

THE LAW OF THE REPUBLIC OF AZERBAIJAN

on Banks

This Law defines the principles, rules and standards for organization, internal management, regulation of activities and liquidation of banks with the purpose of alignment of the legal framework of the *banking activity* to international standards, increasing the role of banking services in the economy, enforcement of the protection of bank depositors and creditors, and overall maintenance of stable and safe performance of *banks*.

Chapter I GENERAL PROVISIONS

Article 1. Main definitions

1.0. The definitions applied in this Law shall have the following meanings:

1.0.1. **Bank** – legal entity, which attracts deposits and other returnable funds from individuals and legal entities, issues loans on its behalf and from its own funds, as well as makes transfers and cash settlements in aggregate at clients' requests.

1.0.2. **Bank Holding Company** – company, which has one or more subsidiary banks with a banking license, activities of which are regulated and supervised by the bank regulatory authorities of the country where the headquarters is domiciled.

1.0.3. **Subsidiary Bank** – bank, more than fifty percent of voting shares in the charter capital of which is owned by the founder bank or the bank holding company, or such a bank, in which, in accordance with an agreement, by and between itself and the founder bank or the bank holding company, the founder bank or the bank holding company are authorized to significantly influence the decision-making process.

1.0.4. **Bank branch** – separate unit of the bank, not a legal entity, set outside of the bank location, for liabilities of which the bank is responsible, enabled to conduct all or part of banking operations allowed under the permit of the bank.

1.0.5. **Bank division** – separate unit, which is not a legal entity, set outside of the bank location, for liabilities of which the bank is responsible, which attracts deposits and/or conducts transfers, and cash settlements in the territory of the Republic.

1.0.6. **Bank representative office** – separate unit of the bank, which is not a legal entity, set outside of the bank location, not entitled to be engaged in banking activities, that solely represents and protects its interests.

1.0.7. **Non-bank credit institution** – a legal entity that has the status of a non-bank credit institution under law.

1.0.8. **Banking license** – special permit issued in accordance with the procedures herein, that provides exclusive rights to attract deposits or other returnable funds from individuals and legal entities, issue loans on its behalf and at its own expenses, as well as make transfers and cash settlements at customer's requests.

1.0.9. **Bank loan (hereinafter – loan)** – cash funds, issued as a debt in a certain amount with or without a guarantee, subject to reimbursement at a predetermined date (~~with the right of prolongation of the term~~) and payment of interest and/or *other payments specified in the agreement*. The term 'loan' also includes any undertaken commitment, guarantee, warranty on repayment of funds under conditions herein, purchase of debt securities through either a discount or interests purchase and another right, related to requirement on repayment of fund issued in any form under the agreement.

1.0.10. **Deposit** – funds, deposited or transferred to current, savings (deposit) or other account on bank's balance, stipulating repayment of or transfer to another account at the request of a customer (depositor) with or without payment of interest or commissioning fees under terms and conditions of an appropriate agreement (*except for funds received for the issuance of electronic money*).

1.0.11. **Qualifying holding** – direct or indirect ownership of shares, containing 10 or more percent of a shareholder capital or voting shares, or entitling to influence significantly decision making of the legal entity to which it is a party as per the agreement.

1.0.12. **officer** – *members of a Supervisory Board, an Audit Committee and a Management Board, the head of the local branch of the representative office of the foreign bank, as well as a chief accountant of the bank (the local branch of the foreign bank) (the person performing these duties), employees of an internal audit unit, managers of branches, departments, and representative offices of the bank.*

1.0.13. **Related party** – *persons specified in Clause 49-1.1 of the Civil Code of the Republic of Azerbaijan; any person that has a direct or indirect share, that enables to significantly influence the bank's decision-making under a contract regardless of the share in bank's authorized capital; members of the bank's Audit Committee, staff of an internal audit division, other bank staff participating in decision-making, the chief accountant of the bank (the person performing these duties), persons who have kinship ties with those persons, as specified by Clause 49-1.1.3 of the Civil Code of the Republic of Azerbaijan, persons entitled to act on behalf of a related party, legal entities in which the persons specified under Clauses 49-1.1.6 and 49-1.1.7 of the Civil Code of the Republic of Azerbaijan have at least 20 per cent participation share, and persons with whom transactions considerably different from market conditions without any obvious economic grounds are conducted. The head and the chief accountant of the local branch of the foreign bank (the person performing these duties), as well as other persons related to the foreign bank according to the legislation of the foreign bank's home country shall be deemed related parties of the local branch of the foreign bank.*

~~*Persons acting on behalf of a related party – a person entitled to act on behalf of a related person based upon an agreement signed between them; a legal entity that a related party can influence significantly; a representative of a related party.*~~

1.0.14. **Clearing** process of reformation of claims and liabilities, formed on payment amounts, transferred to one or several participants of payment systems or received from them, into one net claim or net liability, representing their difference.

1.0.15. When the word '**domestic**' refers to a bank, a branch, or a representative office it means a bank, a branch, or a representative office with the place of activity in the Republic of Azerbaijan.

1.0.16. When the word '**foreign**' refers to a bank, a branch, or a representative office it means a bank, a branch or a representative office domiciled beyond the Republic of Azerbaijan.

1.0.17. **Credit institution** – a bank, a local branch of a foreign bank or a non-bank credit institution.

1.0.18. **Fit and proper person** – an individual, who is civilly impeccable, who is found honest and trustful for his/her social position, whose qualifications, experience, business reputation allow him/her to own a qualifying holding in the bank, to be an officer, a beneficiary owner, a temporary officer, and a liquidator of the bank.

1.0.19. **Civil impeccability** shall be understood as absence of criminal conviction for intentionally acted crimes by qualifying holding owners, *beneficiary owners*, if it is a legal entity, heads of its executive authorities, as well as for heads of bank subsidiaries lack of conviction for an intentionally committed crime, *lack of a ban imposed by a court decision on holding the relevant position or engaging in professional activity*; for officers, temporary officers and liquidators - absence of conviction, criminal records on grave crimes against property or for economic activities in past, absence of restrictions by a court order on holding the position or engagement

in professional activities, being declared bankrupt by court, *as well as absence of any criminal collusion of the persons on whom civil impeccability is required by this Law with the persons who do not meet the requirements listed in this Article they have common interests with.*

1.0.20. **Prudential** – method of deliberate behavior, management, and control, based on norms, rules, requirements and instructions directed at bank's safe performance.

1.0.21. **Bank's total regulatory capital (own funds)** – used for prudential reporting purposes, is the difference between the sum of components (elements) of Tier I (main) and Tier II (additional) capital, set by regulatory acts of the *Central Bank of the Republic of Azerbaijan (hereinafter – the Central Bank)* and deductions therefrom.

1.0.22. **Field of financial markets** – *the field of regulation and supervision of financial markets or areas of activity where financial services regulated and supervised by the Central Bank are provided.*

1.0.23. **the Fund** – *a legal entity established under the Law of the Republic of Azerbaijan 'on Deposit Insurance.'*

1.0.24. **Insolvent bank** – *a bank that has become or is at the risk of becoming insolvent where one or several grounds specified in Articles 57.1.1 – 57.1.3 herein are identified.*

1.0.25. **Resolution** – *implementation of the actions specified in Article 57.6 herein by the Central Bank for immediate and less costly removal of the insolvent bank, including the bank holding company from the financial market.*

1.0.26. **Resolution related actions plan** – *a document addressing the method, conditions, period, and economic substantiation of insolvent bank's resolution.*

1.0.27. **Bridge bank** – *a bank established and managed by the Central Bank to transfer insolvent bank's performing assets and liabilities in full or in part and manage them temporarily.*

1.0.28. **Buyer bank** – *a bank that obtains assets and liabilities of an insolvent bank in the order specified in the present Law at an auction.*

1.0.29. **Investor** – *a legal entity or an individual applying to the Central Bank to purchase the bank that became insolvent as specified under this Law or a bridge bank.*

1.0.30. **Temporary officer** – *a person appointed by the Central Bank to exercise all authorities on managing the bank, as well as authorities of the general meeting of shareholders on behalf of the Central Bank as part of the insolvent bank's resolution efforts in the cases specified herein.*

1.0.31. **Performing asset** – *the asset classified as standard under regulations of the Central Bank.*

1.0.32. **Systemically important bank** – *a bank that meets the criteria set by regulations of the Central Bank.*

1.0.33. **Voluntary restructuring of bank's liabilities** – *a set of administrative, legal, financial, logistic, and other actions and procedures based upon the restructuring plan to improve the bank's financial condition (hereinafter – the restructuring plan).*

Article 2. Legal grounds for banking activity

~~2.1. The banking system of the Republic of Azerbaijan shall be comprised of the financial markets supervisory authority, the Central Bank of the Republic of Azerbaijan (hereinafter – the Central Bank) and credit institutions.~~

~~2.2. The Central Bank shall be a central bank of the state, activities of which are regulated by the Constitution of the Republic of Azerbaijan, the Law of the Republic of Azerbaijan on the Central Bank of the Republic of Azerbaijan, the Civil Code of the Republic of Azerbaijan, this Law, and other relevant normative legal acts, as well as international treaties, the Republic of Azerbaijan is a party to.~~

2.3. Activities of credit institutions in the Republic of Azerbaijan shall be regulated by the Constitution of the Republic of Azerbaijan, this Law, the Civil Code of the Republic of Azerbaijan, the Laws of the Republic of Azerbaijan on the Central Bank of the Republic of Azerbaijan, on Non-bank Credit Institutions, and on Credit Unions, *other legislative acts of the*

Republic of Azerbaijan, regulations of ~~the financial markets supervisory authority and the Central Bank~~ adopted in connection herewith, and international treaties, that the Republic of Azerbaijan is a party to.

2.3-1. *Banking relations in the Alat free economic zone shall be regulated in accordance with the Law of the Republic of Azerbaijan on Alat Free Economic Zone.*

2.4. Credit institutions, when taking decisions related to current banking activities, shall be independent from public authorities and municipal bodies, and the latter may not interfere into activities of credit institutions. Credit institutions may not be forced to engage in activities, irrelevant to their types of activities under the law.

2.5. In all cases other than responsibilities undertaken by credit institutions and the state, credit institutions shall not be taken responsible for state liabilities, and the state shall not be taken responsible for liabilities of credit institutions.

Article 3 . General rules for performing the banking activity

3.1. ~~Banks and non-bank~~ Credit institutions may exercise banking activities in the Republic of Azerbaijan based on a special permit (license), issued by the *Central Bank*.

3.2. Deposit operations may be conducted solely by banks, *local branches of foreign banks* and the national postal operator.

3.3. Except for Articles 3.1, 3.4, 5.1, 35.4 and 42 herein, other provisions of this Law shall not apply to credit unions and other non-bank credit institutions (NBCI) licensed and regulated in accordance with the Laws of the Republic of Azerbaijan on Non-bank Credit Institutions, on Credit Unions and other legislation.

3.4. Licensing and regulation of the banking activity of NBCIs, specified in Article 3.3 herein shall be performed under the *Laws of the Republic of Azerbaijan on Non-Bank Credit Institutions, on Credit Unions* and regulations of the *Central Bank*. ~~Requirements on qualifications and experience of employees managing NBCIs shall be established by the Central Bank.~~

3.5. *In the event the Central Bank finds out that any person is engaged in activities specified in Article 3.1 herein without a license, it shall take actions specified in the Law of the Republic of Azerbaijan on the Central Bank of the Republic of Azerbaijan.*

Article 4. The name of a bank

4.1. The brand name of the bank established under its Charter shall necessarily contain the word 'bank.' No bank shall be named differently from the name specified in its charter in any document, announcement, or advertisement.

4.2. The use of the word 'bank' (word combination containing the word 'bank') in the name of a legal entity not engaged in a banking activity, shall be prohibited, except for the cases when it is obvious from the text in which the word 'bank' is used, that this word has no relevance to banking activities.

4.3. Names of subsidiary banks shall include the name of a parent bank. The word 'bank' shall mean legal dependence and ownership in names of branches, departments, or representative offices of banks.

4.4. Names of banks, whose licenses are revoked, shall be supplemented by the words 'under liquidation.'

4.5. The words 'the Republic of Azerbaijan,' 'state,' and 'national' shall be used in the name of a bank only in the cases, stipulated in the legislation.

4.6. Banks shall not use the same names.

Article 5. Participation of foreign capital in credit institutions operating in the Republic of Azerbaijan

5.1. The *Central Bank* shall set a limit of participation of foreign capital in *credit institutions operating of the Republic of Azerbaijan*.

5.2. The limit on participation of foreigners and foreign legal entities in local banks, except for foreign banks or foreign bank holding companies, shall be set by the *Central Bank*.

5.3. The *Central Bank* shall *receive necessary information* to perform its supervisory functions for regulation and supervision of local subsidiary banks, branches and representative offices of foreign banks and foreign bank holding companies, as well as foreign branches and representative offices of local banks on the basis of cooperation with relevant foreign bank regulatory and supervisory authorities not contradicting the legislation of the Republic of Azerbaijan (including international treaties the Republic of Azerbaijan is a party to). The *Central Bank* shall *share* information with foreign banks' supervisory and regulatory authorities maintaining data confidentiality. At that the *Central Bank* may enter into cooperative agreements with foreign banking regulatory and supervisory authorities.

5.4. Foreigners and foreign legal entities, including foreign banks and foreign bank holding companies, registered in offshore zones, a list of which is determined by the *Central Bank*, may not be founders or shareholders of local banks, found local subsidiary banks, open local branches and representative offices.

Chapter II fəsil

ISSUANCE OF LICENSES AND PERMITS FOR BANKING ACTIVITIES

Article 6. Bank licenses and permits

6.1. The *Central Bank* shall have exclusive rights to issue and revoke banking licenses, as well as issue permits to banks to open branches, ~~divisions~~ and representative offices, and revoke issued permits *in the cases specified in this Law*.

6.2. Banking licenses and permits shall be issued in writing for unlimited period. Banking licenses and permits may be used only by persons they are issued to and may not be transferred to third parties. Banking licenses and permits shall take effect from the date of issue by the *Central Bank*.

6.3. *If the applicant lacks sufficient organizational – technical base or qualifications, the Central Bank shall impose restrictions to types of activities permitted to banks, as per Article 32 herein, in bank licenses or permits it issues.*

Article 7. Appeal for banking licenses and permits

7.1. To obtain a bank license and permit, bank's founders or persons authorized under the legislation shall submit a written appeal to the *Central Bank*. The form and content of the appeal, attached documents shall comply with the requirements, determined by regulations of the *Central Bank*.

7.2. *The Central Bank, when reviewing the appeal for a bank license and permit, may receive information on financial standing of share owners in bank capital and beneficiary owners; whether qualifying holding owners (if a legal entity, heads of its executive bodies), beneficiary owners and officers are fit and proper persons and the source of charter capital of the bank from independent and reliable sources, as well as from related public authorities (institutions). Public authorities (institutions) should provide the information requested by the Central Bank within seven working days. Except for state secrets, public authorities (institutions) may not refuse to provide the requested information referring that the requested information qualify for a commercial secret, a tax secret or other confidential information protected by law.*

7.2-1. *Article 7.2 herein shall apply to the persons willing to subsequently acquire qualifying holding*

in the bank (if a legal entity, heads of its executive bodies), beneficiary owners, newly appointed officers, and heads of executive bodies of the legal entity that becomes the bank's subsidiary.

7.3. A state duty shall be paid for an initial appeal review and issue of a banking license in the amount and in accordance with the procedures, stipulated under the Law of the Republic of Azerbaijan on State Duties.

Article 8. Procedures to review appeals for banking licenses

8.1. Review of appeals for banking licenses shall comprise two stages:

8.1.1. an initial appeal by bank's founders or person(s) authorized in accordance with the legislation on obtaining a bank license and its review (first stage) and

8.1.2. upon state registration of the bank, a final appeal for obtaining a bank license and its review (second stage).

8.2. The following documents shall be attached with an initial appeal:

8.2.1. for every *owner*, who will obtain ~~voting~~ shares of the bank:

8.2.1.1. if this *owner* is a legal entity – its name, address, type of commercial activity, audited financial reports covering at least recent three fiscal years (if a legal entity was established less than three years, latest financial year(s)), information and documents, reflecting auditor's opinion, as well as a copy of the decision of a competent management authority for obtaining implied participation share of that person.

8.2.1.2. if this *owner* is a foreign legal entity, in addition to the documents, defined in Article 8.2.1.1 herein, a document legalized in a statutory order, verifying registration in the country of residence, a charter (statute), audited financial statements for the period of at least three fiscal years and auditor's opinion.

8.2.1.3. if this *owner* is an individual, information and documents indicating his/her first, last and middle names, citizenship, ID card or information from another document, verifying his/her identity, permanent residence address and type of occupation.

8.2.1.4. if the *owner* is a foreigner (*except for foreigners permanently residing in the Republic of Azerbaijan*) – in addition to the documents, specified in Article 8.2.1.3 herein, positive recommendations from one or more financial institutions of his/her country of residence, and/or extracts from bank accounts.

8.2.2. *information and documents on the amount of the bank's proposed authorized capital, the share per share owner and the source of funds channeled to the share acquisition, qualifying holding of bank's qualifying holding owners in other legal entities, as well as where qualifying holding owners are legal entities, qualifying holding of other persons in their authorized capital.*

8.2.3. *where the proposed qualifying holding owner in the bank is a legal entity, a list of heads of its executive bodies and information on their civil impeccability, where the head is a foreigner, a reference on whether he/she has been criminally liable issued by relevant public authorities of his/her home country legalized as per the legislation.*

8.2.4. If the legal entity with qualifying holding, is incorporated to a group of companies, information on the group, including persons with qualifying holding in other institutions incorporated to the group, and their officers.

