8. A bank that issued guarantee shall check within reasonable period of time whether the claim and attached documents thereto are corresponding with the conditions of the guarantee contract.

457.9. A bank shall have the right to refuse to satisfy the obligee's claim if it is found that the documents do not correspond with conditions of the contract or the claim has not been lodged within the period specified in the contract, and promptly inform the obligor in such situation.

457.10. If the obligor has fulfilled its obligations, or the obligations have expired or become invalid before the bank satisfies the claim, the bank shall inform promptly the obligee. If the obligor has demanded again the payment after receiving such notification, the bank shall fulfill its obligations and satisfy the claim.

457.11. The responsibility of the bank issued a guarantee shall be limited by the contract conditions.

457.12. Unless otherwise provided in the guarantee contract, liabilities of the bank, caused by non performance or poor performance of the contractual duties to the obligee, shall not be determined regardless to the limitation specified in the article 457.11 of this law.

457.13. The obligations of a bank issued a guarantee to the obligee shall be terminated in the following cases:

457.13.1. The guaranting bank has fulfilled its obligations to the obligee;

457.13.2. The period of the contract has expired;

457.13.3. The obligee has refused to exercise the right to demand.

457.14. If the obligations of the bank issued a guarantee has been terminated as specified in article 457.13 of this law, the bank shall promptly notify the obligee.

457.15. The proceeding to reimburse the damages, paid to the obligee by the bank, through lodging a counter claim against the obligor shall be determined with a contract between the guaranteeing bank and obligor.

457.16. A bank shall not exercise the right to demand compensation from the obligor if the payment to the obligee by the bank was in breach of the contract terms or the bank has paid damages as specified in article 457.12 of this law.

457.17. If other relations with regards to bank guarantee are not regulated by this law, internationally applicable common regulations and customs, accepted in business routine shall be applied.

## **CHAPTER FORTY FIVE GUARANTEE**

### **Article 458. Guarantee contract**

458.1. Under a guarantee contract the guarantor undertakes to guarantee to the obligee that the obligor shall fulfill its obligations, and to accept the obligation in case of failure.

458.2. The guarantee contract may be concluded covering conditional or future obligations.

458.3. Under the guarantee contract the guarantor's obligations shall be pertained to the obligations of the obligor to the obligee.

458.4. Upon annulations of the main obligations, the guarantee contract shall become invalid.

458.5. The guarantor shall not be held responsible for the consequences of the obligor's agreements reached after the issuance of the guarantee.

### **Article 459. Form of guarantee contracts**

459.1. The guarantee contract shall be concluded in writing.

459.2. If the guarantee granted as part of regular business arrangement it is not necessary to be done in writing.

459.3. The guarantee contract shall specify the limit of the guarantor's liabilities for the failure of the obligor to fulfill its obligations.

### **Article 460. Liabilities of the guarantor**

460.1. Under the guarantee contract the guarantor shall undertake liability to compensate on behalf of the obligor.

460.2. The obligee has the right to demand the fulfillment of the obligations under the contract if it specifies joint liabilities of the guarantor and obligor and the latter fails to perform its obligations, or inability of the latter to perform the duties becomes apparent.

460.3. If the guarantors are more than one person, all guarantors shall be jointly liable for the non performance of the obligations irrespective of whether they have jointly guaranteed or not.

460.4. The guarantor shall undertake liabilities as defined by the guarantee contract.

460.5. The guarantor shall make the following payments within the limits specified in article 460.4 of this law.

460.5.1. Principal debt;

460.5.2. Forfeit and losses if it is specified in the contract;

460.5.3. Expenses sustained in relation to the contract termination;

460.5.4. Expenses related to the adjudication proceedings;

460.5.5. Interest due in accordance with the obligor's main contract unless otherwise specified in the contract.

### **Article 461. The guarantor's rights and obligations**

461.1. If the obligee lodges a claim against the guarantor, the latter shall be entitled to present all refusals which may be raised by the obligor against the obligee.

461.2. In case of the obligor's death, the legal successor shall be liable for performance of the obligations in the equal amount to the inherited property and the guarantor shall cover the remaining part of the liabilities.

461.3. The guarantor shall retain the right to counter action even if the obligor relinquishes its right to raise refusals.

461.4. The obligor has the right to appeal to the court to denounce the main contract, and the guarantor shall be entitled to reject the obligee's claim.

### **Article 462. Obligation of the obligee to report**

462.1. The obligee shall inform the guarantor in case of the failure of the obligor to perform its duties on time.

462.2. The obligee shall provide true information about the obligations of the obligor under the main contract upon the guarantor's request.

462.3. The obligee shall lose its right to raise a claim against the guarantor in case of failure to perform the obligation to provide information in accordance to article 462.2 of this law.

### **Article 463. Termination of guarantee contracts**

463.1. The guarantor shall notify about the termination of the contract in advance of three months if the contract is concluded for an indefinite period.

463.2. Guarantee contracts concluded for the period of more than five years may be terminated in accordance with the procedure specified in article 463.1 of this law.

463.3. If the guarantee contract was terminated on any party's initiative, the guarantor shall be obliged to fulfill its obligations due before such termination of the contract.

### **Article 464. Withdrawal of the guarantor**

464.1. The guarantor shall have the right to withdraw from its obligations on the following grounds if the guarantor bears obligations by the assignment of the obligor or acting as representative of the obligor in accordance with the proceedings to perform other's obligations without an assignment.

464.1.1. A substantial deterioration of the obligor's financial situation;

464.1.2. It has become hazardous to claim from the obligor to perform the obligations due to the relocation of his/her/its residence;

464.1.3. The obligor failed to perform his/her/its obligations on time;

464.2. The obligor may propose means to the guarantor to implement the obligations prior to the expiration of the contract period.

**Article 465. Transfer of all obligee's rights to the guarantor**

465.1. If the guarantor performs an obligation, all rights of the obligee related to that obligation shall be transferred to the guarantor and such transfer shall not cover other rights of the obligee not related to the guarantee contract.

465.2. The obligor shall have the right to raise all refusals, which could have been raised against the obligee, against the guarantor upon the transfer of the rights of the obligee to the guarantor.

**CHAPTER FORTY SIX**

**SETTLEMENT OF THE BALANCE THROUGH CLEARING**

**Article 466. Clearing contracts**

466.1. Under a clearing contract, the parties to the contract shall agree to settle the claims arising in the business transactions through settling balances within the term specified in the contract and be obliged to refrain from raising a claim until the moment of clearing off.

466.2. Remainder of the settlement of the balances shall be paid within the term as specified in the contract and the end of the clearing off shall become the ground for raising a claim to demand the payment of the remainder.

466.3. Conditions of the contract shall be deemed implemented upon the payment of the remainder resulted from the clearing.

466.4. Unless otherwise specified in the contract, the clearing shall be done once a year.

466.5. Interest may be earned on the payment pursuant to the clearing contract.

466.6. If the claims arising out the clearing contract are satisfied by one of the means of performance of the obligations, the obligee shall have the right to demand the clearance balance after the settlement.

**CHAPTER FORTY SEVEN**

**OBLIGATIONS ARISING OUT OF TRADING OF SECURITIES**

**Article 467. Types of securities**

467.1. There shall be certified and uncertified securities.

467.2., Securities, presented by a printed instrument in accordance to the established procedures, shall constitute certified securities and securities, which are not presented a printed instrument and requisites of which are registered in a separate record (balance or computer) shall be considered uncertified securities.

