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REGULATIONS ON PREPARATION, SUBMISSION AND CONTROL OF PRUDENTIAL REPORTS ON A CONSOLIDATED BASIS

(as amended on 15 April 2010)

1. General provisions

1.1. These Regulations have been prepared according to the Laws of the Republic of Azerbaijan "On the Central Bank of the Republic of Azerbaijan", "On banks" and other regulatory legal acts and determine the rules for preparation and submission of prudential reports of banks, including local branches of foreign banks (hereinafter - banks), as well as holding companies on a consolidated basis in accordance with International Financial Reporting Standards (hereinafter - IFRS) and exercising control over them on the basis of these reports.

1.2. The main purpose of control is to assist the Central Bank in ensuring the safety and reliability of its system by determining the influence of the shareholders of banks and other persons related to the bank who have a significant share not directly controlled by the Central Bank of the Republic of Azerbaijan (hereinafter – Central Bank) on the current and future financial condition of these banks, as well as their reliable and prudent management.

2. Definitions

For the purpose of these Regulations the following terms shall be applied:

2.1. Subsidiary organization – organization, more than fifty percent of voting shares in the charter capital of which is owned by another organization (parent organization) or in accordance with agreement concluded between its participants, the parent organization is authorized to influence significantly its decision making process;

2.2. Parent organization (parent bank) - organization that has the right to influence the decision making process of a subsidiary in connection with its superior participation in the charter capital of a subsidiary or in accordance with agreement concluded with other participants of the subsidiary.

2.3. Holding company - group created by an individual (individuals) and / or legal entity (legal entities) to own and manage shares in one or more subsidiaries, including

commercial banks. For the purposes of these Regulations, holding companies are divided into:

2.3.1. Bank holding company – company that has one or more subsidiary banks with a banking license, the activities of which are regulated and supervised by the bank regulatory authorities of the country where the headquarter is domiciled;

2.3.2. Financial holding company - group of banks and other subsidiaries operating only in the financial sector.

2.3.3. Non-financial holding company – group of one or more subsidiaries operating in various sectors of the economy, including banks.

2.4. Financial reports prepared on a consolidated basis - consolidated financial statements of a parent organization and all its subsidiaries prepared in accordance with IFRS.

3. Preparation of reports on a consolidated basis

3.1. To evaluate bank's financial standing, prudential reports prepared on a consolidated basis shall be submitted to the Central Bank. The financial statements attached to the prudential reports shall be prepared in accordance with IFRS and the Central Bank's "Regulations on preparation and submission of consolidated financial statements of credit institutions of the Republic of Azerbaijan and accounting of investments placed in subsidiaries". Financial statements shall be submitted in the formats established by the Central Bank in coordination with the Ministry of Finance of the Republic of Azerbaijan.

3.2. Each parent bank that has a subsidiary operating in the Republic of Azerbaijan, as well as a bank that is a subsidiary of the holding company, shall ensure the preparation of prudential reports on a consolidated basis.

3.3. To determine the nature of the influence of holding companies and all subsidiaries of the parent bank, as well as other persons associated with the bank, over the bank supervised by the Central Bank, the scheme (diagram) reflecting the structure of a group and its share in each subsidiary (both group members and others), as well as the participation share of each subsidiary of the group in other legal entities, shall be submitted by the bank to the Central Bank by the end of the next month after the end of the calendar year. The following shall be submitted together with the scheme:

3.3.1. information about shareholders who directly or indirectly have (own) the shares (capital) of the holding company;

3.3.2. management bodies and the name, patronymic and surname of their heads who have the right to make decisions on the holding's policy;

3.3.3. types of activities of the bank's subsidiaries and other subsidiaries of the holding company to which it belongs;

3.3.4. the latest audit report prepared by an external auditor on the holding company, its subsidiaries and other persons related to the bank;

3.3.5. the name and address of the relevant executive authority (if any) exercising control over the holding company or any of its subsidiaries;

3.4. Prudential reports on a consolidated basis shall be prepared as of 1 January and 1 July of each year.

3.5. The financial statements attached to the prudential reports prepared on a consolidated basis for the financial year shall be subject to audit by an external auditor in accordance with International Auditing Standards.

3.6. The following financial statements shall be attached to the prudential reports on a consolidated basis submitted to the Central Bank:

- 3.6.1. group balance sheet;
- 3.6.2. group profit and loss statement;
- 3.6.3. group cash flow statement;
- 3.6.4. group report on changes in private equity;
- 3.6.5. explanatory notes (including information on cash flows within the group).

3.7. Prudential reports prepared on a consolidated basis shall include information on persons directly and indirectly participating in each subsidiary of the holding company and the amount of their participation share (in percentage and amount), as well as information on the heads of the executive bodies of subsidiaries of the holding company.

3.8. When prudential reports prepared on a consolidated basis are submitted to the Central Bank, the following shall be attached to them depending on the structure of the holding company:

3.8.1. About the subsidiary bank, which is part of the holding company:

- 3.8.1.1. information on authorized capital;
- 3.8.1.2. information on total capital;
- 3.8.1.3. information on the adequacy of total capital;
- 3.8.1.4. information on transactions with persons related to the bank;
- 3.8.1.5. information about the main risks.

3.8.2. When a financial holding company or bank includes subsidiaries carrying out insurance activities, about these subsidiaries:

- 3.8.2.1. information specified in sub-items 3.8.1.1.-3.8.1.5 of these Regulations;
- 3.8.2.2. information on fulfillment of requirements of the Ministry of Finance of the Azerbaijan Republic by subsidiary organization(s) that carry out insurance activities.