8.2.5. *where the proposed qualifying holding owner is an individual, information on his/her civil impeccability, where the qualifying holding owner is a foreigner, a reference on whether he/she has been criminally liable issued by relevant public authorities of his/her home country legalized as per the legislation.*

8.2.5-1. *information on relations between bank's shareholders and bank's beneficiary owners as defined by the Central Bank, including information on their civil impeccability as defined herein, where the beneficiary owner is a foreigner, a reference on whether he/she has been criminally liable issued by relevant public authorities of his/her home country legalized as per the legislation.*

8.2.6. copies of foundation documents of the bank and the bank charter, including a protocol on establishment of the bank, approval of its charter and formation of its executive bodies.

8.2.7. a business plan, determining bank's commercial strategy, implied types of activities, organizational structure, including an internal control system and financial forecasting for first three years (balance sheet, profit, and loss statement).

8.2.8. *a list of bank's proposed officers, as well as notarized copies of documents indicating information on professional qualifications and experience for each of them (about education and work activity), a questionnaire filled in by those persons, amount and list of their qualifying holding in the bank and other legal entities, information on their civil impeccability, where the officer is a foreigner, a reference on whether he/she has been criminally liable issued by relevant public authorities of his/her home country legalized as per the legislation.*

8.2.9. for a local subsidiary bank of a foreign bank or a foreign bank holding company the documents, indicated in Article 13.2 herein.

8.2.10. a document, verifying payment of a state duty for review of an initial appeal.

8.3. If the *Central Bank* finds errors or deficiencies in an initial appeal or documents attached therewith (*considering the requirements of Article 8.12 of this Law*), submitted for review, it shall send a written notice to applicants within fifteen calendar days and suggest eliminating those errors and deficiencies. If the *Central Bank* fails to notify applicants in writing within the established term, the documents shall be deemed as accepted for review.

8.4. *The Central Bank* shall review the initial appeal within ninety calendar days from the date of submission of the notification indicated in Article 8.3. herein, in the event of participation of foreign founders – no later than 180 calendar days and make an appropriate decision. In each instance, the *Central Bank* shall send a decision to applicants.

8.5. The *Central Bank's* decision on positive review of the initial appeal shall include:

8.5.1. the bank's business plan and minimum amount of initial charter capital to be paid taking into account types of banking activities specified in submitted documents.

8.5.2. all restrictions included to the banking license and substantiation thereon.

8.5.3. conditions to be met by applicants until issuance of the banking license, and actions thereon.

8.6. If the *Central Bank* rejects the initial appeal for a banking license, it shall substantiate the rejection in its decision.

8.7. If the initial appeal is rejected, an appeal is submitted to the *Central Bank* for a banking license, it shall be reviewed as a new appeal.

8.8. If the *Central Bank* positively reviews the initial appeal for a banking license, it shall open an account on applicant bank's name in its balance for transfer of the minimum amount of initial charter capital at the bank's request.

8.9. The established bank shall pay the minimum amount of initial charter capital within 180 calendar days from the date of decision on acceptance of its appeal and undergo state registration in accordance with the Civil Code of the Republic of Azerbaijan, as well as other legal acts adopted in compliance with such. Within this term, the established bank shall organize a corporate governance system (establish managerial bodies in accordance with the provisions herein, form an organizational structure, be ready for launch of an information technologies system, determine accounting and reporting policies, develop internal procedures, define relevant management and minimum staffing), complete logistic and security measures.

8.10. The following documents shall be attached with the final appeal for a banking license:

8.10.1. copies of the state registration certificate and charter, as well as bank procedures.

8.10.2. a copy of the decision of the general meeting of shareholders on establishment of the bank and appointment of officers.

8.10.3. if conditions are determined by the decision of the *Central Bank* on positive review of

the initial appeal for a banking license, document(s) verifying compliance with those conditions.

8.10.4. in the event of significant changes to the information submitted in the initial appeal, written information, which shall clearly explain such changes.

8.10.5. documents, verifying the formation of bank's corporate governance systems, including managerial bodies, provision of logistic and security measures.

8.10.6. a document, confirming payment of the state duty for obtaining a bank license.

8.11. The final appeal of the bank and attached documents therewith shall be reviewed at the latest within thirty calendar days. If errors or deficiencies are found in the final appeal and/or documents attached (*taking into account the requirements of Article 8.12 of this Law*), the *Central Bank* shall send a relevant notification for their correction to the applicant bank. Re-submitted documents shall be reviewed by the *Central Bank* at the latest within fifteen calendar days. If the *Central Bank* finds out that the documents are in compliance with the requirements of Article 8.10 herein, and the minimum charter capital has been received by the *Central Bank*, it shall take a decision on issue of a banking license and within five calendar days send a written notification to applicants.

8.12. *Where it is possible to obtain the documents or information from relevant public authorities (institutions) through the Electronic Government Information System, those documents or information shall not be requested from the applicant. Where it is impossible to obtain the documents or information from relevant public authorities (institutions) through the Electronic Government Information System their submission shall be requested from relevant public authorities (institutions) at the applicant's consent or shall be provided by the applicant.*

Article 9. Licensing of local branches of foreign banks

9.1. No foreign bank may establish branches in the Republic of Azerbaijan without a banking license, issued by the *Central Bank*.

9.2. Review of appeals for obtaining a banking license to establish a local branch of the foreign bank shall comprise two stages:

9.2.1. an initial appeal for a banking license and its review (first stage) and

9.2.2. final appeal for a banking license upon state registration and its review (second stage).

9.3. The following documents, legalized under the legislation shall be attached with the initial appeal for establishment of a branch by a foreign bank in the Republic of Azerbaijan:

9.3.1. the bank charter and a copy of the decision of a competent management body on establishment of the branch.

9.3.2. a list of bank's qualifying holding owners with the indication of shares.

9.3.3. if the bank is incorporated within a group of companies, information on the group, including information on the persons, with qualifying holding in other institutions, included into the group and their officers.

9.3.4. information on the amount of funds equal to capital, allocated by the founder bank to the branch.

9.3.5. audited financial statements for minimum three previous fiscal years and auditor opinion.

9.3.6. a statute of the branch. The statute should hold information on the types of banking activities, oversight of the branch by the bank, and the order of liquidation of the branch along with other information related to activities of the branch.

9.3.7. a business plan, defining the commercial strategy of the branch, implied activities, organizational structure, including an internal control system, as well as financial forecasts for first three years of branch operations (balance sheet, profit, and loss statement).

9.3.8. the documents, specified in Article 13.2.1 herein.

9.3.9. document, verifying bank's undertaking responsibility for liabilities of the branch.

9.3.10. *a list of officers proposed to be appointed to the branch, as well as notarized copies of documents indicating information on professional qualifications and experience for each of them (about education and work activity), a questionnaire filled in by those persons, amount and a list of their qualifying holding in the bank and other legal entities, information on their civil impeccability, where the officer is a foreigner, a reference on whether he/she has been criminally liable issued by relevant public authorities of his/her home country legalized as per the legislation.*

9.3.11. a document confirming payment of state duty for review of the initial appeal.

9.3-1. *If it is possible to obtain documents or information specified in Article 9.3 of this Law through the Electronic Government Information System from the relevant public authority (institution), those documents or information shall not be requested from the applicant. If it is impossible to obtain such documents or information through the Electronic Government Information System, their submission shall be required upon request at the consent of the applicant from the relevant public authority (institution) or shall be provided by the applicant.*

9.4. Review of initial and final appeals, submitted by foreign banks for a banking license for local branches, and issue of the license shall be ensured as per Article 8 herein.

Article 10. Requirements for officers

10.1. Officers of banks, their branches, departments, representative offices and local branches and representative offices of foreign banks shall be fit and proper persons.

10.2. The following persons may not be officers of banks, their branches, representative offices and local branches and representative offices of foreign banks:

10.2.1. an officer, who participated in the process of setting a business strategy and decision making in the bank, that was liquidated or announced insolvent in a forced order due to deterioration of the financial condition and violation of prudential requirements, for *not less than one year* prior to the date of decision on liquidation or bankruptcy (such persons may not be administrators in other bank for the period of *two* years).

10.2.2. a person, dismissed from the position of officer of any bank, branch, or division under request by the *Central Bank* for his/her replacement with another person for the period of not less than three years (except for the persons, to whom a court decision on reinstatement of his/her position is put in force).

10.2.3. persons, deprived of the right to be bank officers as per the legislation.

10.2.4. persons, who are members of bank's other managerial bodies (except for the general meeting of shareholders).

10.2.5. persons, holding other positions in the bank, except for Management Board members.

10.2.6. for a Supervisory Board member — persons, who are members of more than three (*five when designated by the relevant executive authority*) legal entities or management bodies of any other bank.

10.2.7. for Management Board members, the chief accountant (*the person performing these duties*), head of internal audit unit, the head of the bank branch, division, as well as the head and the chief accountant (*the person performing these duties*) of the local branch of the foreign bank – persons, holding positions in other banks, local branches of foreign banks, other legal entities, including legal entities, related to the bank (with the exception when they are members of Supervisory Board in other banks and legal entities in which the bank has the owning share).

10.2.8. persons who are in kinship to the bank officer – his/her spouse, parents, including in-laws, grandparents, children, including adoptees, siblings (except for bank department officers).

10.2.9. persons, serving in public authorities or municipal bodies (with the exceptions stipulated in the legislation).

10.3. *The following requirements should be met to be appointed as an officer:*

10.3.1. *for a chairperson and members of the Supervisory Board, Audit Committee of the bank -*

higher education in the economy, management or law and at least five-year experience in financial markets or the areas defined in the bank's performance strategy, or higher education and at least seven-year experience in those areas.

10.3.2. for the chairperson and members of the Management Board, as well as the head of the local branch of the foreign bank – higher education in the economy, management or law and at least five-year work experience in financial markets (out of which at least three years in a managerial position), or higher education and at least ten-year work experience in financial markets or the areas defined in the bank's performance strategy (out of which at least five years in a managerial position).

10.3.3. for the head of the local bank branch – higher education in the economy, management or law and at least four-year work experience in financial markets (out of which at least two years in a bank), or higher education and at least five-year experience in financial markets (out of which at least three years in a bank).

10.3.4. for the head of the internal audit unit – higher education in the economy or law and at least four-year work experience in financial markets (out of which at least two years in a bank) or higher education and at least five-year experience in financial markets (out of which at least three years in a bank).

10.3.5. for the chief accountant of the bank and the local branch of the foreign bank (the person performing these functions) – higher education in the economy and at least three year work experience in accounting in a bank, or higher education and at least five year experience in accounting (out of which at least three years in a bank) (the chief accountant of the bank and the local branch of the foreign bank (the person performing these functions) should obtain a professional accountant certificate according to the Law of the Republic of Azerbaijan 'on Accounting').

10.3.6. for the head of the bank division and representative office, as well as the head of the head of the local representative office of the foreign bank – higher education and at least two-year work experience.

10.4. The requirements determined in Article 10.3.5 herein for a chief accountant (the person performing these functions) shall not apply to persons with at least two-year accounting experience and those with professional accountant certificates.

10.5. The bank shall send a written notification to the Central Bank on all appointments and changes to positions of the chair and members of Supervisory and Management Boards, as well as the head of the local branch of the foreign bank. The notification shall be attached with the documents and information specified in Articles 8.2.8 and 9.3.10 of this Law.

The Central Bank shall review the notification within thirty calendar days and in the event, there are no errors or shortcomings in submitted documents invite nominees to an interview within the said period. After receiving a positive opinion of the Central Bank on these appointments, those nominees shall start performing their duties. The Central Bank shall determine a procedure for conducting interviews.

If errors or deficiencies are found in documents, related information is sent to the bank or the foreign bank within fifteen calendar days upon submission of the documents and they are suggested to eliminate those errors or deficiencies. At that, the period of the notification review period shall be calculated from the time when those errors or deficiencies are eliminated. If the Central Bank does not invite nominees to an interview during the notification review period, their candidacy shall be deemed positive.

10.6. Except for those specified in Article 10.5 herein, the bank or the local branch of the foreign bank shall submit a written notification to the Central Bank within 7 working days from the date of the relevant decision on other appointments and changes to the position of the officer according to the notification, the documents and information specified in Articles 8.2.8 9.3.10 and 11.3.5 are attached. The notification shall also contain information on compliance of appointed officers with the relevant requirements of Article 10 herein.

10.7. Where the documents specified in Articles 10.5 and 10.6 herein are submitted to the Central Bank and there are no changes therein, they shall not be requested to be re-submitted, provided that related written information is provided to the Central Bank.

10.8. *The requirements specified in this Article shall apply to the entire period of activity of banks and local branches of foreign banks.*

Article 11. Requirements for opening branches, divisions, and representative offices of local banks

11.1. *Local banks shall be free to open branches divisions and representative offices considering the requirements herein.*

11.1-1. *Regulations of the Central Bank shall determine all conditions and requirements related to the operation of divisions of local banks.*

11.2. *Any bank that meets total regulatory capital, capital adequacy and liquidity requirements that have an internal control system in place on branches, may open a branch, a division, and a representative office. A cash vault in the branch and division should be in compliance with requirements of relevant regulations of the Central Bank, as well as information systems to transmit real time data on operations conducted in branches and divisions.*

11.2-1. *A local branch shall send a written notice to the Central Bank within seven days after the decision on opening a local branch, division, or representative office. The notice shall be attached with an approved copy of the decision of the competent management body of the bank on opening a branch, a division, or a representative office, as well as the documents and information specified in Article 11.3.5 herein on officers of the branch, the division, or the representative office. The notice shall include the address of the branch, the division or the representative office, the time to start operations, as well as the information on officers specified in Article 10.6 herein. If the Central Bank fails to react to the notice within 14 calendar days, or appropriate written information is not sent to the bank regarding non-compliance with the requirements specified by this Law for opening a local branch, division or representative office, or non-compliance with the enforcement (corrective) measures imposed against the bank, a relevant local branch, division, or representative office may start operations.*

11.3. *To obtain a permit to open a foreign branch or a representative office, a local bank shall apply in writing to the Central Bank. The following documents shall be attached with the appeal:*

11.3.1. *an approved copy of the decision by the competent management body on opening a bank branch or representative office.*

11.3.2. *a statute of the branch or the ~~foreign~~ representative office. The statute, along with other information, shall contain the address of the branch or the ~~foreign~~ representative office, types of banking activities (only for branches), authorities of officers, bank control and monitoring, procedures for branch or representative office's liquidation.*

11.3.3. *a business plan, defining branch's commercial strategy, types of implied activities, organizational structure, as well as financial forecasts for the branch for first three years of activities.*

11.3.4. *a copy of the decision of a competent bank authority on appointment of officers (managers) of the branch or the ~~foreign~~ representative Office.*

11.3.5. *for each officer of the branch or the ~~foreign~~ representative office, a list of his/her qualifying holding in the bank and other legal entities, notarized copies of certificates, reflecting information on qualifications and experience (education and work experience), a questionnaire filled in by those persons, information on his/her civil impeccability, where the officer is a foreigner, a reference on whether he/she has been criminally liable issued by relevant public authorities of his/her home country legalized as per the legislation.*

11.3-1. *If it is possible to obtain documents or information specified in Article 11.3 of this Law through the Electronic Government Information System from the relevant public authority (institution), those documents or information shall not be requested from the applicant. If it is impossible to obtain such documents or information through the Electronic Government Information System, their submission shall be required upon request at the consent of the applicant from the relevant public authority*

(institution) or shall be provided by the applicant.

11.4. If the *Central Bank* finds errors or deficiencies in the appeal or documents attached therewith (*taking into account the requirements of Article 11.3-1 of this Law*), it shall within ten calendar days send a notification to the applicant and suggest remedying those errors or deficiencies. If the *Central Bank* finds no errors or deficiencies in the appeal or documents attached therewith, it shall send a written notification on acceptance of its appeal to a bank within ten calendar days. If the *Central Bank* fails to send a written notification within this period, documents shall be deemed as accepted for review.

11.5. The *Central Bank* shall review the application in accordance with the procedures herein no later than ninety calendar days from the date of sending notification on acceptance of the appeal on opening a *foreign branch or a representative office of the local bank* and take a relevant decision. In each instance *the Central Bank* shall send its decision to the bank. In the event of approval of the appeal, *the Central Bank* shall issue a permit immediately. The permit shall include information on the type and scope of activities, a *foreign branch or representative office* may be engaged in, as well as a list of restrictions, included in the permit. The *Central Bank* should substantiate rejection of the application or restrictions applied to the permit in its decision.

11.6. If the permit is issued for opening a local bank's foreign branch or foreign representative office, it shall also consider the ability to supervise activities of the branch or representative office based upon the cooperation, in accordance with the procedures, determined by the banking supervisory and regulatory authority of the host country.

11.7. The local bank, which opened a foreign branch or representative office, shall notify the *Central Bank* in writing upon obtaining the relevant permit in the host country within five working days.

11.8. *Where the bank decides to suspend or terminate the branch, the division, and the representative office, it should send a written notification to the Central Bank indicating reasons within five working days. The notification shall specify the order of transfer of assets and liabilities of the structural unit suspended or terminated to the bank or another structural unit of the bank.*

Article 12. Obtaining permits for opening local representative offices of foreign banks

12.1. A foreign bank shall not open a representative office in the Republic of Azerbaijan without the permit of the *Central Bank*.

12.2. To obtain a permit to open a local representative office, the foreign bank shall apply to the *Central Bank*. The application shall be attached with the following legalized documents:

12.2.1. a copy of the charter of the bank and the decision of its competent body to open a representative office.