467.3. Securities shall have an established form and requisites.

467.4. Securities with faulted sign or requisites shall be deemed as void.

467.5. Securities shall have the forms of non-bearer, bearer and inscribed.

467.6. A law may prohibit certain persons to issue some types of securities.

467.7. The following persons shall exercise the rights certified by securities:

467.7.1. a person, who legally acquires the rights certified by the bearer securities;

467.7.2. a person, on whose name the rights certified by the non-bearer securities are issued;

467.7.3. an owner of the rights, certified by the inscribed securities, or a person on whose name those rights were transferred with appropriate registration of;

467.8. A person, enjoying the rights certified by the securities, shall be the owner of the securities.

#### **Article 468. Bearer securities**

468.1. A possessor of the bearer securities has the right to demand the payment from the person who issued the bearer securities acknowledging the consent to pay the amount entered.

468.2. A signature on the bearer securities may be executed by all possible means and tools.

#### **Article 469. Rights and duties of an issuer of securities**

469.1. A possessor of securities, who acquires deliberately or gross-negligently the right to possess the securities by illegal means, shall be deemed a possessor in bad faith.

469.2. An issuer of securities shall be entitled to claim any requests related to the securities from a possessor of the securities;

469.3. If an issuer of securities used a technical mean to execute a signature on the securities, the issuer shall not be entitled to raise a claim against a possessor that the earlier was not authorized of using that technical mean, except when the possessor knew that the signature was forgery or acted grossly negligent.

469.4. If securities were transferred to the ownership of a third person, the issuer of the securities shall not be entitled to raise same claims which might be raised against the previous owner of the securities, against the new owner unless has been deliberately harmed.

469.5. Refusals, which can not be put directly, may be exercised only when the possessor of securities acquired the securities through causing deliberately harm to others or being grossly negligent.

469.6. An issuer of securities shall fulfill its obligations only in case of the transfer of the securities to its custody.

#### **Article 470. Conditions to perform obligations certified by securities**

470.1. An issuer of securities and transferors of the securities and rights certified therein shall bear joint liabilities to the owner of the securities in accordance to laws.

470.2. An owner of securities shall have the right to claim for dully performance of obligations and compensation for damage from the persons specified in article 470.1 of this law if the owner discovers that the securities were forgeries, or amended.

#### **Article 471. Performance of obligations by an obligee**

471.1. An obligee, performed obligations to a possessor of securities, shall be relieved from the obligations unless deliberate or grossly negligent failure to prove that the possessor is a possessor in bad faith.

#### **Article 472. Alteration of securities into non-bear securities**

472.1. An issuer of securities shall be entitled to alter the securities into non-bearer securities.

472.2. An issuer of securities shall not undertake an obligation to alter the type of the securities.

#### **Article 473. Defecting or destroying of securities**

473.1. If bearer securities cannot be floated due to defects to them but their signs and marks are identifiable, a possessor of the securities shall be entitled to demand to issue new replacing instruments and pay for costs related to such replacement in advance.

473.2. A person, who invalidated the obligation certified by securities through judicial decision shall be entitled to demand to issue new instruments of the bearer's securities as a replacement of the invalidated ones irrespective whether the demand was satisfied or not and be obliged to pay for costs related to such replacement in advance.

#### **Article 474. Inscribed securities**

474.1. If the ownership of inscribed securities was acquired by registering, the proceedings, specified in article 469 of this law, shall be applied.

474.2. Unless otherwise provided by a law, a person, possessing inscribed securities by registering accordingly on his/her/its name, shall be entitled to demand due payment in accordance with rights certified in the securities.

474.3. An obligee, transferred money to a bona fide possessor of inscribed securities, shall be deemed performed his/her/its obligations, unless the former acted deliberately or grossly negligent.

474.4. An obligee, which has performed his/her/its obligations to pay money to a possessor of securities, shall have the right to own the securities.

**Article 475. Non-bearer securities**

475.1. Non-bearer securities may be issued with a condition of making payments if the securities are presented to an obligee.

475.2. Unless otherwise specified, rights, certified by the securities, shall be transferred in accordance to established procedures for transferring of such rights.

475.3. If non-bearer securities are defected or destroyed, the non-bearer securities shall be deemed void in accordance to proceedings of a special adjudication.

475.4. If non-bearer securities contain a condition to issue a payment to a bearer of the securities, the agreement between an obligee and a possessor of the securities shall be deemed valid irrespective of deliberate or grossly negligent acts of the obligee.

**CHAPTER FORTY EIGHT  
COOPERATION**

**Article 476. Contract for cooperation**

476.1. Under a contract for cooperation, two or more parties shall undertake obligations to act jointly in order to make profits or to implement other specific purposes without creating a juristic person.

476.2. A contract for cooperation shall be concluded in writing or orally.

476.3. A contract for cooperation shall contain the following conditions:

476.3.1. Titles and addresses of parties to the contract;

476.3.2. Types and purposes of the cooperation;

476.3.3. Rights and obligations of the parties;

476.3.4. Rights and duties of a governing body and its structure,;

476.3.5. Procedures for sharing revenues and losses;

476.3.6. Procedures for withdrawal from the contract;

476.3.7. A period of the contract;

476.3.8. Grounds for terminating the contract and procedures for distributing joint assets.

**Article 477. Contributions and shares of parties**

477.1. Parties to a contract for cooperation shall pay a contribution as agreed in the contract. If the contract does not specify an amount of the contribution of the parties, the contribution shall be equal to each of the parties.

477.2. A contribution may be made in form of cash, in-kind payment including properties or service.

477.3. Unless otherwise specified by a contract, contributions, made by parties, shall be their joint asset.

477.4. Proceeds and revenues, accrued from the use, merger or consolidation of the joint asset of parties, shall be joint asset of the parties.

477.5. A party shall be prohibited to transfer own share of the joint asset to a third party without permission of other parties and to grant a permission shall be refused only on justifiable grounds.

477.6. Parties shall have priority right to acquire the share which is about to be transferred to a third party.

#### **Article 478. Joint action**

478.1. Unless otherwise specified by a contract, the parties shall cooperate in implementing the joint actions and be obliged to obtain consent of other parties in order to enter into an agreement.

478.2. If the contract provides that a decision will be reached by a simple majority of the votes of the parties, each party to the contract shall have one vote irrespective of their shares of the contributions made by them.

478.3. If the parties agree to act independently from each other, this shall be reflected in the contract and it is not allowed to conclude the contract in the absence of consent.

478.4. If the parties agree that one party will execute joint actions, that person shall be given powers of attorney to sign contracts and mediate disputes on their behalf.

478.5. The party, neglecting seriously its obligations under the contract, may be removed from the contract by an unanimous decision of parties.

478.6. The parties to the contract shall have the right to withdraw from the implementing contract for cooperation and in such case, shall be entitled to demand necessary information from the governing body.

478.7. Unless otherwise specified in the contract, the rights and duties of the parties, which are performing the duties of the governing body, shall be defined in accordance to terms and conditions of an assignment contract.

478.8. Unless otherwise provided in the contract, profits gained as result of the joint actions, shall be distributed proportionally equal to the shares of the contributions of the parties.

478.9. The parties to the contract may have the right to demand dully performance of the obligations by other participants.

478.10. The parties shall not be allowed to transfer any claims raising out of the contract to a third party.

478.11. The parties shall jointly bear the losses resulted from the joint actions.

478.12. Unless otherwise provided in the contract, the amount of the liabilities shall be distributed among the parties according to their shares of the contribution.

478.13. The parties shall be obliged to maintain the confidentiality of information obtained in the course of implementing their obligations under the contract for cooperation.

#### **Article 479. Withdrawal from the contract**

479.1. The parties shall have the right to withdraw from the contract at any time if the contract does not specify the duration period of the joint actions, or such a withdrawal does not cause any harm the joint action.

479.2. If the contract specifies the duration period, a withdrawal before its expiration shall be allowed only on justifiable grounds.

479.3. Unless otherwise specified in the contract, a withdrawal of a party shall be deemed as an end of the joint action.

479.4. If the remaining parties agree to continue the joint actions despite the withdrawal of one party, the latter shall be awarded money in the amount of its share but its performance of obligations shall be considered before issuing the payment.

