



CENTRAL BANK
OF THE REPUBLIC OF AZERBAIJAN

GUIDELINES

on the organization of underwriting by investment companies

Guidelines on the organization of underwriting by investment companies

1. General provisions

1.1. These Guidelines have been prepared in accordance with Article 48.3.7 of the Law of the Republic of Azerbaijan "On the Central Bank of the Republic of Azerbaijan" and establish the methodological basis and recommendations for preparing internal regulations in accordance with subparagraph 17.2.9 of the “Regulation on provision of investment services (operations) by investment companies and banks”, which was approved by Resolution No. 23/1 of the Central Bank of the Republic of Azerbaijan on August 31, 2021, and implementing underwriting.

1.2. During the underwriting of securities intended for public sale (except those of state-owned joint-stock companies), a comprehensive assessment of the issuer is conducted, and existing and potential investors are given accurate, complete, and objective information about the results of the assessment.

1.3. The effective organization of underwriting protects investors from excessive risks, ensures transparent and fair pricing in the market, stabilizes the financial system, and increases trust and confidence in financial markets.

2. Stages of underwriting

2.1. The underwriting process includes the following stages:

2.1.1. Preparatory stage

2.1.2. Comprehensive assessment of the issuer

2.1.3. Securities placement

2.1.4. Post-placement processes

3. Preparatory stage

3.1. At the preparatory stage, the scope, objectives and duration of the underwriting are determined. At this stage, the initial collection of documents and information listed in paragraph 3.2 of these Guidelines from the issuer, third parties, publicly available sources or other reliable and independent sources is carried out. When obtaining information from third parties, publicly available sources or other reliable and independent sources, the investment company (hereinafter referred to as the “underwriter”) examines their reliability.

3.2. The following documents and information are mainly collected during the preparatory stage:

3.2.1. Corporate information: charter of the legal entity, overview of the corporate structure and management, information on internal committees (if applicable), strategic plan, risk management policy.

3.2.2. Financial information: the latest published financial statements and the external auditor's opinion on their verification (except for micro and small business entities), financial statements for interim periods, budget forecasts (for the circulation period in the case of a bond issue, for at least the next 3-year period in the case of a share issue), a list of long-term assets and liabilities, information on off-balance sheet liabilities, information on the loan portfolio if the issuer is a credit institution, information on collateral, mortgage or surety agreements in which the issuer is a guarantor, including information on written obligations related to the guarantee in which it acts as a guarantor, credit history, information on dividend policy, a certificate "On the tax debt of the taxpayer", information on the existence of a relevant order on the write-off of funds from the issuer's bank accounts by a court decision, as well as in cases determined by law or stipulated in the agreement between the bank and the issuer (if any);

3.2.3. Information on legal and regulatory documents: certificate of state registration of a legal entity, extract from the state register of legal entities, sample signature and seal, power of attorney for signature rights (if any), licenses and permits, information on intellectual property and trademarks, information on current legal cases in which it is a party (if any) and relevant documents, information on significant contracts (with the consent of the issuer);

3.2.4. Operational data: information on main areas of activity and products, statistical information on anonymized customer and supplier lists, information on business continuity plans, risk management system and internal control mechanisms;

3.2.5. Information on investment securities: information on current and previous security issues, information on the issuer's credit rating (if any), documents on the issue that is the subject of underwriting (draft prospectus or draft information memorandum), and information on the terms of the securities being offered.

4. Comprehensive assessment of the issuer

4.1. During the comprehensive assessment of the issuer, the issuer's financial data, corporate governance system, and risk management level are analyzed, and the business model and market prospects are assessed.

4.1.1. As a result of the analysis of the issuer's financial information, an assessment of its current and future financial state is made, taking into account the following indicators:

4.1.1.1. Dynamics and structure of income and expenses,

4.1.1.2. Profitability ratios: gross profit margin, profit margin before tax, interest expense, and depreciation, operating profit margin, net profit margin, return on equity (ROE), return on assets (ROA), return on investment (ROI),

4.1.1.3. Liquidity ratios: current ratio, quick ratio, cash ratio,

4.1.1.4. Operating ratios: inventory turnover ratio, accounts receivable turnover ratio, accounts payable turnover ratio,

4.1.1.5. Debt ratios: debt-to-equity ratio, debt-to-assets ratio, interest expense coverage ratio,

4.1.1.6. Capital adequacy ratios (if these ratios are defined in the sectoral legislation regulating the issuer's activities).

4.1.2. During the analysis of the issuer's corporate governance system, the underwriter evaluates the issuer's strategic vision and goals, the existence of internal processes to achieve them, the existence of a clear division of authority at management levels, and the existence of a management system that includes the implementation of an effective internal control and reward system, based on the established requirements for corporate governance.

4.1.3. When analyzing an issuer's corporate governance system, the underwriter assesses whether it meets at least the following standards:

4.1.3.1. The management and organizational structure, as well as the division of powers, are consistent with the characteristics of the issuer's services, the volume and complexity of its operations. Conflict of interest is not permitted.