12.2.2. information on the bank, its organizational structure and management bodies with the indication of the competent management body, which has taken a decision on establishment and liquidation of the representative office.

12.2.3. a list of qualifying holding owners in the bank with indication of their voting shares.

12.2.4. bank's audited financial statements for the last fiscal year and auditor's opinion.

12.2.5. a statute of the representative office indicating its authorities and address.

12.2.6. a reference by the bank on qualifications and work experience of officers of the representative office, as well as existence or absence of convictions.

12.2.7. documents, specified in article 13.2.1 herein.

12.2-1. *In case of possibility to obtain documents or information specified in Article 12.2 of this Law through the Electronic Government Information System from the relevant public authority (institution), those documents or information shall not be required from the applicant. In the cases of impossibility to obtain such documents or information through the Electronic Government Information System their*

submission shall be required upon request at the consent of the applicant from the relevant public authority (institution) or shall be provided by the applicant.

12.3. If the *Central Bank* finds errors or deficiencies in the appeal or documents attached therewith (*taking into account the requirements of Article 12.2-1 of this Law*), it shall within ten calendar days send a notification to the applicant on those errors and deficiencies and suggest eliminating such errors or deficiencies. If the *Central Bank* finds no errors or deficiencies in the appeal or the documents attached therewith, it shall send a written notification on acceptance of its appeal to the bank within ten calendar days. If the *Central Bank* fails to send a written notification within this period, the documents shall be considered as accepted for review.

12.4. The *Central Bank* shall review the appeal in accordance with the procedures herein at the latest within sixty calendar days from the date of sending a notification on acceptance of the appeal on opening a representative office of the foreign bank and take a relevant decision. In each instance, the *Central Bank* shall send a copy of the decision to the relevant foreign bank.

12.5. The *Central Bank* shall issue permit after state registration of foreign bank's representative office upon delivery of the copy of the state registration certificate and a written statement on absence of significant changes to initial information.

12.6. The permit issued to the local representative office of the foreign bank shall contain information on the nature of work the representative office may implement, as well as a list of all restrictions included to the permit. The decision on rejection of appeal on issuance of permit or inclusion of restrictions to the permit shall substantiate reasons.

Article 13. Additional requirements for issuance of licenses to local subsidiary banks of a foreign bank and a foreign bank holding company, local branches of a foreign bank and opening a representative office of a foreign bank

13.1. Banking licenses to local subsidiary banks of a foreign bank or a foreign bank holding company, local branches of a foreign bank, local branches of the foreign bank and permits for opening local representative offices of foreign banks shall *be issued* only upon consultations between the *Central Bank* and foreign authorities, regulating and supervising activities of the foreign bank or the foreign bank holding company, and setting required consolidated supervision of such a bank or a bank holding company by those authorities.

13.2. The appeal for a banking license for a subsidiary bank of the foreign bank or the foreign bank holding company, branches of foreign bank or appeal for permit for opening of a local representative office of the foreign bank, shall also include the following documentation in addition to the documents specified in Articles 8 and 9 herein:

13.2.1. for a subsidiary bank, branch or representative office of the foreign bank – a written notice of the banking regulatory and supervisory authority of the country of residence of the foreign founder bank, on existence of a bank permit to be engaged in attraction of deposits and other returnable funds from individuals and legal entities in this country, as well as bank's supervision by this regulatory and supervisory authority and a written permit by that authority to establish a subsidiary bank or open a branch, representative office of this bank.

13.2.1. for a subsidiary bank of the foreign bank holding company – a written notification of the regulatory and supervisory authority of the country of residence of the bank holding company, on supervision of this company, existence, or management of one or more banks, holding licenses for engagement in attraction of deposits and other reimbursable funds from individuals and legal entities and a written permit of this authority to establish a subsidiary bank.

13.3. At least one of the members of the Management Board in subsidiary banks of foreign banks and foreign bank holding companies, and one of the officers in local branches of foreign banks shall be a citizen of the Republic of Azerbaijan.

Article 14. Terms and conditions for issuance of bank licenses or permits

14.1. Considering the necessity to ensure reliable and prudential management of banks and local branches of foreign banks, a bank license shall only *be issued* under this Law if:

14.1.1.bank's initial charter capital or funds of the local branch of a foreign bank, equivalent to the initial charter capital, shall not fall behind the amount determined during the approval of initial appeal by the *Central Bank and the source of those funds is known*.

14.1.2.there are no facts known giving grounds to threaten bank's reliable and prudential management by influence of one or more shareholders with qualifying holding *or beneficiary owners*.

14.1.3.relations between the bank and the foreign bank or the foreign bank holding company with qualifying holding shall not hinder the ~~financial markets supervisory authority and~~ the Central Bank to ensure supervisory functions, regulatory and supervisory authorities of the host country of the founder bank or the bank holding company provide their effective supervision and banking regulatory and supervisory authorities of the country of residence cooperate with the *Central Bank*.

14.1.4.*beneficiary owners*, individuals, who are owners of qualifying holding and the management of executive bodies of legal entities are fit and proper persons.

14.1.5.officers of a bank or a local branch of a foreign bank meet the requirements of Article 10 and, if relevant, the requirements of Article 13.3 herein.

14.1.6.internal management and control procedures of the bank or the local branch of the foreign bank are adequate.

14.1.7. the business plan, including financial forecasts of the bank or the local branch of the foreign bank are adequate.

14.1.8.the local subsidiary bank is not the subsidiary of a foreign legal entity (with exception of the foreign bank or the bank holding company).

14.1.9.the bank is the subsidiary bank of a foreign bank, or a foreign holding company, the foreign bank or the foreign holding company guarantee reimbursement of future liabilities of the subsidiary bank in the cases, stipulated in the Civil Code of the Republic of Azerbaijan.

14.1.10.the foreign bank guarantees timely and proper payment of future liabilities of the subsidiary bank.

14.1.11.the bank is a subsidiary bank of the foreign bank or the foreign holding company, the banking regulatory and supervisory authority of the country of residence of the foreign founder bank or the foreign bank holding company issued the permit for foundation of the subsidiary bank and upon consultations between the *Central Bank* and this authority, it was identified that this authority will ensure proper consolidated supervision of the foreign bank or the foreign bank holding company and their subsidiary banks (foreign and local).

14.1.12.the banking regulatory and supervisory authority of the foreign founder bank's home country, has issued a permit to open a local branch and properly supervises its activities.

14.1.13.a bank is the member of a group of companies, such membership shall not prevent supervisory functions of the ~~financial markets supervisory authority~~ the Central Bank.

14.1.14.the financial condition of founders or the foreign bank that has established the local branch, confirmed with relevant documents, is satisfactory.

14.1.15.documents submitted for licensing of the bank or local branch of the foreign bank comply with the requirements of the legislation of the Republic of Azerbaijan.

14.2. Considering the necessity to ensure reliable and prudential management of *foreign branches and* foreign representative offices of local banks, and local representative offices of foreign banks, the *Central Bank* shall only *permit* their opening under this Law if:

14.2.1.bank's financial standing supported by relevant documents is satisfactory.

14.2.2. officers of the branch or representative office meet the requirements of Article 10 herein.

14.2.3. procedures for internal management and control, proposed for the branch, are adequate.

14.2.4. the business plan, including financial forecasts of the branch are adequate.

14.2.5. the banking regulatory and supervisory authority of the country of residence of the foreign branch, representative office of the local bank shall ensure proper supervision of the branch, and representative office, based on cooperation with the *Central Bank*.

14.2.6. the banking regulatory and supervisory authority of the home country of the foreign founder bank permitted to open a local representative office and shall properly supervise its activity.

~~14.2.7. the place, where the local branch of the bank will operate, meets logistic requirements, set by the Central Bank for banking activities.~~

14.2.8. operations on bank accounts by the branch, are conducted in founder bank's reports in the time frame, determined by the *Central Bank*.

14.2.9. documents, submitted for a permit to open a branch or a representative office comply with the requirements of the legislation of the Republic of Azerbaijan.

14.3. If the application on obtaining a banking license or permit is rejected, applicants upon obtaining the *Central Bank's* decision on rejection may apply to court in the order specified in the *Administrative Procedural Code of the Republic of Azerbaijan*.

Article 15. Register of banks, their branches, divisions, and representative offices

15.1. The *Central Bank* shall maintain a centralized public register of banks, branches, divisions, and representative offices. The Register shall include names, addresses of banks, branches, departments and representative offices, information on officers, registration numbers and dates of issue or revocation of licenses and permits (*if a license and a permit are required under this Law*); banks, branches, divisions, and representative offices the activities of which are terminated.

15.2. Banks shall send a written notification to the *Central Bank* on changes to the information, included to the register within five *working days*.

Article 16. Revocation of a bank license or permit

16.1. The *Central Bank* shall review *the revocation* of banking license ~~revocation~~ of the bank or the local branch of the foreign bank only in case of *one of the following grounds*:

16.1.1. based upon the appeal (decision) of founders (shareholders) of the bank.

16.1.2. a foreign bank decides to close its local branch.

16.1.3. the bank is announced bankrupt.

16.1.4. information submitted during the application for licensing found out to be incorrect.

16.1.5. the bank or the local branch of the foreign bank does not start functioning under the banking license within twelve months from the date of license validity or it was identified by the *Central Bank* that the bank or the local branch of the foreign bank attracted neither deposits or other reimbursable funds, nor issued loans within six months.

16.1.6. the amount of bank's charter or total regulatory capital or the amount of funds of the local branch of the foreign bank equivalent to charter or total regulatory capital (funds equivalent to total regulatory capital of the local branch of the foreign bank) is below the amount of minimum charter or total regulatory capital, set by the *Central Bank* for banks.

16.1.7. the adequacy ratio of bank's total regulatory capital or funds of the local branch of the foreign bank equivalent to total regulatory capital is below 3 percent.

16.1.8. the bank or local branch of the foreign bank fails to meet liabilities due to creditors, including failure to ensure security of entrusted assets.

16.1.9. the bank or the local branch of the foreign bank fails to ensure the management or current activities in a reliable and prudential manner or violates the requirements of this Law, the *Laws of the Republic of Azerbaijan 'on Prevention of Legalization of Criminally Obtained Funds or Other Property and the Financing of Terrorism', 'on Targeted Financial Sanctions'*, regulations of ~~the financial markets supervisory authority and~~ the Central Bank more than two times.

16.1.10. the bank provides activities, not stipulated in the license or permit.

16.1.11. the facts, indicated in Articles 14.1.2-14.1.4 herein are identified and the requirements of Articles 14.1.5-14.1.7 herein are not met.

16.1.12. the bank becomes another bank's subsidiary bank without *Central Bank's* permit.

16.1.13. the license of the foreign bank or the foreign bank holding company, which has the local subsidiary bank or branch is revoked.

16.1.14. the bank is reorganized without permit of the *Central Bank*.

16.1.15. ~~the financial markets supervisory authority or~~ the Central Bank fails to supervise subsidiary banks of the foreign bank *or local branches of the foreign bank* due to failure of the banking regulatory and supervisory authorities of their home country to supervise a foreign bank and a foreign bank holding company, as well as the bank, that is the member of a group of companies.

16.1.16. it is found put that incorrect reports and information were deliberately submitted to ~~the financial markets supervisory authority or~~ the Central Bank.

16.1.17. monthly statements as of the date of recent three reporting dates were not delivered to ~~the financial markets supervisory authority or~~ the Central Bank.

16.1.18. *the bank or the local branch of the foreign bank fails to follow prescriptions or other written instructions provided by the Central Bank under this Law.*

16.1.19. *if specified in the actions plan related to resolution of the insolvent bank.*

16.1.20. *if the actions plan related to bank's resolution fails to be implemented within the implied deadline or actions to rehabilitate bank's solvency yield no results.*

16.2. The *Central Bank* shall consider *revocation of the permit issued to foreign branches and representative offices of local banks*, including local representative offices of the foreign bank *if one of the grounds below arise:*

16.2.1. the information submitted in an application for permit is found out to be incorrect.

16.2.2. the bank's license is revoked.

16.2.3. the bank is declared bankrupt.

16.2.4. the bank is liquidated.

16.2.5. operations fail to start within twelve months from the date of license validity or the *Central Bank* finds out that the activity of the local bank was suspended within six months.

16.2.6. any of the conditions set in Articles 14.2.1-14.2.5 herein are not met.

16.2.7. the bank, branch or representative office that obtained permit fails to ensure the management or current activities in a reliable and prudential manner or violates the requirements of this Law, the *Laws of the Republic of Azerbaijan on 'Prevention of Legalization of Criminally Obtained Funds or Other Property and the Financing of Terrorism', 'on Targeted Financial Sanctions'*, regulations of ~~the financial markets supervisory authority and~~ the Central Bank more than two times.

16.2.8. activities, not stipulated in the banking license or permit were provided.

16.2.9. a decision is made on closing *the representative office or the foreign bank of the local bank.*

16.2.9-1. *the permit of the representative office or the foreign branch of the local bank is revoked.*

16.2.10. the banking regulatory and supervisory authority of the host country of the foreign

branch or representative office of the local bank fails to adequately supervise their activities.

16.3. The *Central Bank* shall notify the bank on its decision on revocation of the banking license in writing indicating grounds.

~~16.4. In the event of availability of one of the grounds specified in Articles 16.1.9, 16.1.15, 16.1.16, 16.1.17, 16.1.18 and 16.2.7 herein, the Central Bank shall apply in writing to the Central Bank for revocation of a bank license or permit on the issues under its competence.~~

Article 17. Revocation of a banking license or permit at bank's own request

17.1. The bank shall apply to the *Central Bank* for revocation of its *license and permit*.

17.2. The bank shall attach with the application on license revocation a liquidation plan, approved by the bank, financial statements approved by an external auditor as of three previous months starting from the application date. The *Central Bank* shall make a decision on the bank's request at the latest within 90 calendar days from the date of application submission.

The *Central Bank* shall review the request for revocation of the permit issued to *foreign* branches of banks, and an attached liquidation plan at the latest within 30 calendar days from the date of application submission and make a decision on the bank's request.

17.3. If the liquidation plan and solvency of the bank or the local branch of the foreign bank is considered acceptable, as well as in the event of availability of sufficient liquid assets to meet their liabilities upon revocation of the banking license, the *Central Bank* shall take an appropriate decision on the application, and the bank or the local branch of the local bank shall be liquidated in accordance with Article 58 herein.

17.4. The *Central Bank* shall immediately send a substantiated decision on rejection of the application on revocation of the bank's license or permit to the bank or foreign founder company and its local branch.

Article 18. Publication and entry into force of a decision on revocation of banking license or permit

18.1. The *Central Bank* shall send a notification on liquidation to state registration and tax authorities within five calendar days from the date of taking a decision on revocation of a banking license or permit of the local representative office of the foreign bank and publish an official announcement in *media*. Unless other term is specified, the decision on revocation of the banking license or the permit of the local representative office of the foreign bank shall take effect on the date following the date of publication.

18.2. Starting from the effective date of the resolution on revocation of the banking license or the permit of the local representative office of the foreign bank, the words 'under liquidation' shall be added to the name of the relevant bank, the branch or the representative office and it shall be prohibited to discharge any activities based upon the banking license or permit. Thereafter the bank, the branch or the representative office shall be liquidated according to the requirements of this Law under the legislation, except for the instances on initiation of bankruptcy procedures of the bank or the local branch of the foreign bank.

18.3. The resolution of the *Central Bank* on revocation of the banking license or the permit may be appealed in court by local and foreign banks as per procedures of the *Administrative Procedural Code of the Republic of Azerbaijan*. Submission of the appeal shall not stop execution of the decision of the *Central Bank*.

Chapter III

BANKS' ESTABLISHMENT, MANAGEMENT, AND INTERNAL AUDIT

Article 19. Organization of banks

19.1. *Except for the cases specified in Article 57-8 herein*, a bank shall be established by at least three legal entities and/or individuals *and operate* as an open joint-stock company.

19.2. Political parties, public unions, funds, and other non-commercial organizations may not be shareholders of the bank.

19.3. A bank may issue registered shares only. *Except for the cases specified in Article 106-1.5 of the Civil Code of the Republic of Azerbaijan*, owners of bank's preferred shares shall not have voting rights.

19.4. Shareholders, who are founders of the bank, shall not have any additional privileges or additional responsibilities compared to bank's subsequent shareholders.

Article 20. Charter and procedures of the bank

20.1. Bank founders shall develop and approve the charter in accordance with the Civil Code of the Republic of Azerbaijan. Changes to the bank charter shall be made by an advance written permit of the *Central Bank*.

20.2. Every bank, in accordance with its charter, shall operate based on its internal procedures, approved as per this Law that define the following:

20.2.1. organizational and managerial structure, including its operational and administrative departments, their divisions and functions, subordination and reporting procedures.

20.2.2. responsibilities of heads of divisions and units, managed and overseen by the bank.

20.2.3. functions of internal audit, other permanent internal commissions, and committees.

20.2.4. powers of bank officers and heads of structural units on performing banking activities.

20.2.5. rules on appointment and dismissal of officers of branches and departments, as well as their authorities for discharge of banking activities.

20.3. A notarized copy of the bank charter, internal regulations, approved by the bank, as well as a list of bank executives, authorized to sign contracts related to bank's activities shall be submitted by the bank in one copy to and retained by the *Central Bank*.

20.4. Changes to the bank charter shall be state registered in accordance with the procedures, defined by the Civil Code of the Republic of Azerbaijan. Changes made to the charter and regulation of the bank shall be submitted to the *Central Bank* within five calendar days.