479.5. If the joint property of the parties are not sufficient to cover their debts under their combined obligations, the withdrawing party shall pay to others the amount equal to its share.

479.6. The withdrawing party shall retain its obligations to the obligee.

479.7. Any agreement limiting or prohibiting the right to withdraw from the contract for cooperation shall be illegal.

#### **Article 480. Termination of a contract for cooperation**

480.1. The contract for cooperation shall be terminated on the following grounds:

480.1.1. the expiration of the duration period of the contract;

480.1.2. a decision of the parties to the contract

480.1.3. the joint asset is pledged as payment for the debts in accordance to the bankruptcy procedures;

480.1.4. the purpose of the joint action has become impossible to be attained;

480.2. Unless otherwise specified in the contract, the contract for cooperation shall be deemed terminated in case of occurrence of one of the following circumstances:

480.2.1. The contract was cancelled;

480.2.2. Bankruptcy and dissolution of any party was declared by a judiciary decision;

480.2.3. A death of any party.

480.3. Upon the termination of the contract, the un-performed agreements shall be rescinded and parties shall make an inventory of the remaining assets and distribute them among the parties.

480.4. The parties shall fulfill the remaining obligations, accumulated in the course of the joint action, prior to the distribution of the remaining assets or

otherwise parties shall perform the part of the obligations in equal portion to their shares.

**Article 481. Unregistered union and partnership**

481.1. Parties to a contract for cooperation may establish a union or partnership, for which no state registration is required. The members of such an union or partnership shall decide its structure and organization by mutual consent.

481.2. Unregistered unions and partnerships shall be involved in the civil legal relationships through an authorized representative or member.

**Article 482. Joint assets of unregistered unions and partnerships**

482.1. Assets, comprised of membership fees, contributions made by the members, and operational revenues, shall be the joint assets of the members.

482.2. The amount of the membership fees and contributions, donated to the joint assets, shall be decided by the members, which may participate in establishing the joint assets in form money, property and services.

482.3. The authorized representative, appointed by the members, shall exercise the power of disposal over the joint assets.

482.4. Requirements of claims shall be satisfied from the joint assets except apartments under joint ownership.

482.5. Unless otherwise agreed by the members, persons, entitled to conduct activities on the behalf of the union or partnership, shall bear the shared and equal responsibility in case the joint property is insufficient to satisfy the claims.

**CHAPTER FORTY SIX  
GUARDIANSHIP**

**Article 483. Guardianship contract**

483.1. Under a contract of guardianship, a guardian shall undertake the obligation to take care of a ward ,unless otherwise specified in the contract.

483.2. A guardian may provide care in physical form (accommodation, food, clothes) or by money.

483.3. Parties to a contract of guardianship may agree to change the physical form of care by money.

483.4. A contract of guardianship shall be made in writing.

483.5. The duration period of a guardianship shall be set by a contract considering of the purpose and nature of the care.

483.6. A guardian shall not be entitled to sell, pledge or transfer the assets trusted to the guardian without consent of a ward.

483.7. It is prohibited to dispose the ward's property specified in Article 483.6 to perform obligations of the guardian to others.

483.8. If a ward transferred an immovable property to a guardian, the latter shall have the right to pledge it against his or her own claim right.

483.9. The destruction of or damage to the property, transferred to the guardian, shall not be the ground to exempt the guardian from his/her liability.

#### **Article 483. Termination of a contract of guardianship**

484.1. Both guardian and ward shall have the right to terminate the contract of guardianship in case of deterioration of the relations between them or impossibility to perform the contract due to serious reasons.

484.2. Upon the termination the contract of guardianship, the expenses of the guardian prior to such termination shall not be reimbursed unless otherwise specified in the contract.

484.3. If the contract of guardian is terminated, the property shall be returned to the ward.

#### **484. Death of a guardian**

485.1. In case of death of a guardian, the successor to the transferred property shall bear the obligations to take care.

485.2. If the successor refuses to take over the guardian's obligations, the property shall be returned to the ward and the contract shall be terminated.

## **CHAPTER FIFTY GAMBLING AND BETTING**

#### **Article 486. Gambling and betting**

486.1. Gambling and betting shall not create the right to demand any payment.

486.2. Procedures, specified in article 486.1 of this law, shall apply to any transactions of investment at stock exchange or other similar agreements related to gambling or betting, or loans, or advance payments provided for gambling and betting.

486.3. No claims shall be raised in regard to payments, assigned property and other things transferred for gambling or betting except prohibited by a law.

486.4. The claim right shall be exercised only for lottery and similar games permitted by the state.

**Part IV**  
**NON-CONTRACTUAL OBLIGATIONS**

**SUB- PART ONE.**  
**OBLIGATIONS SPECIFIED BY LAW**

**CHAPTER FIFTY ONE**  
**OBLIGATIONS CREATED ON LEGAL GROUNDS**

**SUB- CHAPTER ONE.**  
**OBLIGATIONS ARISING OUT JOINT OWNERSHIP**

**Article 487. Joint property ownership**

487.1. Unless the owners of communal property agreed otherwise, they have the equal right to ownership over their respective share of the joint property.

487.2. Unless the law stipulates otherwise the procedures and requirements of this chapter shall apply to the property owned by several legal persons as a joint property.

**Article 488. Management and use of joint property**

488.1. The decision on the use and the management of joint ownership property shall be reached by the majority vote of co-owners. The votes of the co-owners shall be determined in proportion to the respective shares in the property.

488.2. Unless the majority vote or an agreement provides otherwise, each owner shall have the bona fidei right to demand to manage and use the property in the best interest of the other owners.

488.3. Any restriction of the right to use a part of the partially owned joint property without the consent of the owner of that part of the property shall be prohibited.

488.4. Third parties that take over the joint property rights shall comply with the management and use requirements over the joint property established by the co-owners.

**Article 489. Demand for Annulment of the Joint Property Right**

489.1. Each of the co-owners shall have the right to demand to annul the joint property right.

489.2. The right to annul the joint property rights specified in article 489.1 can be exercised for a considerable reason in spite of the agreement by which such rights was excluded or limited for a certain period.

489.3. Any agreement, stipulating limitation or exclusion of the right to demand to annul the joint property ownership rights, shall be void except as stipulated in article 489.2.

489.4. An agreement to suspend the right to demand the annulment of the joint property ownership rights shall be void in case of death of any co-owner.

489.5. If it is possible to divide the joint property without depreciating its value pro rata to the ownership portions, the joint property right shall be deemed void as considering the property divided physically.

489.6. If it is impossible to divide the joint property physically, the joint ownership right can be terminated through distribution of the proceeds produced by the sale of properties in accordance with the procedure provided in Article 159, and the compulsory auctioning of land or immovable properties.

489.7. If it is impossible to transfer the joint ownership property to a third party, the property shall be sold through an auction among the partial owners.

489.8. The partial owners shall have the right to demand to reorganize the auction in case the property was not sold at the first auction pursuant to articles 489.6 and 489.7. If the second auction does not result in the sale of the property, the owner that initiated the auction shall bear the auction related expenses.

#### **Article 490. Satisfaction of the performance of obligations of partial owners**

490.1. If partial owners are responsible with their respective part of the joint ownership property to perform their obligations, the owners can demand to execute the performance of their obligations with that part of the joint ownership property only when the joint ownership property rights are discharged.

490.2. If it is ought to sell the joint ownership property to satisfy the performance of the obligation, the procedure provided in articles 489.6 and 489.8 shall apply.

490.3. The procedure, specified in articles 490.1 and 490.2 of this law, shall apply in same effect to execute the performance of the reciprocal obligations of the partial owners.

490.4. When the joint ownership property was transferred to one of the partial owners as result of the termination of the joint ownership right, the other owners shall be liable for the defects of their own respective parts in a same way as a trader.