3.8.3. If the non-financial holding company does not include a subsidiary carrying out insurance activities, then about existing subsidiaries:

- 3.8.3.1. information specified in sub-items 3.8.1.1.-3.8.1.5 of these Regulations;
- 3.8.3.2. information about calculation of net assets (difference between balance sheet assets and liabilities) on subsidiary (subsidiaries) not related to the financial sector.

3.8.4. When a non-financial holding company includes subsidiaries engaged in insurance activities, information on those specified in sub-items 3.8.1., 3.8.2. and 3.8.3 of these Regulations.

3.9. Depending on the type of activities of the holding company's subsidiaries, the bank's parent organization and its subsidiaries, the Central Bank may require the bank to provide other necessary information on the management and current activities of these institutions in order to exercise its supervisory functions and verify the accuracy of financial information.

3.10. If a legal entity carrying out activities that do not contradict the Law of the Republic of Azerbaijan "On Banks" becomes a subsidiary of the bank in order to meet the requirements on liabilities, then the activities of this legal entity shall be reflected in the prudential reports of the parent bank prepared on a consolidated basis in accordance with IFRS 27.

3.11. The subsidiary's financial statements shall not be included in the prudential reports prepared on a consolidated basis in the following cases:

3.11.1. if the bank directly or indirectly participates as a shareholder in wholesale or retail trade, production, transport, agriculture, field development, construction enterprises with the permission of the Central Bank in order to meet the requirements on liabilities;

3.11.2. in case of acquiring control over a legal entity by accepting the unused property of the debtor (third party) on the bank's balance to pay off the debt (this asset is indicated in the balance sheet as an asset taken in exchange for a liability);

3.11.3. if the assets of the subsidiary are less than 1% of the assets of the holding company;

3.11.4. when the bank's assets are more than 95% of the holding company's assets, except for subsidiaries of a commercial bank.

4. Submission of reports prepared on a consolidated basis

4.1. Prudential reports prepared on a consolidated basis shall be submitted to the Central Bank by the subsidiary bank of the holding company, as well as by the parent bank that owns the subsidiary.

If the holding company has several subsidiaries, one main bank shall be selected from among the subsidiaries of the holding company to submit prudential reports on a consolidated basis to the Central Bank.

4.3. Prudential reports prepared on a consolidated basis shall be submitted to the Central Bank by the parent bank or a bank selected in accordance with paragraph 4.2 of these Regulations together with statements and information of each subsidiary, parent organization and subsidiaries of the holding company listed in Section 3 of these Regulations.

4.4. Prudential reports prepared on a consolidated basis as of 1 July shall be submitted to the Central Bank no later than 3 months after the end of the reporting period.

4.5. Prudential reports prepared on an annual consolidated basis shall be submitted to the Central Bank no later than 5 months after the end of the financial year. These reports shall include the financial statements and the auditor's report of the parent and each subsidiary approved by the external auditor in accordance with International Auditing Standards.

According to International Auditing Standards, a foreign holding company with a subsidiary bank in Azerbaijan shall submit annual prudential reports, including financial statements and the auditor's opinion, approved by an external auditor to the Central Bank no later than 8 months after the end of the financial year.

4.6. A foreign holding company or a foreign legal entity that has a subsidiary bank in Azerbaijan shall duly legalize prudential reports prepared on a consolidated basis in accordance with these Regulations and submit them to the Central Bank in the Azerbaijani language.

4.7. If there is a change in the participation of any subsidiary covered by prudential reports prepared on a consolidated basis, or if the participation is liquidated or a new subsidiary is established, the Central Bank shall be notified of this within 30 days.

5. Oversight

5.1. In the process of oversight, the influence of the activities of each subsidiary of the holding company on the financial condition of the bank shall be analyzed, as well as the risks arising in the bank as a result of relations between the subsidiaries of the holding company shall be assessed on a consolidated basis. In the process of risk management, the subsidiary bank entering the holding company and the parent bank having a subsidiary shall be guided by the requirements of the law of the Republic of Azerbaijan "On Banks", "Regulations on governing risks on a single borrower or a group of related borrowers" and "Regulations on conducting transactions with individuals associated with banks" of the Central Bank of the Republic of Azerbaijan. Bank holding company shall also comply with the standards set by the Central Bank's "Regulations on calculation of bank capital and its adequacy".

5.2. Reports and additional information submitted for exercising oversight, as well as the accuracy of their preparation shall be verified on the basis of information in banks.

5.3. In the process of oversight, audits shall be carried out in each subsidiary bank of the bank holding company and in banks with subsidiaries in accordance with the Law of the Republic of Azerbaijan "On Banks".

5.4. To exercise the oversight, the Central Bank shall cooperate with the state agencies supervising the activities of a holding company or its subsidiaries.

6. Requirements for regulations of banks

6.1. To prepare prudential reports on a consolidated basis, the bank shall have internal procedures that ensure the receipt of information required from subsidiaries of the holding company in accordance with these Regulations.

6.2. Banks shall have internal regulations for the preparation of prudential reports on a consolidated basis in accordance with IFRS, as well as for the assessment of assets and liabilities of all subsidiaries of the holding company.

6.3. If any event that occurs in any of the holding company's subsidiaries exposes the bank to risks, the bank shall analyze the impact of this event on the financial condition of other subsidiaries of the holding company, including the bank itself.

7. Closing provisions

7.1. It may be necessary to alienate or withdraw a share of a person who has a significant share in the capital of the bank violating the provisions of these Regulations, or to limit, suspend or liquidate the acquisition by the bank of a share in the capital of other legal entities, as well as other counter measures and sanctions provided for by the Law of the Republic of Azerbaijan "On Banks" may be applied.

7.2. These Regulations shall come into effect from the date of state registration.