Article 21. Capital requirements for banks and local branches of foreign banks

21.1. Banks shall permanently maintain total regulatory capital, and the local branch of the foreign bank shall retain assets, equivalent to total regulatory capital not lower than the threshold of total regulatory capital set by the *Central Bank* for banks. The *Central Bank* shall determine the structure, components, and procedures for calculation of bank's total regulatory capital, and assets of the local branch of the foreign bank equivalent to total regulatory capital.

21.2. No bank without preliminary written permit of the *Central Bank* may reduce total regulatory capital via payment of its value during purchase of shares or reduction of the nominal value of shares.

21.3. No foreign bank, without preliminary written permit of the *Central Bank*, may reduce assets of its local branch equivalent to total regulatory capital, via recall of assets, equivalent to charter capital.

21.4. Shareholders or foreign banks shall form bank's charter capital and assets of local branch of the foreign bank equivalent to charter capital only in the national currency.

21.5. Officers of the bank or the local branch of the foreign bank in all cases, when total regulatory capital (funds equivalent to total regulatory capital) is found out to have reached 25 percent of minimum amount of total regulatory capital for banks or 3 percent of the adequacy ratio, set by the *Central Bank*, shall immediately notify the *Central Bank* to that end in writing.

Article 22. Restriction of qualifying holding in bank's charter capital

22.1. Any person may obtain qualifying holding in bank's charter capital, including additional share that brings existing share in charter capital to qualifying holding, as well as increasing the qualifying holding which would result in reaching or surpassing 20 percent, 33 percent, 50 percent of voting shares, or result in transformation of a bank into a subsidiary structure of this person in accordance with the procedures herein.

22.2. The bank, upon being informed that the person with qualifying holding in its capital, has acquired or increased qualifying holding in the capital of another legal entity, shall immediately notify in writing the *Central Bank*.

22.3. The bank, upon being informed that any legal entity with qualifying holding in capital has bought or increased the qualifying holding in the capital of the legal entity, shall immediately notify in writing the *Central Bank*.

22.4. The bank's competent body, shall submit the following documents to the *Central Bank* to acquire qualifying holding specified in Article 22.1 herein, with an application and a decision:

22.4.1. if this owner is a legal entity:

22.4.1.1. information on the name, address, type of commercial activity of the legal entity, audited financial statements, covering minimum past three fiscal years (if the legal entity is established for less than three years, its recent fiscal years) and auditor opinions, as well as an approved copy of the decision of the competent management body, allowing to purchase the implied participation share of that person.

22.4.1.2. a list of heads of executive bodies of that legal entity and *information on their civil impeccability*.

22.4.1.3. foreign legal entities, in addition to the above documents, shall submit the following documents, legalized in accordance with the legislation:

A document verifying its registration in its home country, the charter (statute), audited financial statements for minimum period of previous three fiscal years and auditor opinion.

If the executive is a foreigner, a reference on whether he/she had criminal records, issued by the executive authority of his/her home country.

22.4.1.4. if the person is a foreign bank, a reference, issued by the regulatory and supervisory banking authority of its home country, confirming existence of a banking license for bank activities, related to attraction of deposits and other reimbursable assets from individuals and legal entities in this country, and its consent to purchase a participation share in the organization.

22.4.2. if the owner is an individual:

22.4.2.1. information and documents indicating his/her first, middle and last names and citizenship, ID card and another document confirming his/her identity, the type of employment, legal entities under his/her ownership and control, and the type of their occupation, *information on his/her civil impeccability*.

22.4.2.2. if an individual is a foreigner, in addition to the above information and documents *positive recommendations of one or some financial institutions and/or bank account statement of his/her home country (except for foreigners whose permanent residence is in the territory of the Republic of Azerbaijan) and a reference on whether he/she has been criminally liable issued by relevant public authorities of his/her home country legalized as per the legislation* ~~and recommendation letters from one or more financial institutions and/or extracts from bank accounts.~~

22.4.3. *the source of funds of that person channeled to acquisition of qualifying holding, as well as information on the amount of qualifying holding in capital of banks or other legal entities.*

22.4.4. information on the amount of qualifying holding of banks and other legal entities in that person's capital.

22.4.5. main directions of activities of legal entities, specified in Articles 22.4.3 and 22.4.4 and addresses of their headquarters.

22.4-1. *In case of possibility to obtain documents or information specified in Article 22.4 of this Law through the Electronic Government Information System from the relevant public authority (institution), those documents or information shall not be required from the applicant. In the cases of impossibility to obtain such documents or information through the Electronic Government Information System their submission shall be required upon request at the consent of the applicant from the relevant public authority (institution) or shall be provided by the applicant.*

22.5. The *Central Bank* shall review the application submitted in accordance with Article 22.4 herein within ninety calendar days. If within this period the *Central Bank* does not provide a written notification to the bank, the application shall be deemed as approved. The *Central Bank* may reject the issuance of permit if:

22.5.1. the documents specified in Article 22.4 herein are not submitted in full (*taking into account the requirements of Article 22.4-1 of this Law*).

22.5.2. heads of executive bodies of the legal entity are not fit and proper persons.

22.5.3. an individual is not a fit and proper person.

22.5.4. financial standing of the legal entity to obtain qualifying holding is not satisfactory *or the source of funds channeled to the acquisition of qualifying holding is unknown or the facts specified in Article 14.1.2 herein have been found.*

22.5.5. the bank is re-organized into a subsidiary structure of a foreign legal entity, which is not a bank or a bank holding company due to purchase of the participation share.

22.5.6. the foreign country's regulatory and supervisory authority does not permit the foreign bank or the foreign bank holding company to re-organize the bank into their subsidiary.

22.5.7. ~~the financial markets supervisory authority and~~ *Central Bank* cannot perform its supervisory functions since the foreign bank or foreign bank holding company to be related to the bank due to acquisition of a participation share in their home country shall not be properly supervised or supervisory authorities of that country refuse to cooperate.

22.6. The permit issued by the *Central Bank* shall indicate the deadline for qualifying holding to be acquired.

22.7. If any person purchases such a participation share without preliminary consent, the *Central Bank* shall issue a written instruction to that person on liquidation of his/her share purchased without permission until the fixed date.

If the deadline for purchasing of the qualifying holding is not met, upon the expiry of the deadline the *Central Bank* shall issue a written instruction to that person on liquidation of that share until the fixed date.

Voting rights of those persons in the part to be liquidated, shall not be considered at general meetings of shareholders.

22.8. Any person with qualifying holding in bank's capital shall notify the *Central Bank* in writing, prior to reduction of his/her voting rights or his/her share in charter capital to the level below 20 percent, 33 percent, or 50 percent.

22.9. As soon as banks are notified on acquisition or cancellation of any shares, resulting in reduction or increase of shares in their capital, compared to what is indicated in Articles 22.1 or 22.8 herein they shall notify the *Central Bank* accordingly. Banks also, no less than twice a year, shall inform the *Central Bank* in writing on their major shareholders, their addresses, and information on the size of those persons' shares.

22.10. The *Central Bank* shall appeal to court on alienation or re-purchase by the bank of shares of the person, with qualifying holding in bank's capital if:

22.10.1. any of heads of executive bodies of the legal entity or an individual is not a fit and

proper person.

22.10.2. the bank is influenced to the extend when it threatens financial soundness of the bank or its reliable management.

22.10.3. the banking license of the bank or the foreign bank holding company is revoked.

22.10.4. the banking regulatory and supervisory authorities of the home country fails to ensure proper supervision of the foreign bank or the foreign bank holding company, or they refuse to cooperate with the *Central Bank* in this area.

22.11. The court shall review the application of the *Central Bank*, submitted under Article 22.10 herein within no later than 30 calendar days.

Article 23. Banks' managerial structure

Each bank shall be managed by a general meeting of shareholders, a supreme governing body, a Supervisory Board that ensures its management and control, an Audit Committee, which provides auditing of the bank and a responsible executive body, a Management Board. *Authorities of an executive body of a joint-stock company may not be delegated to another legal entity or private entrepreneur (manager) on a contractual basis.*

Article 24. General meeting of shareholders

24.1. The exclusive competence of the general meeting of shareholders shall include:

24.1.1. adopt the bank's charter, make additions and changes therein.

24.1.2. adopt bank's procedures, make additions and changes therein.

24.1.3. determine bank's interest rates, policy on allocation and categorization of assets, as well as bank's overall financial, accounting, administrative and human resource policies.

24.1.4. decide on participation of the bank in capital of other legal entities, establish and terminate branches and representative offices of the bank, approve their statutes.

24.1.5. decide on planned and, if necessary, extraordinary audits and appoint an external auditor for this purpose.

24.1.6. adopt and approve the bank's budget.

24.1.7. appoint and dismiss Management Board members, approve the statute of the Management Board.

24.1.8. appoint and dismiss members of the Supervisory Board ~~and the Audit Committee~~ of the bank, approve statutes ~~of those management bodies~~, establish terms and conditions for recruitment of bank officers *in view of the requirements of the present Law*.

24.1.9. define powers of bank officers on undertaking liabilities and extension of rights on behalf of the bank and at bank's expense; and set limits on the right to delegate these powers to bank's other employees, except for authorities of Supervisory Board members.

24.1.10. adopt rules for disclosure of commercial interests of bank officers; additions and changes therein based on Article 28 of this Law.

24.1.11. establish and terminate bank's subsidiaries, decide on acquisition of another bank.

24.1.12. decide on increase or decrease of charter capital, establish duration and conditions for issue of bank shares, as well as consent to obtain qualifying holding in the bank.

24.1.13. approve annual financial statements of the bank, approved by external auditors, and recommended by the Audit Committee, as well as decide on creation of reserves and payment of dividends from net profit.

24.1.14. decide on bank's sale, reorganization, and liquidation.

24.1.15. resolve other issues, related to its competence under *the Civil Code of the Republic of Azerbaijan, this Law*, and the bank charter.

24.2. Issues, assigned to exclusive competence of the general meeting of shareholders, under

articles 24.1.2-24.1.7 herein may be delegated to the Supervisory Board for resolution.

24.3. Bank's foundation meeting shall be deemed authorized with the participation of all founders or their representatives. Next general meetings of shareholders (*including general meetings convened again and repeatedly*) shall be deemed authorized in the event of participation of *owners*, holding minimum 60 percent of all voting shares. At the founding meeting of the bank, decisions on its foundation, approval of the charter and formation of management authorities shall be made unanimously. Decisions on additions and changes to the charter, appointment, and dismissal of the members of Supervisory and Management Boards, sale and reorganization of the bank, acquisition of another bank and termination of activities of the bank shall be taken by the majority of 75 percent of shareholder votes, represented at the meeting. *A decision on concluding a transaction, amounting to 5 percent or more of bank's assets with a related party shall be taken by the opinion of an independent auditor involved by the bank and simple majority of votes of the general meeting of shareholders having the right to vote.* All other decisions shall be made by simple majority of participating shareholder votes.

24.4. *Except for the cases specified in Articles 49-1.2 and 49-1.3 of the Civil Code of the Republic of Azerbaijan*, shareholders shall have voting rights pro-rata to their shares in the bank's charter capital. Every shareholder may use his/her voting right at the general meeting of shareholders both personally and via his/her authorized representative. The power of attorney shall be formalized in writing and attached with meeting minutes. The Power of Attorney shall be issued prior to the meeting. No separate power of attorney shall be required for persons, who represent shareholders legally. Such persons shall present the document verifying their authority.

24.5. Shareholders may hold planned and extraordinary meetings. The date, venue, timing, and notifications on the rule of familiarization with materials on the agenda of every *planned* meeting of shareholders shall be sent to shareholders at least 45 calendar days prior to the date of the meeting and relevant information shall be published in *mass media*. It is not allowed to make decisions on issues not included to the agenda, which is sent together with the notification. A planned meeting shall be held no less than once a year. Planned meetings shall be held at the latest within two months upon development of financial statements of the bank for each year and completion of an external audit.

Extraordinary meetings may be summoned at the request of *owners* of shares, who own at least 5 percent of voting shares, the Supervisory Board, the Audit Committee, and the Management Board. The procedure *and period* for summoning extraordinary meetings shall be regulated by the Civil Code of the Republic of Azerbaijan.

24.6. If all shareholders with voting rights are represented at the shareholder meeting, the meeting shall be deemed competent irrespective of the time and method of its convening. If all shareholders with voting rights agree unanimously, this meeting may discuss issues not included to the agenda and take decisions thereon.

Article 25. Supervisory Board

25.1. The Supervisory Board of the bank shall:

25.1.1. oversee management and activities of the bank, as well as receive reports from the Management Board.

25.1.2. issue recommendations for the general meeting of shareholders and the Management Board.

25.1.3. convene each general meeting of shareholders by sending notifications and approve an agenda for each meeting, except for extraordinary meetings, held at the request of shareholders, as well as the Audit Committee and the Management Board under their agenda.

25.1.4. in case of revealing breach of the existing legislation by the bank, *notify* the general meeting of shareholders, the Audit Committee, and the Management Board, and submit a notification to the *Central Bank* on violations of the requirements of the banking legislation and the *Laws of the Republic of Azerbaijan on Prevention of Legalization of Criminally Obtained Property and the Financing of Terrorism* and 'on Targeted Financial Sanctions'.

25.1.5. in accordance with this Law dismiss Management Board members from their positions, temporarily replace them with other persons, complying with the requirements of Article 10 herein until approval by the general meeting of shareholders.

25.1.5-1. *appoint and dismiss Audit Committee members, approve the statute of the Audit Committee.*

25.1.6. manage and represent the bank in the event of conflict of interests between the bank and one or more of the Management Board members.

25.1.7. adopt procedures and internal statutes, necessary to ensure reliable and prudential bank management, as well as develop and apply an internal control *program* to combat the legalization of criminally obtained ~~funds or other~~ property and the financing of terrorism.

25.1.8. decide on creation of bank's capital reserves.

25.1.9. permit conduction of relevant transactions on behalf of the bank at the value exceeding 50 percent of bank's charter capital, and in the cases implied in the bank's charter, *considering the requirements of Articles 24.3 and 25.1.10 of this Law.*

25.1.10. *except for cases within the competence of the general meeting of shareholders and the cases of decision-making by the Management Board in accordance with Article 40.1.1-1 of this Law, decide on concluding a deal, at the value of up to 5 per cent of bank's assets with related parties.*

25.1.11. decide on examination of separate or target areas of bank operations.

25.1.12. review findings of internal and external audits, as well as examinations of *inspection authorities* and take measures with respect to findings of these examinations.

25.1.13. exercise other powers stipulated herein, in the bank's charter and regulations of the *Central Bank*.

Prior to exercising authorities specified in Article 25.1.6 herein, the Supervisory Board shall send a written notification to the *Central Bank* with indication of reasons and convene an extraordinary general meeting of shareholders. The *Central Bank* may express its attitude with respect to the decision of the Supervisory Board.

Decisions taken by the Supervisory Board based on Articles 25.1.5, 25.1.6 and 25.1.8 herein shall be included to the agenda of the general meeting of shareholders and discussed.

25.2. The Supervisory Board of the bank shall consist of odd number members, with the minimum membership of three persons. Members of the Board are individuals, appointed by the general meeting of shareholders for the period of no more than 3 years from among shareholders and/or outsiders. Board members may be reelected for additional terms. The general meeting of shareholders shall appoint a chair from among members of the Supervisory Board. Compensation for members of the Supervisory Board may be fixed at the general meeting of shareholder in the form of interest from bank's retained earnings or in the form of a salary.

25.3. Individuals, incompliant with the requirements of Article 10 of this Law, may not be Supervisory Board members and should be released from the duties of members of the Supervisory Board at the decision of the general meeting of shareholders.

25.4. The Supervisory Board shall be deemed competent when more than half of its members assemble. The procedure for convening meetings shall be determined in bank's charter or the statute on the Supervisory Board.

25.5. Meetings of the Supervisory Board shall be held at least once in three months. Meeting minutes shall be developed under the Civil Code of the Republic of Azerbaijan.

25.6. The Supervisory Board shall take decisions by a simple majority of votes of members,

participating in the meeting. Each member shall enjoy the right for one vote. Members may not abstain. In the event of a tie, a chair the Supervisory Board shall be entitled to a casting vote.

Article 26. Management Board

26.1. Management Board shall be taken responsible for bank's management and operation.

26.2. The Management Board shall consist of odd number of members, no less than three persons. Members of the Management Board shall be appointed by the general meeting of shareholders for the period of not more than 3 years. They may be re-elected for next terms. The general meeting of shareholders shall appoint one of the Management Board members as a chairperson. Authorities of the chairperson of the Management Board shall be determined by the statute of the Management Board.

26.3. Individuals, who do not meet the requirements of Article 10 herein may not be Management Board members and shall be released from duties of Management Board members at the decision of the general meeting of shareholders.

26.4. The Management Board shall be deemed competent if more than half of its members are present at a meeting.

26.5. The Management Board shall take decisions by a simple majority of votes of members, present at the meeting. Each member shall enjoy the right for one vote. Members may not abstain during voting. In the event of a tie, the chairperson shall be entitled to a casting vote.

Article 27. The Audit Committee and internal audit

27.1. Every bank shall have an independent Audit Committee and internal audit unit (department, division, etc.).

27.2. The Audit Committee shall:

27.2.1. establish the audit policy and strategy of the bank.

27.2.2. approve internal audit plans and control activities of the audit unit.

27.2.3. issue proposals to bank's competent management authorities on appointment of an external audit.

27.2.4. organize joint operation with external auditors, assist in implementation of findings and recommendations of audit.

27.2.5. maintain contacts between bank's management authorities and external auditors, as well as supervisory authorities.