490.5. Nor limitation period shall be applicable in respect to the right to demand to nullify the joint ownership rights.

### **SUB-CHAPTER TWO**

#### **Article 491. Performance of other's obligation without an assignment**

491.1. A party that performs other's obligations without an assignment shall be obliged to execute in a good faith.

491.2. The person that acted for the purposes to prevent a threat to others' properties and interests shall only be liable for intentional or grossly reckless actions in doing so.

491.3. If a damage occurred to the person that acted for the purposes to prevent the threat to other's properties and interests, the latter shall compensate for the damage and the court will determine on the amount of the compensation if they failed to agree on.

491.4. The person that performs other's obligations without an assignment shall notify the person whose interests are being protected as soon as it becomes possible and proceed to perform the obligations until the latter takes over performing the obligations or relinquishes those obligations.

491.5. The person that performs other's obligations without an assignment shall produce a report to the person whose interest are being protected and transfer all results happened by the performance of the obligations to the latter.

491.6. The person that performs other's obligations without an assignment shall be entitled to demand to be compensated for the direct expenses related to the performance of the obligations by the person whose interests were protected.

491.7. If the performance of obligations are not meeting the intentions and interests of the person whose interests are protected, the performer shall not have the right to demand to be compensated for the expenses. If the performer knew about it shall be liable for damages caused to the person whose interests were protected.

### **SUB-CHAPTER THREE**

#### **UNJUST ENRICHMENT**

#### **492. Liability for acquisition of a property without legal justification**

492.1. The party that transferred property to the third party in the course of performing its obligations shall have the right to claim back that property in the following cases:

492.1.1. If no liability arises between the recipient of the property and executor of the obligations, term of the obligation has expired or obligation becomes void;

492.1.2. The principal has a serious dispute and not able, therefore, to demand for performance of its obligations;

492.2. The property transferred to other party cannot be claimed in the following cases:

492.2.1. if the execution of the obligations is conventional and corresponds to moral norms;

492.2.2. the limitation period for such claim has expired;

492.2.3. as for the for void obligations, the claim for transferred property in the course of performing the contract on compensation of the debt contradicts the law;

492.2.4. if one party has transferred property to another in the course of performing its obligations without knowing about the expiration of the limitation period.

492.3. The party that transferred property to third party with the purpose of compelling the latter action or inaction shall have the right to claim property in case the other party's action or inaction does not satisfy the expectations.

492.4. It is not allowed to demand return of property in the following cases:

492.4.1. If the party that transferred property knew in advance about impossibility to achieve the purpose;

492.4.2. If the party that transferred property acts unfairly or restricting the other party actions;

492.5. The party that transferred property shall have the right to claim it back if the transfer was forced through by application of violence or threat except when there is the lawful right of the party in possession of the property to its ownership.

### **Article 493. Requirements to property claim**

493.1. The claim for property transferred to other person shall include the property, all revenues and benefits from it, a compensation for damage, destruction caused to the property or related to confiscation of it.

493.2. In case it is impossible to return the property because of its deterioration or for other reasons, the party that acquired the property without legal grounds shall be obliged to compensate the cost of the property.

493.3. If the party that acquired the property without legal grounds does not made any revenue or profit from the property used or passed over to others, lost or destroyed the property or it deteriorated or for any other reason, it shall not be held liable for lost potential revenue, profits and benefits.

493.4. If the party that acquired the property under the contract is not capable to return property in its natural condition or its money equivalent because of the termination of the contract and this did not serve as a ground for the contract termination or directly related to such consequences, it shall not be obliged to return the property.

493.5. The party that acquired a property without legal justification spent money for its maintenance believing that it owns the property legally shall return that property after the reimbursement of direct expenses and damages. This procedure shall not apply if the property is deteriorated to such condition that the owner neglect is apparent.

493.6. All the revenues earned and potential profits lost due to wrongful acts of the acquirers shall be returned to the legal owner or possessor of the property from the moment of acquisition of the property in dishonest way and without legal grounds or as for the person who acquired the property honestly, from the moment when such acquirer has learned or should have known of the lack of legal grounds for acquisition of the property. If it is impossible to return them, the cost for the proceeds shall be paid.

493.7. The party which acquired the property without legal justification shall compensate damages caused with destroy or deterioration of the property due to its own fault in the course of returning to the legal owner.

493.8. The party that acquired the property in the course of action in others' interest without an assignment has the right to demand reimbursement of expenses related to this property. The party whose interests were protected shall only be held responsible for direct and necessitated expenses.

493.9. The provision of Article 232 of this Code shall not apply for the claim to return.

#### **Article 494. Obligations of the Third Party to Return Property**

494.1. If the party that acquired the property without legal grounds passes it on to a third party for free-of-charge, the latter shall be obliged to return the property to its legal owners.

494.2. The respective provisions of Articles 492 and 493 shall apply in this case.

#### **Article 495. Liability for Illegal Disposal of Others' Property**

495.1. The party which infringed the other rights by using their property without the consent of legal owners and disposed it by mixing it with other substances, consolidating, or reprocessing, shall compensate the damage to the entitled owners.

495.2. If the lawful owners' rights are infringed as specified in Item 495.1.1, they shall have the right to demand immediate compensation of damage from the violator.

495.3. If the property was disposed of on the precondition of back payments, the proceeds shall comprise a part of the compensation for damage to the lawful owner.

495.4. The person infringing others rights shall be released from liability in case of not knowing of the lack of the rights due to his or her apparent negligence or if there are no reasons to deem him or her as owning property without legal justification.

495.5. The expenses borne by the violator during the use of others' property do not form the basis for reduction of the amount of the property held without legal justification.

495.6. In case the violator was aware of others rights but deliberately violated them, the legal owner shall have the right to demand compensation exceeding the damage caused to the property.

495. 7. The violator shall be obliged to provide truthful information on the incomes derived from the use of others' property without legal justification.

#### **Article 496. Enrichment through saving its own property or using others' expenses**

496.1. If any juristic person paid the debts of another party knowingly or by mistake leading to the exemption of the latter from liability, it shall have the right to demand reimbursement of the expenses from the person exempted from liability.

496.2. The party that expended on the other party property on its own will or by a mistake and to the benefit of the latter, it shall have the right to demand compensation of such expenses.

496.3. No compensation shall be allowed in the following cases:

496.3.1. if the liable party has a counter claim and deducts the due amount from the liability;

496.3.2. if the party raising a claim failed on its own fault to inform the liable person in reasonable time period.

496.3.3. if the liable party disputes the reimbursement before payment is made.

## **SUB-PART 2 OBLIGATIONS FOR TORTS**

### **CHAPTER FIFTY TWO OBLIGATIONS FOR DAMAGE**

#### **Article 497. Grounds for liability caused by damage**

497.1. A legal person who caused damage to others' rights, life, health, dignity, business reputation or property deliberately or due to negligent action (inaction) shall compensate for that damage.

497.2. If the legal person proves that that damage did not occur as a result of his/her own fault, he or she shall be released from liability for the damage except as provided by law.

497.3. If damage was caused by several persons, those persons including not only those who caused directly that damage, but also those who urged to, assisted with, and knowingly benefited out of consequences of the damage shall be collectively liable.

#### **Article 498. Liability for damage caused by legal entities and government officials**

498.1. If an employee causes damage to other party in the course of discharging his or her duties under a labour contract and as a result of fault action (inaction), the employer shall be liable for that damage.

498.2. If a government official causes damage to other party as a result of a miscarriages of the official duties or other form of misconduct (inaction), the administrative bodies that employ the wrongdoer or the state shall be liable for the damage unless otherwise provided by law.

498.3. The legal entities specified in articles 498.1 and 498.2 shall be exempted from liability if the damage results from deliberate or negligent actions of the sufferer or the latter failed to undertake preventive measures by legal means against possible damage.

