

‘Approved’
Central Bank of
the Republic of Azerbaijan
Resolution № 25/1
3 May 2016

**Regulations
on issuance of loans to banks by the Central Bank of the Republic of Azerbaijan**

1. General provisions

1.1. These Regulations have been developed in accordance with Articles 33 and 53-4 of the Law of the Republic of Azerbaijan on the Central Bank of the Republic of Azerbaijan and establish procedures on issue of loans by the Central Bank of the Republic of Azerbaijan (hereinafter – the Central Bank) to the banks operating in the Republic of Azerbaijan.

1.2. The Central Bank issues the following types of loans to banks:

1.2.1. refinancing loans.

1.2.2. lender of last resort loans.

~~1.2.3. special purpose loans.~~

1.3. Refinancing loans may be issued either through auctions or outside of auction processes.

~~1.4. Special purpose loans are issued in accordance with Article 49-1 of the Law of the Republic of Azerbaijan on the Central Bank of the Republic of Azerbaijan.~~

1.5. Loans are issued to banks as a one-time loans or credit lines.

2. Definitions

2.1. Definitions used herein bear the following meanings:

2.1.1. direct auction - the auction carried out by the Central Bank by announcing the loan interest rate.

2.1.2. indirect auction - the auction carried out by announcing total amount of the loan to be issued by the Central Bank.

2.1.3. interest rate corridor - a corridor between the floor and the ceiling of interest rates on Central Bank's open market operations.

3. Refinancing loans

3.1. Refinancing loans issued *through auctions*

3.1.1. Refinancing loans are issued *through auctions* for the purpose of implementing the monetary policy by the Central Bank *for a period not exceeding 180 days*

3.1.2. *Such loans* are issued through direct and indirect auctions.

3.1.3. Refinancing loans are issued *through auctions* at interest rates set between the refinancing rate and the ceiling of the interest rate corridor of the Central Bank.

3.1.4. The frequency and form of credit auctions, the size and maturity of auctioned loans, and interest rates on direct auctions are determined in accordance with internal procedural regulations of the Central Bank.

3.1.5. Information on the credit auction is published on the official website of the Central Bank at least 3 (three) days prior to the auction. The announcement includes:

3.1.5.1. auction venue, date, and time.

3.1.5.2. the type of auction (direct and indirect).

3.1.5.3. maturity.

3.1.5.4. at direct auction – loan interest rate.

3.1.5.5. at indirect auction – the amount to be auctioned.

3.1.6. A bank willing to participate in the auction should submit to the Central Bank in writing or electronically the information on collateral that meets the requirements set forth in Part 5 herein no later than one business day prior to the auction. The bank is not allowed to the auction if the collateral information is not provided in a timely and required manner or does not meet the requirements of these Regulations.

3.1.7. During the auction, every bank can place only one order. The bank may change or withdraw the loan application during the auction.

3.1.8. If the volume of orders placed by banks at the direct auction does not exceed the amount put up for auction, the orders are provided in full, if the volume of orders exceeds the amount put up for auction, the orders are provided in proportion.

3.1.9. If the volume of orders placed by banks at an indirect auction does not exceed the amount put up for auction, the orders are provided in full, if the volume of orders

exceeds the amount put up for auction, the orders with higher interest rates are provided sequentially. Orders placed at the indirect auction with the same interest rate are provided in proportion.

3.1.10. *Refinancing loans issued through auctions* should be backed with the following assets:

3.1.10.1. securities, whose list is approved by the Management Board of the Central Bank (the list is placed on the Central Bank's website).

3.1.10.2. funds of the borrower bank in correspondent accounts with the Central Bank in the USD, EUR, and GBP.

3.1.11. Refinancing loans are issued *through auctions* as a one-time loan and not prolonged.

3.1.12. If the collateral is not documented within 3 (*three*) working days from the date of the auction, the loan will be refused.

3.1.13. *Banks that meet the following requirements are allowed to the auction:*

3.1.13.1. *banks whose activities are not restricted or prohibited within the frames of supervisory measures taken in accordance with the Law of the Republic of Azerbaijan 'on Banks'.*

3.1.13.2. *banks that do not have overdue credit liability due to the Central Bank or banks.*

~~3.2. Refinancing loans issued with up to 360-day maturity.~~

~~3.2.1. refinancing loans with up to 360-day maturity are issued for the purpose of implementing the monetary policy by the Central Bank.~~

~~3.2.2. refinancing loans with up to 360-day maturity are issued at a refinancing rate of the Central Bank.~~

~~3.2.3. 360 refinancing loans with up to 360-day maturity should be backed with the following assets:~~

~~3.2.3.1. government guarantee.~~

~~3.2.3.2. securities, whose list is approved by the Management Board of the Central Bank (the list is placed on the Central Bank's website).~~

~~3.2.3.3. funds of the borrowing bank in correspondent accounts with the Central Bank in the USD, EUR, and GBP.~~

~~3.2.3.4. real estate.~~

~~3.2.3.5. bank metal in the form of gold bars.~~

~~3.2.3.6. movable property with state registration of property rights in the official register.~~

~~3.2.4. A decision to issue refinancing loans in the amount of more than 20 (twenty) million manat with up to 360-day maturity is made by the Management Board of the Central Bank.~~

3.3. Refinancing loans issued outside of auctions

3.3.1. Given the macroeconomic situation, *out-of-auction secured refinancing loans may be issued with up to 360-day maturity at the decision of the Management Board of the Central Bank. Other conditions for issuing such loans are determined at the decision of the Management Board.*

~~3.3.2. A decision on the issue of such loans is taken by the Management Board of the Central Bank. Conditions for such loans are determined by the decision of the Management Board of the Central Bank in each case.~~

4. Lender of last resort loans

4.1. *As a lender of last resort, the Central Bank may issue loans to banks facing short-term liquidity shortfall with a term of not more than six months and which can be prolonged only once for the same term.*

~~4.2. The Central Bank takes a decision whether to issue a loan no later than 2 (two) days after receiving the appeal.~~

4.3. The Central Bank considers the following when taking a decision on issue of lender of last resort loans:

4.3.1. monetary policy targets.

4.3.2. loan amount, maturity, and repayment schedule.

4.4. Lender of last resort loans are issued at the Central Bank's refinancing rate.

4.5. The form, maturity and repayment terms and conditions of lender of last resort loans are determined by the Management Board of the Central Bank.

4.6. Lender of last resort loans should be secured with the following assets:

4.6.1. government guarantee.

4.6.2. securities, whose list is approved by the Management Board of the Central Bank (the list is placed on the Central Bank's website).

4.6.3. funds of the borrowing bank in correspondent accounts with the Central Bank in the USD, EUR, and GBP.

4.6.4. *real estate owned by the bank or bank's shareholders, not encumbered by any liabilities and not subject to court litigations.*

4.6.5. ~~bank metal in the form of gold bars.~~

4.7. *In cases where there is a threat to financial markets stability, the Management Board of the Central Bank may decide to issue a lender of last resort loan under alternative conditions and for a more extended period.*

5. Requirements on loan securitization

5.1. The ratio of pledged collateral to the loan liability (principal and interest debt) should be at least as follows:

5.1.1. government guarantee and government securities – 100%.

5.1.2. funds in correspondent accounts, securities, whose list is approved by the Management Board of the Central Bank, except for government securities ~~and bank metals in the form of gold bars~~ – 110%.

5.1.3. real estate – 150% of its *market* price.

5.2. Market and liquid prices of collateral should be indicated in the opinion of the independent appraiser on the real estate pledged as collateral ~~and on movable property with state registration of property rights in the official register.~~