27.2.6. deliver proposals to the general meeting of shareholders and the Supervisory Board on improvement of internal control systems.

27.2.7. perform other authorities, specified in regulations of the *Central Bank*.

27.3. The Audit Committee shall consist of odd number of members, not less than 3 persons. Members of the Committee shall be appointed by the *Supervisory Board* for the period of not more than 3 years. Committee members may be reelected for an additional term. The *Supervisory Board* shall appoint one of Committee members as a Committee chair. The *Supervisory Board* shall fix compensation for Audit Committee members in the form of a salary.

27.4. Individuals, who fail to meet requirements of Article 10 of this Law, *as well as persons who are members of bank's Management Board and shareholders*, may not be Audit Committee members and shall be released from positions of Audit Committee members at the decision of the *Supervisory Board*. *Supervisory Board members (except for bank's shareholders) may be members of the Audit Committee.*

27.5. An Audit Committee meeting shall be competent when over half of its members assemble. The procedure for holding meetings shall be determined in the statute on the Audit Committee.

27.6. Audit Committee decisions shall be taken with a simple majority of votes of the members, participating at a meeting. Each member shall be entitled to one vote, and abstained voting shall not be allowed. In the event of a tie, the Committee chair shall be entitled to a casting vote.

27.7. An Internal Audit unit (department, division, etc.) shall function under the control of the Audit Committee and shall continuously monitor effectiveness of activities of internal control and risk management systems jointly with the bank's executive body.

27.8. The manager and staff of the internal audit unit shall be appointed and dismissed by the bank's Supervisory Board upon presentation from the Audit Committee.

27.9. The *Central Bank* shall determine performance standards and procedures for the bank's Audit Committee and the internal audit unit.

Article 28. Disclosure of commercial interests

28.1. Each member of the Supervisory Board, the Audit Committee and the Management Board shall disclose his/her and his/her family members' direct or indirect major commercial interests to the ~~Management Board~~ and Supervisory Board. Such information shall be disclosed when these persons are elected to bank's managerial bodies and subsequent periods in accordance with internal procedures of the bank.

28.2. When an issue, related to interests of one of the members of the Supervisory Board, the Audit Committee, the Management Board and any other committee or working group, as well as internal audit unit's associates, is taken to discussion, that member should inform on his/her interests prior to discussions, not participate in discussions and decision making, and his/her participation shall not be considered for the quorum.

28.2-1. Members of the Supervisory Board, the Audit Committee and the Management Board, and heads of structural units (branch, representative office, departments, etc.) should submit information on acting of themselves and of persons specified in Clauses 49-1.1.3 and 49.1.1.5 of the Civil Code of the Republic of Azerbaijan as a related party with respect to the transaction concluded, as well as information on the nature of their own interests with respect to the transaction (its formation, size, etc.) in the manner specified in Articles 49-1.5, 49-1.6 and 49-1.7 of the Civil Code of the Republic of Azerbaijan.

28.3. Members of the Supervisory Board, the Audit Committee, and the Management Board, when concluding deals with bank's shares, shall disclose information under the Civil Code of the Republic of Azerbaijan.

28.4. Providing information on the cases which may trigger disputes between personal interests of the Management Board members and bank's interests, as well as closing transactions contrary to bank's interests shall be performed under Article 107-10.5 of the Civil Code of Azerbaijan Republic.

Article 29. Reorganization of banks

Reorganization (merger, acquisition, dissolution, separation, or transformation) of the bank, including the bank, the license of which has been revoked, shall be allowed in accordance with procedures determined by the *Central Bank*, with its prior written consent.

Article 30. Restriction of banks' participation in capital of legal entities

30.1. A bank shall not be entitled to purchase a participation share in another legal entity, if such a purchase results in one of the following:

30.1.1. if balance of the stake exceeds 10 percent of bank's total regulatory capital.

30.1.2. if aggregate balance amount of all such stakes of the bank exceeds 40 percent of bank's total regulatory capital.

30.2. A bank may obtain the stake, which may establish or increase qualifying holding in

capital of legal entities, as well as transform the legal entity into the bank subsidiary with a prior written permit of the *Central Bank*.

30.3. Stocks (shares) that are transferred to bank ownership during the period of conducting measures for financial remediation of the debtor of the bank or as in exchange for debt, within the term of not exceeding two years, shall not be recognized in calculation of qualifying holding as per article 30.1 of this Law.

30.4. To obtain permits under Article 30.2 herein, banks shall submit to the *Central Bank* a written application with the following documents attached:

30.4.1. a verified copy of the decision of a competent management authority on acquisition of a stake by the bank in capital of other legal entities.

30.4.2. information on the amount of bank's qualifying holding in capital of other legal entities and the amount of qualifying holding to result from increase in implied qualifying holding.

30.4.3. information on addresses and main directions of activities of legal entities, in the capital of which the bank implies to acquire qualifying holding, audited financial statements covering the minimum of three years (if the legal entity is established less than three years - reports of last financial years) and auditor opinions (requirements for reporting, reflecting the financial status are not applicable to newly established legal entities).

30.4.4. if the legal entity, due to obtaining implied qualifying holding, transforms into a subsidiary structure of the bank, a list of heads of executive bodies of this legal entity and *information on their civil impeccability*.

If the head is a foreigner, a reference on existence or absence of criminal conviction issued and legalized in accordance with the legislation by relevant state authorities of his/her home country.

30.4.5. if the legal entity, whose qualifying holding the bank shall purchase, is a foreign bank, a statement, issued by the banking regulatory and supervisory authority of foreign bank's country of residence, verifying existence of a bank license (permit) to attract deposits and other reimbursable assets from individuals and legal entities in that country, and its non-objection against purchase of implied qualifying holding in the said entity.

30.4-1. *In case of possibility to obtain documents or information specified in Article 30.4 of this Law through the Electronic Government Information System from the relevant public authority (institution), those documents or information shall not be required from the applicant. In the cases of impossibility to obtain such documents or information through the Electronic Government Information System their submission shall be required upon request at the consent of the applicant from the relevant public authority (institution) or shall be provided by the applicant.*

30.5. The *Central Bank* shall review the documents submitted under Article 30.4 herein at the latest within ninety calendar days. If within this period the *Central Bank* fails to notify the bank on its feedback regarding the application, the application shall be deemed approved. The *Central Bank* shall not issue permits to the bank to participate in the capital of other legal entities, if:

30.5.1. documents, specified in Article 30.4 herein are not submitted in full (*taking into account the requirements of Article 30.4-1 of this Law*).

30.5.2. heads of the legal entity, reorganized into a subsidiary of the bank as a result of purchase of the implied stake, are not fit and proper persons.

30.5.3. financial standing of the legal entity, whose stake the bank is implying to acquire, is not satisfactory or purchase of such a stake shall result in deterioration of financial standing of the bank.

30.5.4. ~~the financial markets supervisory authority and~~ the *Central Bank* are not capable to

discharge their supervisory functions due to the fact, that the banking regulatory and supervisory authority of the country of residence of a foreign bank, whose stake is to be purchased, shall fail to ensure adequate supervision or such a body refuses to cooperate.

30.6. The *Central Bank*, when issuing the permit to the bank, shall establish deadline for purchasing the stake.

30.7. If the bank purchases qualifying holding without the permit or fails to comply with the deadline, determined for purchasing a stake, the *Central Bank* shall send a written order to this bank requiring termination of its stake until the date indicated in the order, or informing that the permit became invalid.

30.8. If the banking regulatory and supervisory authority of the foreign bank's home country fails to ensure adequate supervision of this bank or refuses to cooperate with the *Central Bank*, the *Central Bank* shall issue a written instruction to the bank on alienation or repurchase of the qualifying holding in the capital of the legal entity within the determined period.

Chapter IV REQUIREMENTS FOR BANKS' ACTIVITIES

Article 31. Requirements for banks' reliable operations

31.1. Banks shall implement the management and current operations in a reliable and prudent manner in accordance with the requirements of the Constitution of the Republic of Azerbaijan, the Civil Code of the Republic of Azerbaijan, the *Laws* of the Republic of Azerbaijan 'On Prevention of Legalization of Criminally Obtained Funds or Other Property and the Financing of Terrorism', 'on Targeted Financial Sanctions', other legislative acts, as well as this Law, regulations of ~~the financial markets supervisory authority and~~ the Central Bank, bank's Charter, all restrictions, specified in the banking license or permit.

31.2. Banks shall permanently maintain aggregate capital and liquid reserves in accordance with the determined level, take necessary actions against price fluctuations of assets to meet their liabilities and avoid losses, maintain *accounting* and other necessary documentation in the manner prescribed in the legislation, form and apply control mechanisms over bank operations, provide diversification (allocation) of assets for maximum reduction of loss risks.

Article 32. Types of bank activities

32.1. Unless restricted by the bank license obtained from the *Central Bank*, banks may engage in the following activities:

32.1.1. attract demand and term deposits (savings) and other reimbursable funds.

32.1.2. issue loans (secured and/or unsecured), including consumer and mortgage loans, factoring with and w/o the right of regress, forfeiting, lease services and other types of loans.

32.1.3. open and maintain accounts of individuals and legal entities, including correspondent accounts of banks.

32.1.4. *clearing, payment services, including settlement and cash services, organization of payment systems, execution of payments arising from securities transactions.*

32.1.5. *issuance of checks and bills of exchange.*

32.1.6. *buy and sell cheques, bills of exchange, precious metals, and precious stones at its own or at customers' expenses, as well as derivative financial instruments related to foreign currency and interest rates at its own expenses.*

32.1.6-1. *conduct currency exchange operations at its own or at customers' expenses.*

32.1.6-2. *provide investment services (operations) with securities and derivative financial instruments in the volume and order specified in the Law of the Republic of Azerbaijan 'on Securities.'*

32.1.7. attract and allocate precious metals as deposits.

32.1.8. issue guarantees, including warranties to meet liabilities or open letters of credit at own expenses or at the expense of customers.

~~32.1.9. professional activity in the securities market.~~

32.1.10. provide financial consulting, financial agent, and advisory services.

32.1.11. provide information and services on loans and checking creditability.

32.1.12. accept documents and valuables, including currency for storage (store in dedicated rooms and safes).

32.1.13. collection and transportation of valuables, including banknotes and coins.

32.2. Banks, in addition to the activities enumerated in Article 32.1 herein, may also be engaged in activities specified in other laws, except for activities stipulated in Article 33 herein.

32.3. If an additional special permit (license) is required for any type of activity, specified in Article 32.1 herein in accordance with the legislation, banks may engage in such activities only upon obtaining a relevant special permit (license).

Article 33. **Types of activities not provided by banks**

33.1. Banks may not engage in wholesale or retail trade, production, transportation, agriculture, development of mines, construction, and insurance activities, or except for insurance companies, participate in such activities as a partner, a companion, or a shareholder, except for the types of activities allowed in Article 32 herein.

33.2. To meet claims on liabilities, a bank may engage in the activities, stipulated in Article 33.1 herein, only with the permit of the *Central Bank* and only for the period, specified in such a permit, or participate in legal entities, implementing these activities as a partner, a companion, or a shareholder.

Article 34. **Prudential norms and requirements**

34.1. During the period of their activities, banks shall comply with prudential standards and requirements, in relation to their own assets, off-balance sheet liabilities and the amount of capital, set by the *Central Bank*, as well as the open currency position.

New standards and requirements set by the *Central Bank*, changes therein shall take effect not earlier than one month upon an official notification of banks and changes to the requirements on the minimum amount of charter or total regulatory capital, not earlier than six months upon an official notification of banks. New prudential standards and requirements shall be irrevocable.

34.2. The *Central Bank* shall set the following prudential standards and requirements to maintain financial stability of banks and local branches of foreign banks:

34.2.1. minimum amount of charter capital (for local branches of foreign banks - funds equivalent to charter capital).

34.2.2. minimum amount of total regulatory capital (for local branches of foreign banks - minimum amount of funds equivalent to total regulatory capital).

34.2.3. Tier I and aggregate capital to risk weighted assets (for local branches of foreign banks – funds equivalent to Tier I and aggregate capital to risk weighted assets) ratio (capital adequacy ratios).

34.2.4. liquidity indicators.

34.2.5. maximum amount of credit risks on a single borrower or a group of related borrowers

34.2.6. maximum amount of aggregate large credit exposures.

34.2.7. maximum amount of loans to related parties ~~and persons acting on their behalf~~.

34.2.8. maximum amount of aggregate loans issued to related parties ~~and persons acting on~~

~~their behalf.~~

34.2.9. maximum amount of banks' participation in capital of other legal entities.

34.2.10. maximum aggregate amount of participation of banks in capital of other legal entities.

34.2.11. limits on open currency positions.

34.2.12. requirements for special reserves, set for loan loss provisioning against costs, depending on classification and evaluation of assets, off-balance sheet liabilities.

34.2.13. requirements on non-accrual assets.

34.2.14. requirements on operations with related *parties*.

34.2.15. requirements on matching of maturities and interest rates of assets and liabilities.

~~34.2.16. regulations on maintenance of cash operations in credit institutions.~~

34.3. When regulating activities of banks and local branches of foreign banks the *Central Bank* shall *apply* all or part of prudential standards and requirements, specified in Article 34.2 herein ~~if necessary~~.

34.4. Banks shall comply with corporate governance standards, set by the *Central Bank*.

34.5. To reduce banks' performance risk, protect interests of depositors and creditors, the *Central Bank* shall be entitled to establish additional standards and requirements accepted in the international banking supervision practice, in addition to the standards and requirements, stipulated in Article 34.2 of this Law. *The Central Bank shall be entitled to establish standards and requirements on systemically importance and (or) risk profile of banks that are different from already established standards and requirements.*

34.6. The *Central Bank* may establish requirements for the banks with foreign capital and local branches of international banks on placement of their assets in the Republic of Azerbaijan.

Article 35. **Interbank relations**

35.1. Banks may conduct all types of operations on a mutual basis, open deposits, and open correspondent and other accounts with one another in accordance with *the Civil Code of the Republic of Azerbaijan*, except for the cases restricted under this Law, regulations and instructions of ~~the financial markets supervisory authority and~~ the *Central Bank*, as well as licenses and permits.

35.2. Banks may cooperate with each other on banking activities. When banks enter into agreements for this purpose, *as well as on establishment* of not-for-profit unions to support members' interests and discharge of activities supporting development and stability of the banking system, participant banks of such agreements shall submit copies of agreements within 7 calendar days upon signing these contracts to the *Central Bank*.

35.3. Banks shall be prohibited to enter into agreements directed at monopolization of the banking services market and containing competition in banking, as well as conduct agreed transactions. ~~The Central Bank shall control implementation of anti-monopoly procedures in banking.~~

35.4. *Banks shall deliver information on borrowers in the order set by the Central Bank to the centralized credit registry, established at the Central Bank. The information collected in the centralized credit registry shall be subject to the rules on bank secrecy, determined under this Law.*

Submission of information on borrowers to and obtaining from the credit bureau shall be regulated by the Law of the Republic of Azerbaijan 'on Credit Bureaus.'

35.4-1. *Banks shall enter information on their currency operations to the single information resources launched at the Central Bank as per the Law of the Republic of Azerbaijan 'on Currency Regulation' and use that system for currency control purposes.*

35.5. Disputes between local banks, a local bank and local branches and representative offices of foreign banks as well as between local branches (representative offices) of foreign

banks shall be resolved in courts of the Republic of Azerbaijan in accordance with procedures stipulated in the *Civil Procedural Code of the Republic of Azerbaijan*.

Article 36. Relations between banks and their customers

36.1. Relations between banks and their customers shall be maintained in accordance with the Civil Code of the Republic of Azerbaijan, *the Law of the Republic of Azerbaijan 'on Payment services and payment systems', regulations, adopted by the Central Bank in accordance with that Code and the Law.*

36.2. Customers shall be independent in selection of banks for all types of banking activities and may use services of one or more banks. Opening, maintenance and closing of accounts shall be compliant with the Civil Code of the Republic of Azerbaijan, regulations adopted by the *Central Bank* in accordance with this Code, as well as the *Law of the Republic of Azerbaijan 'on Payment services and payment systems.'*

Procedures for opening special election accounts, maintenance and termination of operations shall be determined in accordance with the Election Code of the Republic of Azerbaijan upon coordination with the *Central Bank*.

36.3. A bank shall provide its banking license at the request of its customer, or an individual or a legal entity, willing to become its customer ~~information on its financial standing (accounting balance for recent month, quarter and year, income statement) and financial statements for the last reporting year and an auditor opinion.~~

36.4. *Banks shall ensure that information about banking services they provide, and their conditions are available to customers before the agreement is concluded and that information can be obtained in an understandable form.*

36.5. A bank shall not be entitled to identify and control the purposes for which the customer uses his/her funds, impose any restrictions, not stipulated in the law or an agreement on the right of the customer on disposal of his/her funds at his/her own discretion.

36.6. Every bank shall be free to set contractual service terms and conditions with its customers, including interest rates, commissions, and other payments for banking services, as well as conditions and rules for repayment of loans issued by the bank. When making changes to the par value of banknotes and price scales (denomination) in the Republic of Azerbaijan, banks shall not charge commissioning fees and any other payments for replacement of old banknotes with new ones.

Unless otherwise specified in the Civil Code of the Republic of Azerbaijan, the amount of interest and (or) other fees or the procedure for calculating the loan shall be determined by the agreement of the parties. Interest, including interest and other fees accrued for delinquency, shall be calculated only on the amount of the outstanding principal balance until the date of repayment of the debt.

36.7. All disputes between local banks and their local customers, as well as all disputes between local branches of foreign banks and local customers shall be resolved in courts of the Republic of Azerbaijan in accordance with the procedures determined in the legislation.