498.4. If a legal person was taken to court as a defendant, sentenced, arrested, detained or arrested through administrative procedure, or provided surety not to leave and those violated rights were restored afterwards, the damage caused to that person shall be compensated by the state irrespective of whether police registrars, investigators, prosecutors or judges were in fault or not.

498.5. If the persons, specified in Items 498.1, 498.2 and 498.4, caused damage with their deliberate or negligent actions, the entities, compensated for the damages, shall have the right to claim to be compensated for damages caused to them by those persons.

**Article 499. Liability for damage caused by use of transportation means**

499.1. An owner of a passenger or freight forwarding transportation mean shall bear responsibility of the harm to others life, health and damage, loss or destruction of their property caused in the course of using the transportation mean.

499.2. No liability, specified in article 499.1, shall be imposed if damage was caused as a result of special circumstances such as emergency or force majeure in the course of the use of the transportation means other than aircraft.

499.3. A person, caused damage using a transpiration mean without the consent of its owner or possessor, shall be liable for such damage. However, the owner or possessor of the transportation mean shall not be released from liabilities if there was an opportunity to use the transportation mean due to his/her default.

499.4. The owner or possessor of the transportation mean shall be held liable for the damage if the transportation mean was assigned or transferred to the violator by him/herself.

**Article 500. Liability for damage caused during construction or utilization of buildings**

500.1. An owner or possessor of a building shall be liable for damage caused by improper maintenance, and partial or complete collapse of the building except was deficient or damaged.

500.2. The owner or possessor of the building shall be exempted from liability if the damage caused due to the special circumstances of emergency or force majeure, or with falling of something due to wrongdoing of the victim, or with throwing or pouring of something.

**Article 501. Liability for damage caused by animals**

501.1. An owner or possessor of an animal shall be liable for the damage caused to others life, health by acts of his/her animal.

501.2. The owner or possessor of pets or animals, serving for professional activities, shall be exempted from liability for the damage caused by act of such animals except resulting from deliberate or negligent actions of the owner or possessor.

**Article 502. Liability for damage caused by actions or thing dangerous to surroundings**

502.1. If damage occurs as result of alterations into the structure and design of buildings or constructions without a permission, inside installation or transmission of electricity, or is caused by things with conflagration, explosive or poisonous effects, the person, carried out such dangerous action, or the owner or possessor of that dangerous stuff shall be liable for the damage to others' life, health and properties.

502.2. An owner or possessor of a building and construction that may cause especial danger shall bear liability, specified in article 502.1, irrespective of whether they were in fault or not.

502.3. An owner of a building or construction shall be exempted from liability for damage, caused to other inside or at the vicinity of the building if he/she was not guilty of.

**Article 503. Liability for damage by minors and legally incapable persons**

503.1. Legal representatives, parents or guardians of minors, aged from 7 to 14, or legally incapable persons shall be liable for damage caused by those minors or incapable persons.

503.2. If minors aged from 7 to 14, cause damage while they are under direct supervision at schools, kindergartens or health organisations, those organisations shall be liable for that damage.

503.3. If a person considered as legally incapacity due to mental disorder causes damage to others, his or her guardian or the legal person responsible for his/her regular supervision shall be liable for that damage.

503.4 If parents or guardians prove that they have fulfilled their duties properly they may be exempted from the liability for the compensation.

503.5. Minors shall be personally liable for the damage they caused to others but if their remuneration, income or property under their disposal is not sufficient to compensate for the damage, their parents or guardians shall be obliged to pay for the unpaid portions.

503.6. The procedure provided in article 503.4 shall apply to the damage compensation specified in article 503.5.

**Article 504. Liability for damage by persons incapable of understanding the consequences of their actions or of administrating their own affairs**

504.1. If a person who is not fully deprived of legal capacity causes damage while incapable of understanding the consequences of hi/her own actions or of administrating his/her affairs, he/she shall not be liable for that damage.

504.1. Persons who were in such state as a result of consuming narcotics, substance affecting mentality or alcohol shall not be exempted from liability as specified in article 540.1.

**Article 505. Compensation for damage to others health**

505.1. A person who causes damage to other's health shall pay wages and income or their equivalent which the injured person loses as a result of not being able to work, and such necessary expenses as medical treatment, additional food, cost of artificial limb production, recovery stay in sanatorium.

505.2. If the injured person does not have salary or income at the time the damage was caused, he or she may claim compensation no less than the minimum wage provided by law.

**Article 506. Compensation for damage to minors of less than 16 years of age**

506.1. If damage is caused to the health of a minor of less than 16 years of age or who does not receive salary or income, the wrongdoer must compensate that minor for expenses as specified in article 505.1.

506.2. If a minor reaches 16 years of age and his or her health has not improved, parents or guardian may raise a compensation claim in the amount of no less than the minimum wage provided by law.

506.3. If a minor aged less than 16 years was employed and received salary, remuneration or income at the time that damage is caused, it shall be compensated according to the amount of not received salary or income.

**Article 507. Alteration in the amount of compensation**

507.1. If a citizen partly loses his/her ability to work as a result of damage to his or her health, so as to diminish work capacity in the future, or if the amount of his/her allowances is reduced, he or she may demand from debtor to increase the amount of compensation to the appropriate extent.

507.2. If the amount of wages or income of the injured person increases as the result of improvement of his or her ability to work, the debtor may demand to reduce the amount of compensation for damage.

**Article 508. Recovery of damages resulting from the death of an injured person**

508.1. The heir of the person who deceased after receiving injuries shall have the right to demand reimbursement for the expenses related to the funeral and a compensation for the damage.

508.2. **Either one of the** parents or spouse who does not have permanent income and is bring up children, sisters and brothers, grandchildren of less than eight years of age of the person deceased after receiving an injury, the children born after the death, the person who lost ability to work and was taken a care by and would have received an allowance after death of the deceased person shall have the right to receive compensation.

508.3. The amount of compensation shall be set at the average monthly salary or income of deceased person after deducting the amount due to person at the sufferer's custody but able to work. The allowance for losing a bread-winner shall also be deducted from the compensation due to entitled persons.

508.4. The compensation for damage shall be issued for the following periods:

508.4.1. in respect of children of the victim until they reach age of 16 and if they are studying, until they reach age of 18;

508.4.2. in respect of women more than 55 years of age and men more than 60 years of age until their death;

508.4.3. in respect of disabled citizens for the duration of their disability;

508.4.4. in respect of either one of the parents or spouse of the deceased person without permanent income and who bringing up the children, sisters and brothers, grandchildren of less than eight years of age of the deceased person until they reach age of eight;

### **Article 509. Payments for death or loss of ability to work of an injured person**

509.1 Payments for death or the loss of ability to work by injured person shall be made monthly.

509.2. If the operations of a legal entity liable for the compensation terminate with no legal successor, the liabilities of that legal entity of compensation for the death or loss of work ability by an injured person shall be collected as a first priority pursuant to article 32.5 and transferred to social insurance institutions to be regularly issued.

509.3. A court may alter the amount of payment at the request of the payee, taking into consideration the inflation rate.

### **Article 510. Compensation for damage to property**

510.1. A person who causes damage to the property of another shall compensate for that damage by restoring the damaged property to its original state (substitution of property of a similar description, species and quality or repair of defective property) or shall compensate for the resulting damages.

### **Article 511. Compensation for non material damage**

511.1. If the party responsible to distributing information damaging the good name, dignity and business reputation of others fails to prove that it is true, it shall be liable to compensate the non material damage in monetary or other form regardless of whether there has been any material loss.

511.2. A court shall determine the amount of monetary compensation for non-material damage within the amount of the plaintiff's claim taking into account the way the information was disseminated and the scope of dissemination, the psychological consequences to the affected person, and other thing, and shall order to disseminate a correction in ways and methods by which the information was initially disseminated.