4.1.3.2. The strategic plan is in place,

4.1.3.3. The issuer shall have an effective reporting system that provides the Supervisory Board (Board of Directors) and executive body with information about its operations, financial condition, risks, and business process decisions.

4.1.3.4. The issuer's strategy shall incorporate environmental, social and governance factors that may or will have a significant impact on its operations in order to ensure the long-term sustainability of its business.

4.1.4. The analysis of the issuer's risk management system includes an analysis of its credit, liquidity, financing, operational, business, and legal risks, as well as an analysis of the system as a whole.

4.1.4.1. During the credit risk analysis, the underwriter assesses the issuer's future solvency or the likelihood of insolvency. During the credit risk analysis, reference may be made to the issuer's credit rating (if any), currency collateral, past financial results, and future financial performance forecasts.

4.1.4.2. During the liquidity risk analysis, the underwriter primarily assesses the issuer's cash and cash equivalents, access to liquid assets, stability of cash flows, liquidity and performance ratios of the issuer. Also, if necessary, the issuer's financing opportunities through credit lines and other borrowed funds are assessed in order to eliminate liquidity gaps.

4.1.4.3. During the financing risk analysis, the underwriter assesses risks such as the inability to refinance or extend the issuer's debt obligations upon maturity, as well as the possibility of encountering unfavorable terms during refinancing.

4.1.4.4. During the operational risk analysis, the underwriter assesses the issuer's system for managing risks arising from technical, human, system and process errors, as well as the existence of a business continuity plan.

4.1.4.5. During the business risk analysis, the underwriter assesses the issuer's position in the market in which it operates, its competitive environment and growth potential, as well as its risks related to market trends, concentration risk and industry dynamics.

4.1.4.6. During the legal risk analysis, the underwriter assesses the issuer's compliance with legal and other regulatory requirements by reviewing contracts (with the issuer's consent), licenses, permits, regulatory document requirements, and court proceedings.

4.1.4.7. During the risk management system analysis, the underwriter evaluates the system established by the issuer for identifying, assessing, controlling and monitoring risks. In this case, factors such as the existence of the issuer's risk management policy, the presence of a plan of measures against existing risks, the incentive to comply with the risk management procedure and the appointment of persons responsible for risk management are taken into account.

5. Securities placement stage

5.1. During the securities placement stage, the underwriter assists the issuer in drafting an issue prospectus or information memorandum that complies with the requirements of Article 5.7 of the Law of the Republic of Azerbaijan "On the Securities Market" (hereinafter referred to as the "Law").

5.2. The underwriter provides methodological support to the issuer in determining the terms of the issue, such as the volume of the issue, term (for bonds), interest (coupon) rate (for bonds), placement method, and offer price (for shares).

5.2.1. In addition to the results of the issuer's comprehensive assessment stage, the underwriter carries out marketing activities, such as meetings with potential investors, company presentations, answering questions and book-building to find an effective price that balances the needs of the issuer with investor demand, as well as to increase investor interest. The underwriter determines demand at various price levels by collecting order information regarding initial investor demands and makes proposals to the issuer regarding the final price or coupon interest rate.

5.2.2. The underwriter shall make recommendations to ensure that the security placement method complies with the stock exchange's internal rules, as specified in Article 46.1.3 of the Law, as well as with the listing segment. If deemed appropriate, the underwriter may direct the issuer to use a different placement method and listing segment.

6. Post-placement stage

6.1. During the post-placement stage, the underwriter stabilizes the price, supports and communicates with investors, monitors and analyzes the market, provides support for

submitting and disclosing information and reports required by law to be submitted and disclosed by the issuer, and establishes long-term relationships with investors.

6.1.1. If the price of the security placed falls below the initial placement price, the underwriter may perform securities purchase transactions in accordance with the "Regulations on stabilization of prices of investment securities" to prevent a sharp price decline and maintain market confidence.

6.1.2. The underwriter makes statements to the market about the placed security, provides investors with analytical reports and market forecasts about the issuer, and supports the issuer's relations with investors.

6.1.3. The underwriter monitors the trading dynamics of the placed securities, analyzes investor behavior and liquidity in the market, and provides recommendations to the issuer for future issuances or additional capital raising.

6.1.4. The underwriter is responsible for overseeing the development of the issue prospectus, information memorandum, and placement reports in accordance with the relevant legislation. They also inform the issuer of their disclosure and reporting obligations under the legislation and support their implementation.

7. Closing provisions

7.1. The underwriter submits a report on the results of its analysis, including information on risks, to the issuer and, upon request, to existing and potential investors after the issue of securities is registered with the state.

7.2. The underwriter shall keep a report of its analysis results, including the issuer's comprehensive assessment and risk information, for at least 5 years.

Taleh Kazimov

Governor of the Central Bank