Article 37. Bank's correspondent accounts and authorities on assets entrusted to the bank

37.1. Funds and other valuables of legal entities and individuals, retained in the bank, may be seized in the order and under conditions stipulated in the legislation, by the decision of a court or a bailiff. From the moment of receiving a relevant decision on imposing an arrest on a bank account, the bank shall stop all payment operations from deposits (savings) and other accounts in the amount of arrested funds.

The arrest on correspondent accounts of the bank may be imposed only by a court decision to the volume of liabilities on claims to the bank.

Execution of a bank transaction that causes suspicions on legalization of criminally obtained funds or other property and the financing of terrorism may be suspended by the financial monitoring authority in the term and order specified in the legislation. *Banks should promptly freeze the assets specified in Article 4.1 of the Law of the Republic of Azerbaijan 'on Targeted Financial Sanctions' upon the publication of international and domestic lists of targeted financial sanctions on the designated internet platform for such sanctions and do so without prior notice to the individuals mentioned in the aforementioned article, and expeditiously furnish relevant information to the designated executive authority (institution), as well as to the financial monitoring authority, utilizing the aforementioned internet resource.*

37.2. Funds and other valuables of a customer maintained by the bank may be confiscated only under a valid decision of a court.

37.3. The bank shall not be liable for losses, incurred by customers or creditors as a result of seizure of funds and other valuables, their confiscation or use for compensation of claims.

Article 38. Payment operations and settlements

38.1. *Banks shall execute payment transactions and settlements in accordance with the Civil Code of the Republic of Azerbaijan, the Law of the Republic of Azerbaijan 'On Payment Services and Payment Systems', regulations adopted by the Central Bank in accordance with the said Code and Law, the best business practices applied in banking, and relevant agreements.*

38.2. Banks shall make international payments and money transfers in accordance with the legislation of the Republic of Azerbaijan, ~~including~~ regulations of ~~the financial markets supervisory authority~~ the Central Bank, international treaties the Republic of Azerbaijan is a party to, as well as best international banking practices and relevant agreements.

~~38.3. The Central Bank may establish minimum requirements on maintenance of reliability and security of automated settlement and money transfer systems, and protection of banking information by banks.~~

Article 39. Storage of documents

39.1. Banks shall store appropriate documents related to agreements on banking operations and completed contracts (transactions), including information in electronic carriers, as well as other documents, resulting from their activities, under the procedures and for the period determined in the legislation.

39.2. *Banks should store all information and documents related to domestic and cross border operations, information and documents obtained as part of customer due diligence, business correspondence, as well as information and documents related to results of any analysis within the timeframe specified in Article 6 of the Law of the Republic of Azerbaijan on Prevention of Legalization of Criminally Obtained Property and the Financing of Terrorism.*

Article 40. Related party operations

40.1. Banks may not issue loans to related parties ~~and persons acting on their behalf~~ if:

40.1.1. *a loan granted to related parties amounts to and exceeds 5 per cent of bank's assets, there is no independent auditor opinion and decision of the general meeting of shareholders with voting rights.*

40.1.1-1. *a loan granted to related parties amounts up to 5 per cent of bank's assets, except for the cases when the authority to take a decision on granting loans to those related parties is assigned to the general meeting of shareholders, there is no decision of the Management Board within the limits and under the conditions established by the Central Bank considering the decision of the bank's Supervisory Board or the requirement of Article 25.1.9 of this Law.*

40.1.2. *as a result of issuance of a loan, total amount of loans granted by a bank to that legal*

entity exceeds 10 percent of bank's aggregate capital, and 3 percent to individuals.

40.1.3. as a result of issuance of a loan by a bank to related parties ~~and persons acting on their behalf~~, aggregate amount of loans exceeds 20 percent of bank's aggregate capital.

40.2. If loans to related parties ~~and persons acting on their behalf~~ are issued with violation of the provisions of Article 40.1 of this Law, such a loan shall be repaid immediately. Members of the bank's Supervisory Board *and Management Board*, who *voted for the relevant decision*, shall be taken responsible for repayment of principal amount, interests, and other payments on loans, issued with violation of the requirements of Article 40.1 herein.

40.3. Banks shall be prohibited to issue preferential loans to or conduct other operations under preferential terms with related parties ~~and persons acting on their behalf~~ compared to other customers.

40.4. *Other rules on concluding deals with related parties shall be determined by Article 49-1 of the Civil Code of the Republic of Azerbaijan.*

Article 41. **Bank secrecy**

41.1. In accordance with the Civil Code of the Republic of Azerbaijan, the bank shall guarantee confidentiality of bank accounts, operations, and residues on the account, as well as customer information, including names, addresses and managers. Banks shall also maintain confidentiality of information on existence of customer property in bank's vault, owners of such property, its type and value.

41.2. *Information comprising bank secrecy shall be provided to customers and their authorized representatives, as well as to third parties at customer's written consent. Customer's written consent shall be developed as a separate document and signed by the customer by hand signature (notarized or certified by an authorized person of the bank), advanced electronic signature or another method determined by the Central Bank for opening bank accounts remotely. The consent should clearly indicate the persons to whom the information constituting the bank secrecy is intended to be provided, the scope of provided information, deadline for providing the information (if any) and other conditions deemed necessary by the customer regarding the provision of information. Without the written consent of the customer, bank secrecy information shall be provided by the bank to other persons only in the following cases:*

41.2.1. *in relation to supervisory functions – to the Central Bank.*

41.2.2. *in the cases and in the order specified in the Tax Code of the Republic of Azerbaijan – to tax authorities.*

41.2.3. *in the cases and in the order provided for in Article 76-1 of the Tax Code of the Republic of Azerbaijan, through tax authorities on financial transactions conducted by legal entities and individuals of foreign states in the territory of the Republic of Azerbaijan – to authorities of those foreign states.*

41.2.4. *according to the Law of the Republic of Azerbaijan 'on Prevention of the legalization of criminally obtained property and the financing of terrorism' – to the financial monitoring authority.*

41.2.5. *according to the Election Code of the Republic of Azerbaijan, about funds received and spent in the special election account - to the Central Election Commission.*

41.2.6. *in the cases and in the order provided for in the Law of the Republic of Azerbaijan 'on Deposit Insurance' – to the Deposit Insurance Fund.*

41.2.7. *according to the Law of the Republic of Azerbaijan 'on Execution' in connection with the enforcement of the execution document, on existence of the property and bank account in the bank depository, as well as account balances – to bailiffs.*

41.2.8. *regarding term deposits of foreign nationals or stateless persons who have received a temporary or permanent residence permit in the territory of the Republic of Azerbaijan in the cases and in the order determined by the Migration Code of the Republic of Azerbaijan - to migration authorities.*

41.2.9. according to the Law of the Republic of Azerbaijan 'on Chamber of Accounts' – to the Chamber of Accounts of the Republic of Azerbaijan.

41.2.10. on transfer of funds to a bank account in exchange for exported goods (services) in connection with state control over export settlements – to customs authorities.

41.2.10-1. in the cases and in the order specified in the Competition Code of the Republic of Azerbaijan – to the competition authority.

41.2.11. based on a legally binding court decision in connection with the investigation of a criminal case, seizure, sale and confiscation of customer's funds and property in the bank's custody – to the relevant public institutions and their officials.

41.2.12. based on a legally binding court decision related to cases in court proceedings - to courts.

41.2.13. in case of the customer's death, information on his/her accounts and deposits, as well as information on his/her property in bank custody on ongoing inheritance cases – to notaries, as well as consular offices that perform relevant notarial actions.

41.2.14. in the order specified in this Law during volunteer restructuring of bank liabilities – to relevant creditors.

41.2.15. during transfer (assignment/sale) of bank's assets and/or liabilities in the order specified in this Law – to persons who assumes assets and/or liabilities.

41.2.16. during bank's audit review – to external auditors.

41.2.17. to protect bank's legal interests and only to the extent required for these purposes, to the court, law enforcement agencies, a lawyer providing legal assistance to the bank, as well as the bank's own initiative, or when provided for in the law or agreement – to arbitration court, mediator, to persons providing another alternative dispute resolution mechanism.

41.2.18. when providing payment services – to other payment service providers, the payee and other persons involved in the execution of the payment operation.

41.3. Borrower information shall be provided to credit bureaus as per the Law of the Republic of Azerbaijan 'on Credit Bureaus.'

41.4. In accordance with an agreement between the Central Bank and a banking regulatory and supervisory authorities of foreign countries, if the subject of information sharing is the information on subjects performing activities or getting prepared to perform activities in the territory of a relevant state, such information shall not be deemed disclosure of banking secrecy, provided that such information may not be disclosed to third parties and may be used for banking supervision purposes only.

41.5. Bank's current and former officers, other employees, and shareholders with respect to illegal disclosure of information comprising banking secrecy made available to them in connection with administrative or employment duties in the bank, as well as the persons specified in Articles 41.2 and 41.3 for illegal disclosure of information that constitute bank secrecy shall bear civil, administrative and criminal liability in accordance with the procedures stipulated in the relevant legislation of the Republic of Azerbaijan.

41.6. In the event the information constituting bank secrecy shall be illegally disclosed by the bank, the customer whose rights have been violated may require compensation for the losses incurred because of the bank in accordance with the Civil Code of the Republic of Azerbaijan.

Article 42. Prevention of legalization of criminally obtained property and the financing of terrorism

42.1. Credit institutions shall deliver information on funds and other transactions to be monitored with respect to legalization of criminally obtained property and the financing of terrorism to the financial monitoring service, develop, and apply their internal control program, take other actions specified in laws of the Republic of Azerbaijan and international treaties seconded by the Republic of Azerbaijan.

42.2. Credit institutions should apply due diligence measures with respect to customers,

beneficiary owners and their authorized representatives and comply with requirements on storage of information and documents in the cases and the order specified in the legislation.

42.3. Opening of fictitious or anonymous accounts, receiving documents and property using fictitious names or anonymously to the storage (keeping them in special rooms or safes), issuing anonymous deposit certificates and providing anonymous bank books shall not be allowed.

42.4. Requirements other than those stipulated in Article 42.1-42.3 herein shall be determined with the Laws of the Republic of Azerbaijan 'on Prevention of Legalization of Criminally Obtained Property and the Financing of Terrorism', 'on Targeted Financial Sanctions' and other normative legal acts and regulations.

Chapter V

ACCOUNTING AND REPORTING IN BANKS. SUPERVISION OF BANK ACTIVITIES

Article 43. Accounting and financial statements

43.1. Banks and local branches of foreign banks shall develop financial statements in accordance with the International Financial Reporting Standards. The Central Bank shall determine procedures for maintaining accounting in banks and local branches of foreign banks, including the form and content of annual financial statements in coordination with the authority (institution) designated by the relevant executive power authority.

43.2. The Central Bank shall supervise activities of banks in accounting and financial reporting according to this Law and the Law of the Republic of Azerbaijan 'on Accounting.'

Article 44. External audit

44.1. Financial activity of a bank or a local branch of the foreign bank shall be subject to annual external audit by the auditor permitted (licensed) to ensure auditor activities.

44.2. Audit review shall be performed in accordance with the Law of the Republic of Azerbaijan 'on the Auditor Service.'

44.3. The external auditor, which audits the bank or a local branch of the foreign bank, along with the rights and obligations stipulated in the Laws of the Republic of Azerbaijan 'on the Auditor Service' and 'on Mandatory Insurance of Auditor's Professional Responsibility' shall:

44.3.1. develop a report and an opinion whether the financial report creates a complete and true picture of its financial standing.

44.3.2. help the bank maintain accounting, financial control systems and procedures on a proper level.

44.3.3. inform the Central Bank on illegal and detrimental actions of an officer and any employee known to him/her, as well as deficiencies in the management or current activities.

44.3.4. submit to the Central Bank within the period specified in the request any documents and information on activities of the bank and the local branch of the foreign bank that is conducting or has conducted an audit based on the written request of the Central Bank, when required for supervision of the bank and the local branch of the foreign bank.

44.4. A foreign bank, which has a local branch or a representative office, shall provide a consolidated audit of the local branch and representative office.

44.5. The Central Bank shall establish minimum requirements in accordance with international banking supervision practices on audit of a bank and local branches of foreign banks. If the external audit fails to comply with Central Bank's requirements, the latter shall require auditor's replacement, and conduction of another audit at the expense of the bank.

Article 45. Submission and publication of financial statements

45.1. A bank shall submit and publish annual financial statements reviewed by an external auditor within five months at the latest upon the end of a fiscal year and combined (consolidated) financial statements reviewed by an external auditor within six months at the latest along with auditor's opinion.

45.2. A local branch of a foreign bank shall submit and publish annual financial statements checked by an external auditor within five months at the latest upon the end of a fiscal year and combined (consolidated) financial statements of a foreign bank checked by an external auditor within eight months at the latest along with auditor's opinion.

45.3. A bank and a local branch of a foreign bank shall submit annual financial statements to the Central Bank within the timeframe set in Articles 45.1 and 45.2, as well as publish on its official website ~~and print media~~ and inform the Central Bank accordingly. Annual financial statements may be published in print media.

45.4. A bank and a local branch of a foreign bank shall submit a copy of annual financial statements and combined (consolidated) financial statements along with auditor's opinion to any person upon his/her request free of charge.

Article 46. Reports from banks and supervision of their activities

46.1. Banks and local branches of foreign banks shall submit prudential reports (also consolidated prudential reports by banks including subsidiaries), as well as banking statistics reports to the Central Bank for the purpose of evaluation of financial standing and supervision of activities. The form, content, and rules for submission of prudential and banking statistics reports shall be determined by the Central Bank.

46.2. Banks and local branches of a foreign bank shall be inspected on site ~~once a year only~~ by Central Bank employees or external auditors, appointed by the Central Bank. Inspections in banks and local branches of foreign banks shall be conducted according to the Law of the Republic of Azerbaijan 'on the Central Bank of the Republic of Azerbaijan.' ~~The examination team may also include, based on cooperation, employees of the banking regulation and supervision authorities of another country, with which the Central Bank has entered into cooperation agreement on inspections. Procedures for examinations shall be determined by resolutions of the financial markets supervisory authority.~~

46.3. In accordance with Articles 46.1 and 46.2 of this Law, the Central Bank and its appointed auditors shall be entitled to:

46.3.1. have access to any bank, its branch, department, subsidiaries, as well as local branches of foreign banks and review their reports, accounting books, documentation, and other records, and require explanations thereon.

46.3.2. require from officers, employees and agents of the bank, its subsidiaries, persons with qualifying holding, related parties ~~and persons acting on their behalf~~, the branch, the department of the bank and a local branch of the foreign bank provision of all necessary information on any issue, related to management and current activities of these structures, including customer operations.

46.4. The local representative office of a foreign bank shall submit to the Central Bank reports on its management procedures and on current activities, to show that its activities are compliant with requirements of the legislation and its statute. The form, content and procedure for reports' submission shall be determined by the Central Bank.

To clarify reported information, Central Bank employees may provide on-site examination of the representative office of the foreign bank.

46.5. The bank, its subsidiary, branch and department, local branch, and a representative

office of the foreign bank, shall provide necessary conditions and organizational-logistic facilities for *Central Bank employees* or their appointed auditors when discharging these duties.

46.6. The *Central Bank* shall not be authorized to conduct examinations in banks and local branches of foreign banks, receive their reporting or information at the request of other persons, except for inquiries under cooperation arrangements from foreign banking regulatory and supervisory authorities according to the principle of reciprocity, as well as in cases of valid court orders.

46.7. The relevant executive authority exercising tax control in the Republic of Azerbaijan shall inspect activities of the bank and local branches of foreign banks only as taxpayers. During examinations, information and documents shall be *obtained* only in accordance with the rules determined in the Tax Code of the Republic of Azerbaijan for disclosure of the information representing bank secrecy.

46.8. *State control over compliance with competition legislation by banks and local branches of foreign banks shall be exercised in accordance with the procedure established by the Competition Code of the Republic of Azerbaijan.*

~~Article 46 1. Fees paid to the Central Bank~~

~~Banks and local branches of foreign banks shall pay fees to the Central Bank in the amount and under the order determined by the authority.~~

Chapter VI

ENFORCEMENT MEASURES AND SANCTIONS AGAINST BANKS

Article 47. Enforcement measures

47.1. If the *Central Bank* finds out that the bank violates prudential norms and requirements, performs its activities in violation of the requirements of this Law, the *Laws* of the Republic of Azerbaijan '*on Payment services and payment systems*', '*on Prevention of Legalization of Criminally Obtained Funds or Other Property and the Financing of Terrorism*' and '*on Targeted Financial Sanctions*', as well as regulations of the *Central Bank*, and violates restrictions, included to the banking license or permit issued by the *Central Bank*, or other grounds, likely to result in such violations, including when the right of substantiated judgement is used in accordance with the *Law of the Republic of Azerbaijan 'on the Central Bank of the Republic of Azerbaijan'*, depending on the nature of violation it shall be entitled to:

47.1.1. request a commitment letter from the bank on elimination of violations.

47.1.2. enter into an agreement with the bank.

47.1.3. issue an order to the bank.

47.2. If the *Central Bank* requests a commitment letter from the bank on elimination of violations or facts, likely to cause violations, the letter submitted by the bank to the *Central Bank*, shall contain measures, to be taken by the bank to eliminate deficiencies, and deadline for their implementation.

47.3. The agreement by and between the *Central Bank* and the bank, shall determine immediate actions to be taken to eliminate detected deficiencies and priority measures.