511.3. The procedures specified in articles 21.4, 21.5, and 21.6 shall apply to this article in the same way.

**Article 512. Liability for damage caused by defective products, goods, works and services**

512.1. The producer of defective products and goods shall be liable for damage resulting from those products or goods irrespective of whether it has concluded a contract with the injured party.

512.2. The producer of product and goods shall be released from the liability specified in article 512.1 in the following cases:

512.2.1. the goods and products were not made for commercial purpose;

512.2.2. it is verified by documents that goods and products were not defected at the time of production to a degree to cause damage;

512.2.3. Although the goods and products were defective; they were meeting respective standards and norms at the time of production;

512.2.4. it was impossible to reveal the defects due to the the level of scientific and technological development at the time of the production for the commercial purposes;

512.2.5. it was proven that the damage was caused due to the violation of storing and utilization procedure by the producers or vendors.

512.3. The party that inflicted damage as specified in article 512.2.5 shall be liable for the damage.

512.4. The procedure specified in this article shall apply to the liability for damage caused by defective work and service.

**Article 513. Claim for reimbursement of compensation**

513.1. The social insurance and welfare institutions or authorized agencies that made payments related to damage to life or health shall have the right to claim the compensation from the liable person or legal entity.

513.2. The person or legal entity which are liable for the damage shall be obliged to compensate the organization for damage in accordance with the requirements of the claim for reimbursment.

513.3. If the amount of compensation is reduce in accordance with grounds set forth in article 507 of this law, the amount of liability imposed in accordance with the requirements of the claim for reimbursement shall also be reduced.

**Article 514. Consideration of fault of of the injured person and proprieties of wrongdoer**

514.1. if any omission or inaction of the injured person adversely affect the amount of damage or increase the amount of damages, the amount of compensation payable may be reduced taking into account those circumstances.

514.2. The court can reduce the amount of the compensation for damage taking into consideration the financial situation of the liable legal person except such damage was inflicted deliberately.

**Part V**  
**CHAPTER FIFTY THREE**  
**INHERITANCE**  
**GENERAL PROVISIONS**

**Article 515. Basis for inheritance**

515.1. Property and rights of a testator shall be inherited.

515.2. A successor shall bear duties of the heir equal to the size of the inheritance.

515.3. Inheritance shall be governed in accordance to the law or by a testament.

515.4. The Statutory order of inheritance may be altered only by the testament of a testator .

515.5. If the right of succession by law or the testament is lost and, the heritable property of deceased shall be transferred to the state ownership (as if it was lost property).

515.6. If only part of the heritable property of deceased is bequeathed, the remaining part of property in the absence of lawful successor shall be transferred to the state ownership (as if it was lost property).

**Article 516. Inheritance of the intellectual property**

516.1. The right to inherit intellectual property shall be recognized only as a property right. The right to inherit intellectual property may be acquired by law or testament.

516.2. The inheritance right over intellectual property shall be valid for the period of 50 years.

516.3. Other personal rights except those specified in Item 516.1 shall be transferred to the state on the ground provided by law.

**Article 517. Renunciation of the right to inherit**

517.1. If a court found a person guilty of murder or other unlawful actions leading to the death of the testator, any of lawful successors or resulting in their death, he or she shall loose the right to inherit under the law and the testament.

517.2. The transfer of the inheritance shall be suspended until the end of a court trial establishing guilt or innocence of the legal person on grounds specified in article 517.1 and measures shall be taken in accordance to Article 537 to protect the respective share of the inheritance due to him or her.

**Article 518. Date of opening inheritance**

518.1. The date of opening inheritance shall be the day of the testator's death or that stipulated in Article 24, if he or she is declared to be deceased.

**Article 519. Place of opening inheritance**

519.1. The place of inheritance shall be the last place of residence and, where all or most of the heritable property is situated if the former is unknown.

**CHAPTER FIFTY FOUR  
STATUTORY INHERITANCE**

**Article 520. Lawful successor**

520.1. The following persons shall be lawful successors and be entitled to equal shares of heritable property:

520.1.1 The testator's spouse, adopted children, children born before or after the death of testator, parents or foster parents.

520.1.2. In the absence of lawful successor specified in Item 520.1.1 or in case they relinquished their inheritance right or their right was revoked, the inheritance right shall transferred to the grandparents, brothers and sisters, grandchildren of the deceased.

520.2. In the absence of lawful successor specified in Item 520.1 or in case they relinquished their inheritance right or their right was revoked, the right on inheritance under the law shall be transferred to the great-grandchildren who shall inherit the share due to their parents.

520.3. If there is a disabled person who stayed under the testator's care for no less than one year before the death aside from successors specified in Items 520.1, 520.2, he or she shall claim an equal share of inheritance.

520.4. Household belongings, irrespective of hereditary sequence or condition, shall be passed on to the lawful successor who lived together with testator at the time of death of the deceased.

520.5. The personal property of married couples shall be inherited in accordance with articles 520.1- 520.3 of this law.

520.6. Only the persons specified in Item 520.1.1 of this law shall have the right to inherit the share of the joint property, which belong to the member of family, in kind or in form of money.

**Article 521. Inheritance of property parts not covered by testament**

521.1. If part of property is transferred to the successor under the testament, the remaining property shall be transferred to the lawful successor under the law.

## **CHAPTER FIFTY FIVE INHERITANCE UNDER TESTAMENT**

### **Article 522. Contents of testament**

522.1. Citizens have the right to bequeath at own discretion all or part of own property or rights to one or several persons, who are or are not lawful successors, or to the state or juristic persons.

522.2. The testator who devises or bequeathes his or her property to the state or juristic persons may indicate its utilization.

522.3. If a citizen bequeathed his or her property to other than the lawful successors, children under 18 years of age, or children unable to work, or born after the death of the deceased or , spouses unable to work, parents (foster parents) and other lawful successors shall be entitled to inherit no less than two thirds of the heritable property. Shares of deceased in joint and personal property shall be included in determining the total amount of the heritable property.

522.4. Article 522.3 shall not apply if the rights to inherit of a successor or several or all successors are revoked by law.

522.5. If a successor indicated in a testament dies or relinquishes his or her right to inherit prior its opening, the testator may appoint another successor.

### **Article 523. Form of testament and its attestation**

523.1. The testament should be made in writing and indicate the place and date of its making, and certified by a notary. If no notary service is available, the testament shall be certified by soum's or bag's governor.

523.2. The testament shall be treated as having been certified by a notary in the following circumstances:

523.2.1. a testament of a military serviceman certified by the commander of his or her military unit;

523.2.2. a testament of a prisoner or a prison employee certified by the governor of the prison;

523.2.3. a testament of a passenger or crewmember certified by the captain of the vessel;

523.3. The testament not meeting requirements specified in articles 523.1, and 523.2 shall not be valid.

### **Article 524. Obligations of testamentary successors**

524.1. The testator has the right to impose any obligations on his/her testamentary successor for the benefit of a lawful successor or other persons or the public.

524.2. The successor shall implement the obligation only to the extent of the property or rights he or she inherits.

524.3. In case of death of the successor or refusal to accept the inheritance, the imposed obligation shall be transferred to other successors who accept the inheritance in question.

**Article 525. Amendment or revocation of testament**

525.1. A testator has the right to amend or to revoke the testament at any time.

525.2. A testament shall be deemed revoked or amended by issuance of a new testament or a relevant document of revocation of the former testament. The newly issued testaments or the documents of revocation shall be certified in accordance with Article 523 of this law.

**Article 526. Execution of testament**

526.1. The execution of the testament shall be assigned to the successor, appointed in the testament.

526.2. A testator may appoint another person as an executor of the testament.

526.3. The executor of the testament shall accept the obligation by expressing his or her consent in writing on the testament or producing a separate document attached to the testament.

526.4. The executor of the testament shall undertake all actions necessary for execution of the testament and exercise the right for compensation from the inheritance property for all expenses issued in the course of executing, managing or protecting the inheritance.

526.5. The executor of the testament shall be obliged to present the successors a report on execution of the will.

**CHAPTER FIFTY SIX  
ACCEPTANCE OR REFUSAL OF INHERITANCE**

**Article 527. Acceptance of inheritance**

527.1. Inheritance shall be deemed executed on acceptance of heritable property.

527.2. A successor shall not have the right for temporary and conditional acceptance of the heritable property.

527.3. Property accepted by successors is considered to have been transferred to their name from the date of opening the inheritance.

**Article 528. Procedure for accepting or refusing inheritance**

528.1. The inheritance shall be deemed accepted if the successor who lived with the testator prior to his or her death fails to produce within three months after the date of opening the testament a document certified by notary or, in the

absence of such, by soum or baga governor and expressing his or her refusal to accept the inheritance.

528.2. The inheritance shall be deemed accepted by other successors except those specified in article 528.1 if, within one year from the date of opening of the inheritance, they have possessed or administered the heritable property pursuant to law or placing a request to a notary office, soum's or bag's governor for a certificate of acceptance or right of acceptance.

528.3. In case the successors not have declared the acceptance note or report on refusal of the inheritance to authorized agencies or person within period specified in Items 528.1, and 528.2 their right for inheritance shall be deemed relinquished.

528.4. The period of the inheritance acceptance can be extended by court for respected grounds. If the period of the inheritance is extended the successor who failed to claim the inheritance on time shall have the right to the share of property accepted by other successors or transferred to the state and to receive due part of the inheritance if readily available or its money equivalent if the property was sold.

528.5. A successor has the right to transfer the right to inherit to other successors or to refuse to accept the inheritance.

#### **Article 529. Transfer of the inheritance right**

529.1. If the successor under the law ortestament has deceased after the date of opening the testament but before accepting the inheritance, the right for the due share of the deceased in the inheritance shall transferred to his or her successors.

529.2. This right of the deceased successor can be executed in accordance to general provisions but if the remaining time is less than three months, it shall be deemed valid for three months.

#### **Article 530. Acceptance by successors of inheritable property prior to the execution by other successors**

530.1. The successor may possess the inheritable property before other successors appear but he or she shall not to sell, to give as a gift or to pledge, or to bequeath within one year from the date of opening the inheritance or before receiving a certificate about the right to the inheritance.

530.2. The successor which accepted the inheritance in accordance to article 530.1 has the right to withdraw the following expenses:

530.2.1. expenses spent on medical treatment and funeral of the deceased;

530.2.2. expenses on the persons under the custody or those with the right to receive allowance from the deceased;

530.2.3. to satisfy claims for salary or other similar expenses;

530.2.4. expenses spent on the protection of the inheritance;

#### **Article 531. Issuance of certificate of right to inherit**

531.1. A lawful or testamentary successor shall submit an application for the certificate on the right to inherit to a notary office or, in the absence of such, to the soum or бага governor at the place of the opening of inheritance.

531.2. A certificate of right to inherit shall be issued to the successor after one year after the date of the opening of inheritance.

531.3. A certificate of right to inherit can be issued before the expiration of the term specified by article 531.2 of this law, if it is proven that there are no successors other than the one who requested a certificate or accepted the inheritance.

531.4. A certificate of right to inherit can be issued to a successor within one year from date of the opening of inheritance upon presentation of a testament in the absence of other successors as specified in article 522.3 of this law.

531.5. A certificate of right to inherit shall be issued to the respective government agency after one year after the date of the opening of inheritance if there are not successors to the inheritance and it was transferred to the state.

### **Article 532. Distribution of inherited property**

532.1. Upon agreement of all of the successors participating in the inheritance, the heritable property shall be distributed in the shares due to each successors including lawful and testamentary successors. A court shall decide disputes over such distribution.

532.2. Part of the inheritable property due to the successor conceived when the testator was alive but not yet born shall be allocated separately.

532.3. To protect the interests of not yet born successor a representative of a guardianship institution shall be present at the distribution of the inheritance.

## **CHAPTER FIFTY SEVEN INCREASE OF INHERITABLE PROPERTY**

### **Article 533. Increase of inheritable property**

533.1. If one of the successors under the law refuses from a share due without assigning a successor or his or her inheritance right has been revoked, the share of the inheritable property shall be distributed to other successors on equal basis.

533.2. If the testator bequeathed all his or her property but one of successors under the testament refuses from the due share without assigning a successor or his or her right to inherit has been revoked, the due share of the inheritable property shall be distributed to other lawful successors specified in article 522.3 of this law on equal basis.

533.3. If the testator bequeathed parts of his or her property but one of successors has been relinquished from the list of successors on grounds specified in article 533.2 of this law the due share of inheritable property of him or her shall be distributed among other lawful successors on equal basis.

533.4. If there are no successors of the inheritable property as specified in articles 533.1- 533.3 of this law, the property shall be transferred to the state.

**Article 534. Consequences of changes in appointment of testamentary successors**

534.1. If a testator has appointed a new successor to the due parts of inheritable property following exclusion of a testimony successor on the grounds specified in article 517 of this law, articles 533.2 and 533.3 shall not apply .

**CHAPTER FIFTY EIGHT**

**LIABILITIES OF SUCCESSORS FOR OBLIGATIONS OF TESTATORS**

**Article 535. Liabilities of successor**

535.1. A successor or government agency which accepted the inheritance in accordance to this chapter provisions shall bear obligations of the testator to the extend of the total value of inherited property.

535.2. At presence of several successors specified in article 535.1 of this law, they shall be liable for the testator's obligation in equal to respective shares of the inherited property by him or her.

**Article 536. Lodge of a claim by the principal of testators**

536.1. A principal of obligations of a testator shall lodge a claim to satisfy his or her or its claim to successors, testament executors, notary office or the government agency, which accepted the inheritance, within one year after the date of the opening of inheritance.

536.2. If a principle of testator's obligations lodged a claim in accordance to article 536.1 of this law, he/she/it shall be entitled to issue a writ to a court within one year after the date of receiving a response on his/her/its claim or the date of the expiry of the lodging a claim.

**CHAPTER FIFTY NINE**

**PROTECTION OF INHERITABLE PROPERTY**

**Article 537. Procedure and term for protection of inheritable property**

537.1. A notary office in a place of the opening of inheritance or, in the absence of such, the soum's or bag's governor shall take, if it is deemed necessary, required measures to protect the inheritable property in the interests of a successor, executor of the testament and the state.

537.2. An inheritable property shall be protected until of its acceptance by all successors or its transfer to the state ownership.

**Article 538. Assigning administrator for inheritable property**

538.1. if a principle of a testator's obligations issued a writ to a court or in other necessary circumstances local administrative bodies shall appoint an administrator for inheritable property. The costs of administration shall be deducted from the inheritable property.

## **PART IV PRIVATE INTERNATIONAL LAW**

### **CHAPTER SIXTY GENERAL PROVISIONS**

#### **Article 539. International treaty**

539.1. Mongolia shall conclude international treaties on the basis of the general principles of the Civil Code of Mongolia.

539.2. Unless an international treaty of Mongolia contains provisions providing otherwise than those of the Civil Law and they do not contradict the Constitution of Mongolia, the provisions of the international treaty shall prevail.

#### **Article 540. Application of foreign law**

540.1. If it is necessary, Court may apply foreign laws, legislative acts and or internationally accepted practice not contradicting Mongolian law or the international treaties of Mongolia to civil litigations, disputes and for regulating other civil law relations.

540.2. If the foreign laws stipulate the application of Mongolian law the Mongolian legislation shall be applied.

540.3. Foreign laws can be considered for classification of law relations, if the Mongolian law does not identify clearly the civil relation's aspect or defines it under other legal term, but with different legal context or it is impossible to classify through interpretation of Mongolian law.