47.4. The order of the *Central Bank* binding for the bank, shall contain a written instruction on execution of corrective measures, indicated in Article 48 herein, and/or deadline for correction of deficiencies, violations.

When imposing corrective measures, aimed at remediation of bank's financial standing, the bank shall submit a plan on implementation of measures in accordance with the issued order to

the *Central Bank* within two weeks.

Court appeal on the obligatory instruction of the *Central Bank* shall not suspend execution of such an order.

47.5. A bank shall inform the *Central Bank* on execution of a relevant commitment letter, agreements, and orders, specified in Articles 47.2, 47.3 and 47.4 of this Law within the timeframe specified in those documents.

Article 48. **Corrective measures**

48.1. In accordance with Article 47 herein the *Central Bank* may:

48.1.1. restrict or suspend implementation of certain types of banking activities.

48.1.2. temporarily remove officers.

48.1.3. terminate banking operations and deals with *related parties*.

48.1.4. restrict receiving deposits.

48.1.5. limit or suspend attraction of funds from sources other than funds attracted by subsidiaries or local branches of foreign banks from founder banks.

48.1.6. restrict, suspend, or liquidate acquisition of shares in capital of other legal entities.

48.1.7. suspend opening new branches and departments or suspend activities of existing branches and departments or terminate their activities.

48.1.8. terminate financial privileges.

48.1.9. change rules and terms and conditions to issue loans and attract deposits.

48.1.10. request increase in capital.

48.1.11. request creation of capital reserves from profit.

48.1.12. depending on the quality of assets, request creation of special reserves and/or reduction of charter capital to the volume of the bank's loss amount.

48.1.13. suspend issuance of guarantees (warranties) on liabilities of other persons.

48.1.14. restrict or suspend payment of dividends.

48.1.15. introduce changes to bank's procedures for operations and internal control.

48.1.16. request convening an extraordinary general meeting of bank's shareholders.

48.2. Corrective actions, specified in Article 48.1 herein, shall be *imposed* separately or several of them simultaneously.

Article 49. **Sanctions**

49.1. In the cases specified in Article 47.1 herein the *Central Bank* along with the corrective measures specified in Article 48.1 may also:

49.1.1. impose penalties provided for in the Code of Administrative Offences of the Republic of Azerbaijan against the bank, as well as bank officers.

49.1.2. dismiss officers from their positions.

49.2. If the *Central Bank* imposes a sanction, stipulated in Article 49.1.2. herein, bank officer's dismissal from his/her position shall be executed immediately at the decision of the bank's competent management body.

49.3. The *Central Bank* shall *review the issue* on deciding to revoke the banking license as per Article 16 of This Law.

49.4. Imposing sanctions shall not release the bank from fulfillment of liabilities due to creditors and bank customers, whereas bank officers (except for those dismissed from their duties) from implementation of their duties.

Article 50. **How to impose sanctions**

50.1. Fines and penalties against banks and bank officers shall be imposed in the cases and

under the procedures stipulated in the Code of Administrative Offences of the Republic of Azerbaijan. The procedure for review of materials on imposing sanctions, stipulated in Articles 49.1.2 and 49.3 herein, and the *Central Bank* shall determine the documentation of their results.

50.2. Sanctions, stipulated in Articles 49.1.2 and 49.3 herein, shall be imposed by the decision of the *Central Bank*.

50.3. The *Central Bank*, when taking a decision on imposing sanctions stipulated in Article 49 of this Law, shall immediately send an appropriate notification on such a decision to the relevant bank.

50.4. Sanctioned persons may appeal against the decision under the *Administrative Procedural Code* of the Republic of Azerbaijan. Filing an appeal shall not suspend execution of the sanctions specified in Articles 49.1.2 and 49.3 herein.

Chapter VII

TEMPORARY OFFICER

Article 51. Basis for appointing a temporary officer

~~51.1. The Central Bank shall appoint a temporary officer when the following is found out:~~

~~51.1.1. the amount of bank's aggregate capital reached 25 percent of the minimum amount for aggregate capital, determined by the Central Bank for banks or its adequacy ratio reached 3 percent.~~

~~51.1.2. the bank is not capable to execute payments on liabilities.~~

~~51.1.3. application delivered on launch of insolvency procedures on the bank.~~

~~51.1.4. banking license should be revoked for other reasons, stipulated herein.~~

~~51.2. The Central Bank shall be entitled to appoint a temporary administrator to the bank, if the bank shall fail to fulfill the requirements stipulated in Articles 47, 48 and 49.1.2 herein.~~

Article 52. Appointment of a temporary officer

~~52.1. An officer shall be appointed from among employees of the Central Bank or outsiders (individuals and/or legal entities) for the maximum period of 12 months. The appointment term may be extended by the Central Bank for the maximum period of 6 months.~~

~~52.2. Salary and expenses of the temporary administrator shall be paid by the bank, while the shortfall by the Central Bank.~~

~~52.3. Related parties, as well as bank's creditors and debtors (except for the Central Bank) may not be appointed as temporary administrators.~~

~~52.4. The decision on appointment of or extension of the term of the temporary administrator shall contain relevant basis, data on the temporary administrator and the term of his/her service. The Central Bank, upon taking the decision, shall deliver it immediately to chairs of bank's Supervisory and Management Boards.~~

~~52.5. The temporary officer in his/her activities shall be guided by this Law, valid legislative acts, including regulatory documents, as well as instructions and recommendations of the Central Bank.~~

~~52.6. Bank's Supervisory Board shall take a decision on replacement of or consent to the appointed temporary officer and submit a verified copy of the decision to the Central Bank. A within five calendar days from the date of submission of the verified copy of the decision of the Central Bank on appointment of the temporary administrator. If the bank fails to issue its attitude to the request of the Central Bank, it shall be deemed to agree with the decision on appointment of the temporary officer.~~

~~52.7. The Central Bank, when receiving an objection against the newly appointed temporary officer, shall re-consider its decision, take a decision on cancellation of the appointment or its retention in force, explaining the decision within five calendar days. The decision of the Central Bank on appointment of another temporary officer or retention of the previous one shall be immediately delivered to the relevant bank.~~

~~52.8. The temporary officer, appointed by the Central Bank, irrespective the cases, stipulated in~~

~~Articles 52.6 and 52.7 herein, shall immediately start the execution of his/her duties upon release of the decision of the Central Bank on his/her appointment. In case of change of temporary administrator's appointment, he/she shall immediately hand over management of bank assets, accounting books and records to a newly appointed temporary officer.~~

~~52.9. If the bank disagrees with the resolution of the Central Bank on appointment of the temporary officer, as well as the resolution of the Central Bank on approval of appointment of the temporary officer, it may submit an appeal to the court in the order specified in the Administrative Procedural Code of the Republic of Azerbaijan upon submission of the latter.~~

~~Article 53. Authorities of the temporary officer~~

~~53.1. From the date of appointment of the temporary officer:~~

~~53.1.1. authorities of management bodies with respect to the bank management shall be terminated.~~

~~53.1.2. authorities of management bodies, with respect to the bank management shall be transferred to the temporary officer. He/she shall not be entitled to take any decisions on sale, reorganization, and liquidation of the bank. The bank may be sold and reorganized by the court's decision only.~~

~~53.1.3. develop and submit to the Central Bank a report on current financial standing of the bank within sixty calendar days. The report shall include revaluation of assets to be sold at bank's liquidation. An independent auditor may also be involved to the report development. Auditor services shall be paid by the bank. The Central Bank shall take an appropriate decision on the report submitted.~~

~~53.1.4. transactions on behalf of and at the expense of the bank shall be made with a written agreement of the temporary officer, otherwise they shall be deemed invalid.~~

~~53.2. The temporary officer, along with authorities of bank's management bodies, shall also:~~

~~53.2.1. take measures to safeguard bank's property and documentation.~~

~~53.2.2. identify bank's creditors and amount of bank's liabilities due to them.~~

~~53.2.3. take measures under the legislation on re-payment of bank's debts.~~

~~53.2.4. sign contracts and documents on behalf of the bank.~~

~~53.2.5. if necessary, in accordance with the legislation, cancel signed contracts, implying bank's investment, or introduce additions and amendments therein, as well as change contractual commissioning fees, interests and their terms.~~

~~53.2.6. issue claims to courts on behalf of and in the interest of the bank.~~

~~53.2.6. issue orders on dismissal, demotion, suspension, including distribution of roles among staff.~~

~~53.2.7. in accordance with Article 57 herein take measures on remediation of bank's financial standing.~~

~~53.3. The temporary officer, with the consent of the Central Bank, may involve other persons, including administrators and employees of the bank in bank's management.~~

~~53.4. Officers and employees of the bank, from the date of start of duties, shall transfer seals and stamps of the bank, accounting books and other documents, property and other valuables to the temporary officer and provide him/her with necessary data required for his/her performance.~~

~~53.5. Law enforcement bodies, at the request of the temporary officer, shall provide his/her access to bank's premises, handover of management of bank assets, accounting books and records and their security.~~

~~Article 54. Control by the financial markets supervisory authority over the activity of the temporary officer~~

~~54.1. The financial markets supervisory authority shall ensure control over the temporary officer throughout his/her activity.~~

~~54.2. The financial markets supervisory authority shall be authorized to:~~

~~54.2.1. issue recommendation for the temporary officer on main directions of bank management and, in accordance with Article 57 herein, on relevant measures with respect to remediation of bank's financial~~

~~standing.~~

~~54.2.2. issue obligatory instructions for the temporary officer in writing.~~

~~54.2.3. request data on activities of the temporary officer.~~

~~54.2.4. receive reports from the temporary officer.~~

~~54.2.5. extend the term of appointment of the temporary officer in accordance with Article 52.1 herein.~~

~~54.3. The temporary officer shall only be accountable to the financial markets supervisory authority.~~

Article 55. ~~Moratorium~~

~~In order to evaluate bank's assets and financial standing, as well as prevent depreciation of assets value throughout appointment of the temporary officer for the bank, a court may completely or partially stop payments on deposits of legal entities and individuals and other liabilities of the bank at the application of the financial markets supervisory authority. The court shall take a decision on this application within 48 hours and the judgment shall be sent to immediate execution.~~

Article 56. ~~Termination of temporary officer's activity~~

~~56.1. The activity of the temporary officer may be stopped by the decision of the financial markets supervisory authority in the following instances:~~

~~56.1.1. upon the expiry of the term established by the financial markets supervisory authority.~~

~~56.1.2. premature termination of the performance of the temporary officer by the financial markets supervisory authority.~~

~~56.1.3. in the event a court appoints a liquidator to the insolvent bank.~~

~~56.2. In the event of termination of the performance of the temporary officer due to financial remediation and improvement of activities of the bank (including premature), all restrictions imposed to the bank by the Central Bank and the temporary officer shall be cancelled.~~

~~56.3. If measures taken by the temporary officer fail to result in bank's financial remediation and improved performance or deficiencies in bank activities are not removed, the Central Bank may take a decision on premature termination of authorities of the temporary officer and revoke the bank license and permit for implementation of banking operations on the basis stipulated herein.~~

~~Upon termination of temporary officer's authorities, he/she shall develop and submit to the financial markets supervisory authority a final report within 30 days.~~

Chapter VIII

RESOLUTION OF INSOLVENT BANKS

Article 57. ~~Appointment of a temporary officer to an insolvent bank~~

~~57.1. The Central Bank shall decide to appoint a temporary officer to a bank with respect to its insolvency if one or some of the following grounds are identified:~~

~~57.1.1. amount of bank's total regulatory capital reached 25 percent of the minimum amount of total regulatory capital set by the Central Bank, or its adequacy ratio reached 3 percent.~~

~~57.1.2. except for the cases specified in Article 57-11 herein, if a bank fails to make payments on any of its liabilities or does not have sufficient liquid funds to meet maturing liabilities.~~

~~57.1.3. if a banking license should be liquidated on other grounds specified in this Law.~~

~~57.2. The Central Bank shall be entitled to appoint a temporary officer to the bank if the latter fails to meet the requirements of Articles 47.5, 48.1 and 49.2 of this Law.~~

~~57.3. The decision of the Central Bank on appointment of a temporary officer to the bank shall be substantiated by referring to bank's prudential reports, the report on findings of the inspection conducted~~

in the bank or external audit reports. The decision on appointment or extension of the appointment period of a temporary officer shall include information on him/her and his/her period of authority. On the day, the Central Bank takes a decision to appoint a temporary officer to an insolvent bank it shall appoint him/her to a bank from among its employees or outsiders (individuals and/or legal entities) and start the bank's resolution process. The Central Bank shall immediately upon deciding on appointment of a temporary officer, introduce him/her to chairpersons of bank's Management and Supervisory Boards.

57.4. From the day the temporary officer is appointed to the bank:

57.4.1. all authorities on bank management, including authorities of the general meeting of shareholders shall be suspended.

57.4.2. all authorities on bank management, including authorities of the general meeting of shareholders shall pass to the temporary officer.

57.5. The temporary officer shall develop and deliver to the Central Bank an actions plan addressing the method, conditions, economic substantiation, and periods of resolution based upon financial indicators of the insolvent bank within thirty calendar days at latest starting from the day following the day of his/her appointment.

57.6. The insolvent bank shall be managed by the temporary officer for the period of up to 9 months, which may be extended by the Central Bank for up to 3 months. Within this period the Central Bank shall take the following actions with respect to resolution of the insolvent bank:

57.6.1. merger of an insolvent bank with a sound bank.

57.6.2. transfer of insolvent bank's assets and liabilities to a buyer bank in part or in full.

57.6.3. launch of a bridge bank, transfer of insolvent bank's sound assets and liabilities to the bridge bank and sale of the bridge bank to an investor.

57.6.4. sale of the insolvent bank to the investor.

57.6.5. liquidation of the insolvent bank.

57.7. The temporary officer shall ensure that the funds to be received by bank's creditors as part of the bank's resolution are not less than the funds they would receive in the event of the bank's liquidation.

57.8. Based on Central Bank's application a court may terminate payments on deposits of legal entities and individuals and bank's other liabilities totally or partially (impose moratorium) to assess bank's assets and financial standing and prevent drops in value of assets over the period a temporary officer is appointed to the bank.

Article 57-1. Management of a bank by a temporary officer

57-1.1. A temporary officer shall meet the requirements determined for bank officers by this Law.

57-1.2. Insolvent bank's related parties, shareholders, creditors, and debtors may not be appointed a temporary officer. If availability of such cases is found out upon the temporary officer's appointment, the activity of the officer shall be terminated.

57-1.3. All expenses related to the management of the bank shall be covered by the bank itself. If the bank lacks sufficient funds to cover its management costs, the Central Bank shall assume responsibility for such expenses, based on its own cost estimates. The resolution of a bank that lacks sufficient funds for management shall be completed within three months.

Article 57-2. Temporary officer's authorities on management of the bank

57-2.1. From the day of the Central Bank's decision on appointment of a temporary officer, its managerial bodies shall hand over seals, stamps, all property, accounting books and other documents to the temporary officer and deliver all necessary bank activities related information.

57-2.2. A relevant executive authority shall arrange temporary officer's entry to the bank building, takeover and protection of bank's assets, accounting books and records at the request of the Central Bank.

57-2.3. From the day the temporary officer is appointed, deals signed by bank's managerial bodies and executed operations thereof shall be deemed invalid. In addition to exercising authorities of bank's all

managerial bodies the temporary officer shall:

57-2.3.1. take actions to protect bank's property and documents.

57-2.3.2. identify bank's creditors and the amount of bank's liabilities due to them.

57-2.3.3. take actions aimed at repaying bank's debts.

57-2.3.4. sign agreements and documents on bank's behalf.

57-2.3.5. waive the discharge of contractual obligations which caused deterioration of bank's financial standing as a result of terms and conditions obviously contradicting bank's interest, including loan agreements, and take actions to terminate the said agreements in the order specified in the Civil Code of the Republic of Azerbaijan.

57-2.3.6. in the event of damage to the bank's financial resilience, actions related to the liquidation of the bank or to making additions and amendments to agreements involving investments in the bank shall be taken in accordance with the procedure specified in the Civil Code of the Republic of Azerbaijan.

57-2.3.7. restructure loans issued by the bank (prolongation, decrease or liquidation of interest rates, write-off of loss loans), if it is necessary to prevent deterioration of the quality of assets.

57-2.3.8. organize bank's audit review and expertise of legal documents.

57-2.3.9. take actions specified in Article 57-10 herein, investigate the cases leading to bank's insolvency, apply to related authorities to bring to responsibility those suspected in occurrence of such cases, and raise a claim before the court to cover losses incurred by the bank.

57-2.3.10. issue orders, including on dismissals, changes to labor conditions, demotions, temporary dismissal, and segregation of duties among employees in the bank and its affiliates.

57-2.3.11. take actions to decrease bank's expenses.

57-2.3.12. attract other persons, including bank's officers and staff to bank's management at the consent of the Central Bank.

57-2.3.13. suspend profit distribution and payment of dividends.

57-2.3.14. develop and submit to the Central Bank a draft action plan on insolvent bank's resolution.

57-2.3.15. implement the action plan for the resolution of the insolvent bank.

57-2.3.16. submit monthly reports to the Central Bank on his/her activities and the status of implementation of the resolution plan of the bank.

57-2.4. To improve bank's financial standing, recover capital loss and maintain liquidity the temporary officer shall also:

57-2.4.1. as part of the development of the bank resolution action plan, determine the size of bank's assets and liabilities, prepare an updated balance sheet, reassess the total regulatory capital, and identify any capital shortfall.

57-2.4.2. to increase bank capital:

57-2.4.2.1. add deposits of shareholders with qualifying holding held with the bank in the amount of bank's lacking capital in return of increase in their share in the authorized capital.