#### **Article 541. Ascertaining foreign law**

541.1. When applying foreign law, courts and arbitration bodies shall ascertain their legal framework within the context of their official interpretation and practice.

541.2. Courts and arbitration bodies may request the central governmental agency in charge of legal affairs, other competent authorities in Mongolia or abroad to provide legal assistance and interpretations as well as to invite specialists in order to ascertain the contents of foreign law.

541.3. Parties shall have the right to issue documents defining the respective content of foreign law.

541.4. Mongolian law shall be applied in case it is impossible to ascertain foreign law content despite the best effort in accordance to this provision.

### **Article 542. Limitation period**

542.1. Limitation period shall be determined in accordance with Mongolian law or the international treaties of Mongolia regulating certain relations.

## **CHAPTER SIXTY ONE**

### **PARTICIPANTS TO INTERNATIONAL CIVIL LAW RELATIONS**

#### **Article 543. Civil law capacity and capability of foreign citizens and stateless persons**

543.1. The civil law capacity of foreign citizens and stateless persons shall be equal to that of citizens of Mongolia but it can be restricted by Mongolian law.

543.2. The civil law capability of foreign citizens shall be determined by the law of the state of which those citizens are nationals.

543.3. The law capability of stateless persons shall be determined by the law of the state where they have permanent residence.

543.4. The refugee's legal status shall be determined by law of the state that provided asylum.

543.5. The law capability of foreign citizens and stateless persons in respect of their contractual obligations and torts occurring on the territory of Mongolia shall be determined by Mongolian law.

543.6. The deprivation or restriction of civil law capability of any person on the territory of Mongolia shall be determined by Mongolian law.

543.7. The declaration of any person to be missing or dead on the territory of Mongolia shall be made in accordance with Mongolian law.

#### **Article 544. Civil law capacity of foreign juristic person**

544.1. The determination of the civil law capacity of foreign juristic person under the law of the state of which such juristic persons are nationals shall be recognised by Mongolia.

544.2. A foreign juristic person entering into agreements shall not apply restrictions that are not specified by Mongolian law.

#### **Article 545. State participation to international civil law relations**

545.1. Unless law provides otherwise, this law shall apply in cases where the state enters as one party into civil law relations.

#### **Article 546. Announcing a citizen to be missing or dead**

546.1. In announcing a citizen to be missing or dead the applicable law of respective state he or she held the citizenship while alive or where seen last shall be considered.

546.2. In announcing a stateless person to be missing or dead the law of the state of his her permanent residence shall be considered. In case if he or she do not has a permanent residence the Mongolian law shall apply.

## **CHAPTER SIXTY TWO OWNERSHIP AND OBLIGATION LAW**

### **Article 547. Ownership right**

547.1. The right of property ownership shall be determined as follows:

547.1.1. the property - by the law of the state it is located;

547.1.2. the property subject to registration- by the law of the state it is registered;

547.1.3. relations pertaining to the creation and termination of the property ownership rights – by respective documents, and in other case - by the law of the state where such rights were first created, unless the Mongolian law provides otherwise;

547.1.4. the property as subject of transaction - by the applicable law for transaction, unless the parties agreed otherwise.

547.1.5. the goods transported under international contracts - by the law of the state from where the shipment's was dispatched, unless the parties agreed otherwise;

547.1.6. the owner's rights claim to protect its ownership right - by the law , which choused by owner from the law of the state where property is located or registered or where the claim was initially placed;

547.1.7. as for rights to the intangible properties- by law of the state where these intangible properties are being used.

### **Article 548. Transactions**

548.1. Applicable law for conclusion of transaction, or validity of transaction as a whole or one of it's provisions shall be the law recognising that transactions as valid

548.2. The form for a transaction shall be determined by the law of the state where it was made or the relevant law depending the subject of transaction.

548.3. If the parties to the transaction live in different states and the agreed to follow the law of one state governing the form of transaction while signing one, it shall be deemed valid in respect to form.

548.4. It shall be prohibited to revoke a transaction made abroad and meeting the requirements of Mongolian laws on the ground of violating the standard form requirements.

548.5. The form of transaction related to real estate situated on the territory of Mongolia shall be determined by Mongolian law.

548.6. If the transaction was made by a representative and Item 548.2. of this Law is respectable, than the law of the state of the representative's origin shall be applied.

548.7. The place of formation of transaction shall be determined by Mongolian law.

548.8. The authorisation form and term shall be determined by the law of the state where the authorisation was issued, and it is not allowed be considered void on the basis of the form if it meets the requirements of Mongolian law.

### **Article 549. Choice of law by contract parties**

549.1. The of rights and obligations of parties to contract, content of contract, fulfilment of obligations, termination or revocation, implementation of duties under the contract or the failure shall be regulated by the law of any state designated by the parties to the contract.

549.2. The parties can change upon mutual consent their choice of law regulating the contract even after signing the contract.

549.3. In case of applying the legislation of state other than noted in the contract, it shall be void.

549.4. If the parties did not designate a governing law as provided in Item 549.1 of this Law, then the law shall be the law of the state where the following parties have their place of residence or carry out their main business activities:

- 1) sale purchase contract - by the law of the seller;
- 2) leasing contract - by the law of the lesser;
- 3) deposit contract - by the law of the depository;
- 4) commission contract - by the law of the commission agent;
- 5) agency contract - by the law of the agent;
- 6) transportation contract - by the law of the carrier;
- 7) insurance contract - by the law of the insured;
- 8) loan contract - by the law of the lender;
- 9) gift contract - by the law of the donor;
- 10) warranty - by the law of the guarantor;
- 11) pledge contract - by the law of the pledgor.

549.5. Contracts for joint production, specialised training, co-operation, construction, assembling and other works shall be governed the law of the state where those activities are being carried out or where the results of those contracts occur, unless otherwise agreed by the parties.

549.6. A joint venture agreement involving foreign juristic person and citizens shall be governed the law of the state where the joint venture has its place of business.

549.7. A contract concluded as a result of stock exchange transaction or an auction sale shall be governed by the law of the state where the transaction took place or where the auction sales were conducted.

549.8. The rights and obligations of parties to contracts not provided for in Items 549.1.- 549.4. shall be determined by the law of the state where the party performing the principal obligations under contract has its place of residence or carries out its core business activities.

549.9. Unless otherwise agreed by the parties, the results of implemented obligations shall be accepted or appraised in accordance to the law of the state where such acceptance is made.

**Article 550. Transfer of right to demand**

550.1. The transfer of the right to demand shall be governed by the law of the state where the previous client and the obligation performer made a contract.

550.2. The right and obligations of the new performer to the previous and new client shall be governed by the law of the state where the right to demand was transferred.

**Article 551. Obligations for torts**

551.1. The rights and obligations of the parties for the caused damage shall be governed by the laws of the state where the fact causing damages or events and other circumstances justifying claims for recovery of damages occur .

551.2. If the parties to obligations for torts which occur abroad are citizens or juristic person of Mongolia, then their rights and obligations shall be determined by law of Mongolia.

**CHAPTER SIXTY THREE  
INHERITANCE**

**Article 552. Governing law for inheritance**

552.1. The inheritance relations shall be regulated by the laws of the state of permanent residence of the testator.

552.2. The civil law capacity of testator, form of the testament, it's drafting and amendment shall be regulated by the laws of the state of the permanent residence of the testator at the time of drafting or amending the testament.

552.3. It is prohibited to void the testament only on the basis of its form inconsistency, if the testament was drafted and amended according to the requirements of the laws of the state where it was made or laws of Mongolia.

552.4. The inheritance, the making of a testament and its amendment regarding to immovable property located on territory of Mongolia shall be regulated by laws of Mongolia.

CHAIRMAN OF THE  
STATE IKH KHURAL

S.TUMUR-OCHIR