57-2.4.2.2. add subordinated debt liabilities of shareholders with qualifying holding issued to the bank directly or indirectly from Tier II Capital to authorized capital in return of increase in their share in the authorized capital.

57-2.4.3. sell or pledge the bank's share in its affiliates (or a part thereof), real estate it owns and other assets.

Article 57-3. Actions to prevent deterioration of insolvent bank's assets and possible losses

57-3.1. The temporary officer shall take actions to protect and safeguard bank property and documents. He/she shall maintain the inventory of bank's assets and liabilities within 30 calendar days upon his/her appointment and develop the bank's updated balance sheet.

57-3.2. Within 45 calendar days upon appointment the temporary officer shall analyze bank's

agreements, contracts, as well as conducted operations over recent two years to find out the cases leading to deterioration of bank's financial standing, including:

57-3.2.1. alienation or transfer to use of bank property on terms and conditions and at prices considerably below market conditions and prices.

57-3.2.2. making exemptions to customers under loan agreements not applicable under normal market conditions.

57-3.2.3. signing loan or other agreements to take possession of bank's assets.

57-3.2.4. signing deals granting privileges and exemptions to certain creditors related to payments or property.

57-3.2.5. signing agreements with related parties violating requirements of the legislation or threatening interests of bank's depositors and creditors.

57-3.2.6. bank's purchase of property, goods, and services at prices considerably higher than their real value based on signed agreements.

57-3.2.7. overvaluation of property pledged as loan collateral.

57-3.3. Agreements specified in Article 57-3.2 of the present Law shall be deemed invalid. The temporary officer shall take actions specified in the legislation to recover bank's assets lost based on the said agreements and compensate the losses incurred by the bank.

57-3.4. Concerned persons may issue complaints ~~in the administrative order~~ and to court from decisions of the temporary officer related to the bank's management as part of this Law.

Article 57-4. Control over the activity of a temporary officer

57-4.1. To control temporary officer's activities the Central Bank shall:

57-4.1.1. request information and receive reports on temporary officer's activities.

57-4.1.2. issue recommendations and written binding instructions to the temporary officer on the bank management and resolution related actions plan.

57-4.1.3. take decision on extension of the temporary officer's appointment period.

57-4.1.4. review complaints of concerned persons on decisions taken by the temporary officer related to the bank management as part of this Law.

57-4.2. The Central Bank shall terminate activities of the temporary officer if:

57-4.2.1. his/her appointment period expires.

57-4.2.2. his/her activities are prematurely terminated as per Article 57-4.3 of this Law.

57-4.2.3. the insolvent bank is liquidated in a forced order or declared bankrupt.

57-4.2.4. implementation of the actions plan on insolvent bank's resolution has completed.

57-4.3. If the period of implementation of the insolvent bank's resolution plan is not completed within the specified period or actions related to recovery of solvency do not yield results, the Central Bank shall decide to prematurely terminate temporary officer's activities and revoke the bank's license.

57-4.4. The temporary officer shall develop and submit to the Central Bank a final report within 30 days upon termination of his/her activity.

Article 57-5. Actions plan on insolvent bank's resolution

57-5.1. The Central Bank shall approve the actions plan on insolvent bank's resolution within 15 calendar days upon presentation by the temporary officer. The Central Bank may extend this period up to 15 calendar days.

57-5.2. The temporary officer shall develop a draft action plan by means of relevant analyses and estimations at minimum loss principle.

57-5.3. The actions plan shall address results of inventory of insolvent bank's assets and liabilities and relevant actions on rehabilitation of solvency or its liquidation by means of any measures specified in Article 57.6 of the present Law and based upon evaluation of bank's financial and property standing.

57-5.4. The actions plan shall specifically include the following:

57-5.4.1. substantiation and comparative analysis of expenses (the rules and methodology of such analyses are determined by the Central Bank) to choose any of the actions specified in Article 57.6 of this Law more favorable from losses and expenses standpoint as an insolvent bank's resolution measure.

57-5.4.2. means, rules, and conditions for regulations of bank's relations with process participants, bank depositors and other creditors during its resolution.

57-5.4.3. terms and conditions of the auction to select a buyer bank and investors.

57-5.4.4. deadline to implement the actions plan.

57-5.4.5. the evaluated value of sellable assets during bank's liquidation.

57-5.5. The temporary management and/or liquidation of the bank shall be carried out in accordance with the action plan, following its approval by the Central Bank. The Central Bank shall have the authority to make additions and amendments to the action plan.

Article 57-6. Transfer of insolvent bank's assets and liabilities to a buyer bank

57-6.1. According to the actions plan the temporary officer shall ensure transfer of insolvent bank's assets and liabilities to the buyer bank as specified in this Law. The buyer bank willing to accept insolvent bank's assets and liabilities should be a sound bank. The Central Bank shall evaluate buyer bank's financial standing, management system, creditability to meet liabilities due depositors and creditors, compliance with prudential requirements, ~~and risks likely to emerge in the banking system with the transfer of assets~~ to find out whether the buyer bank is sound. The buyer bank, which gets a positive opinion of the Central Bank as a result of the evaluation, may participate in the auction specified in Article 57-6.3 of this Law.

57-6.2. The temporary officer shall compile a register of assets and liabilities to be transferred. When transferring assets and liabilities he/she shall treat all creditors equally and in good faith in line with the sequence specified in Article 82 of this Law.

57-6.3. The buyer bank shall be selected at the auction in line with rules determined by the Central Bank. The agreement signed with the buyer bank selected as a result of the auction shall reflect a written commitment of the said bank on acceptance of insolvent bank's assets and liabilities.

57-6.4. Insolvent bank's liabilities shall be transferred based on an agreement on transfer of debts signed with the buyer bank at their balance value. To sign a contract on transfer of debts, creditors' consent, as well as making additions and changes to contracts signed between the insolvent bank and its creditors, shall not be required. The buyer bank shall get debtors' all rights and duties with respect to creditors.

57-6.5. Insolvent bank's assets shall be transferred based on the agreement with the buyer bank on the concession of a claim and transmission of rights over securities being based on valid transactions and agreements with securities. No consent of debtors shall be required to sign such contracts. The buyer bank shall obtain creditor's all rights and duties with respect to debtors related to claims transmitted to it and rights over securities. No additions and changes shall be required to contracts between relevant debtors and the insolvent bank.

57-6.6. Agreements specified in Articles 57-6.4 and 57-6.5 in this Law may be developed as a single document (mixed agreement).

57-6.7. The temporary officer shall inform debtors and creditors on transfer of insolvent bank's assets and liabilities to another bank within 5 days upon signing relevant agreements.

57-6.8. The Central Bank shall take a decision on revocation of the insolvent bank's banking license upon completion of transfer of assets and liabilities to another bank and file a petition in court in the case specified in Article 59.1 of this Law.

Article 57-7. Insolvent bank's sale and merger to a sound bank

57-7.1. The temporary officer shall sell the insolvent bank to an investor by approving with a court decision in line with the insolvent bank's resolution related actions plan.

57-7.2. *The investor shall meet the requirements established by the Central Bank.*

57-7.3. *From the day the decision on sale of the insolvent bank to the investor in the bank's resolution related actions plan is approved at court:*

57-7.3.1. *the temporary officer shall be granted the authority to dispose of shares on behalf of the insolvent bank's shareholders.*

57-7.3.2. *if insolvent bank's total regulatory capital falls behind authorized capital, the temporary officer shall take a decision to determine new nominal value of bank shares and decrease bank's authorized capital to the relevant amount. In the event of loss of bank capital, the value of authorized capital is reduced to 1 (one) manat.*

57-7.3.3. *the shareholders of the bank shall be prohibited from disposing of their shares in any form, including but not limited to alienation, encumbrance, or placement into trust. Information regarding such restrictions shall be recorded in the register of security holders upon the request of the Central Bank.*

57-7.4. *The insolvent bank's sale price shall be established at the auction held under the rules set by the Central Bank. Auction results should allow rehabilitating insolvent bank's solvency at less expenses and losses. The temporary officer shall sell the insolvent bank to the investor selected at the auction.*

57-7.5. *The insolvent bank shall be sold to the investor based on the agreement on procurement of bank shares.*

57-7.6. *The procurement agreement should cover the following:*

57-7.6.1. *commitment of the investor to align the insolvent bank to prudential requirements established for banks within a specified period.*

57-7.6.2. *terms and conditions to annul the contract in the event the investor fails to capitalize the bank and/or rehabilitate its solvency and meet the obligation to stabilize bank operations.*

57-7.7. *The agreement on procurement of shares between the temporary officer and the investor shall be deemed the basis to register rights on shares in the registry of security holders in the name of the investor.*

57-7.8. *Insolvent bank's merger to another sound bank shall be provided in the form of sale to the investor bank in the order specified in Article 57-7 of this Law.*

Article 57-8. Establishment and sale of a bridge bank

57-8.1. *According to the insolvent bank's resolution plan, the Central Bank shall take a decision on establishment of a bridge bank to transfer assets and liabilities of one or some insolvent banks in full or in part and manage them temporarily.*

57-8.2. *The Central Bank shall be deemed a bridge bank's founder and sole shareholder. Bridge banks shall be regulated by procedures adopted by the Central Bank. They shall not be subject to norms established by the Central Bank for other banks and reserve requirements applied by the Central Bank to banks as a monetary policy tool.*

57-8.3. *The Central Bank shall determine a special simplified procedure on launch, issuance, and registration of shares of a bridge bank, and on issuance of a banking license to it.*

57-8.4. *The bridge bank shall be sold to the investor at an auction held in line with procedures established by the Central Bank. Authorities of bridge bank's management bodies shall be exercised by the temporary officer and the bridge bank shall be managed by the temporary officer until it is sold to the investor.*

57-8.5. *A starting price for bridge bank's sale shall be established under the methodology adopted by the Central Bank. The investor that offered the highest price to procure the bridge bank and committed to align the bridge bank to prudential requirements set for banks within a specified period or to merge it to one of existing sound banks shall be deemed the auction winner.*

57-8.6. *When meeting liabilities, the Central Bank shall treat all creditors equally and in good faith in line with the sequence set in Article 82 of this Law.*

57-8.7. *The bridge bank shall get all rights with respect to transferred assets (including all rights*

related to collateral agreements) and accept all debtor's rights and duties on transferred liabilities with respect to insolvent bank's creditors without making additions and changes to previously signed agreements.

57-8.8. The Central Bank and the investor shall sign an agreement on purchase of bridge bank's shares within seven calendar days from the day a written notification on announcement of the auction winner is delivered to the investor. The agreement shall be deemed a basis to register the rights on bridge bank's shares in the investor's name to the register of security holders.

57-8.9. The procurement agreement shall include the investor's commitment to align the bridge bank to prudential requirements set for banks or merge it to one of existing sound banks within the period defined in the agreement, not exceeding 3 months. Funds from sale of the bridge bank shall be channeled to pay claims of insolvent bank's creditors.

57-8.10. In the event the investor fulfills all terms of the procurement agreement, the bridge bank shall lose the bridge bank status. The Central Bank shall conduct inspections at the bank to determine whether the bank follows established norms after three months of loss of the bridge bank status.

57-8.11. The Central Bank shall take a decision to terminate temporary officer's activities within three business days from the day the bridge bank loses its status.

57-8.12. On the day the transfer of insolvent bank's assets and liabilities to the bridge bank is completed, the Central Bank shall take a decision to revoke the insolvent bank's banking license and take a legal action in the case specified in Article 59.1 of this Law.

57-8.13. The Central Bank shall ensure bridge bank's sale to the investor within 6 months upon its foundation. The Central Bank which shall supervise the bridge bank until it loses its status may decide to extend this period for up to 3 months.

57-8.14. In the event the bridge bank cannot be sold within the period specified in Article 57-8.13 herein, the Central Bank shall take relevant actions on revocation of the license and forced liquidation of the bridge bank at the latest on the day following the relevant deadline.

Article 57-9. Participation of the state in rehabilitation of solvency of systemically important bank

57-9.1. Financial remediation actions may be taken with respect to systemically important banks by attracting public funds.

57-9.2. Criteria to assess a bank as a systemically important bank shall be established by the Central Bank in coordination with the relevant executive authority.

57-9.3. In the event the insolvent bank corresponds to the criteria set by the Central Bank with respect to a systemically important bank, the Central Bank shall develop actions plan on bank's financial remediation.

57-9.4. The Central Bank shall develop a draft action plan by relevant analyses at estimation of least public funds to be allocated for bank's remediation and minimum losses.

57-9.5. The actions plan shall include rehabilitation of bank's solvency by means of any of the below methods established through evaluation of bank's financial and property status based upon results of the inventory of insolvent bank's assets and liabilities:

57-9.5.1. merger of the insolvent bank to the bank at least 75 percent of shares of which are owned by the state or acquisition by a similar state-owned bank under the Civil Code of the Republic of Azerbaijan.

57-9.5.2. acquisition by the state of more than 50 percent of shares of the insolvent bank, subject to further sale to the investor and increase of authorized capital of the bank at the expense of state funds by additional issue of shares.

57-9.5.3. acquisition by the state of less than 50 percent of bank's shares provided that the state shall retain the bank's management and later the state's participation share shall be sold to bank's existing shareholders or bank's all shares shall be sold to another investor at the consent of bank's

shareholders.

57-9.5.4. for the purpose of systemically important bank's resolution take actions specified in Article 57.6 of this Law.

57-9.6. The actions plan shall particularly include substantiation and comparative analysis of expenses to select any of the methods specified in Article 57-9.5 herein more beneficial from standpoint of losses and expenses as a measure of rehabilitation of insolvent bank's solvency and the amount of public funds required for the bank's remediation.

57-9.7. Upon development by the Central Bank the actions plan shall be submitted to the relevant executive authority to coordinate the amount of public funds required for the remediation of the bank and payment facilities. Relevant additions and/or changes shall be made to the actions plan at relevant executive authority's proposal, which shall deliver its substantiated opinion on the actions plan within 10 days upon submission. After receiving the relevant executive authority's opinion, the Central Bank shall deliver the systemically important insolvent bank's actions plan together with the said opinion to take a decision within 3 days to the relevant executive authority. If the relevant executive authority approves the proposal on bank's remediation, it shall take a decision on bank's financial remediation and approve the relevant actions plan.

57-9.8. Bailout of the systemically important insolvent bank by the state shall be provided at the expense of the state budget or by means of issue and placement in the securities market of government guaranteed bonds by the relevant executive authority. If total regulatory capital of systemically important insolvent bank falls behind its authorized capital, the new nominal value of bank shares shall be identified, and the authorized capital decreased to the relevant amount. In the event of loss of bank capital, the value of bank's authorized capital shall be reduced to 1 (one) manat and purchased at this price.

57-9.9. The temporary officer appointed by the Central Bank shall implement bank's remediation measures based upon the actions plan approved by the relevant executive authority. He/she shall exercise the authorities specified in Article 57-2 and 57-3 of this Law related to recovery of systemically important insolvent bank.

57-9.10. If any of the methods specified in Articles 57-9.5.1-57-9.5.3 of this Law are not applied within 3 months after the actions plan on recovery of systemically important insolvent bank is approved, the Central Bank shall take actions on bank's resolution in the order specified in Article 57.6 of this Law.

Article 57-10. Indemnification for bank losses and return of funds paid as part of rehabilitation of bank's solvency

57-10.1. Bu If solvency of systemically important insolvent bank, remediated under terms specified in 57-9 of this Law, is rehabilitated in the order specified in Article 57-9 of this Law at the expense of state funds, bank's officers and shareholders with qualifying holding shall indemnify for bank losses within the timeframe specified by the temporary officer.

57-10.2. Bank officers and shareholders with qualifying holding shall indemnify for losses the bank incurred as a result of their following illegal actions:

57-10.2.1. sale, donation, misappropriation, or embezzlement of bank's fixed assets.

57-10.2.2. pledging bank's fixed assets or otherwise encumbrance of bank assets.

57-10.2.3. granting loans to persons who are clearly non-creditable.

57-10.2.4. opening deposit accounts in the country or abroad and record funds in those accounts as pledged collateral.

57-10.2.5. paying bonuses and dividends to bank's shareholders or officers when bank operates with losses or in the amount disproportionate to bank's profit.

57-10.2.6. signing agreements, specified in Article 57-3.2 of this Law, which caused deterioration of bank's solvency.

57-10.2.7. misappropriation or embezzlement of bank property to ensure any type of tangible and non-tangible property riches and rights on such property for himself/herself, related parties, or other

persons in another form.

57-10.3. The temporary officer shall determine the amount of damage caused to the bank by persons stipulated in Article 57-10.2 of this Law and the amount to be returned, with an analysis of transactions carried out during the period covering a two-year period preceding the start of the rehabilitation of bank's solvency and decisions taken and a separate act shall be prepared.

57-10.4. The temporary officer shall send a notification to persons who inflicted losses to the bank to pay inflicted losses voluntarily based on the developed act and set deadline to reimburse losses. If persons who inflicted losses to the bank fail to reimburse for losses within the specified period voluntarily, the temporary officer shall apply to court for mandatory reimbursement of losses.

57-10.5. The temporary officer may request from shareholders, officers, and related parties the information on money funds or other property in their possession and ownership, income they earned over recent two years, dividends, and bonuses they received from the bank within the frame of identification of losses inflicted to a bank. The Central Bank may send an inquiry to public authorities, entities, and organizations on provision of information on funds or other property possessed and owned by these persons and income they earned over recent two years.

57-10.6. If it is found out that the bank became bankrupt or insolvent as a result of illegal decisions, other actions and inactions of bank's officers and that they are not solvent to cover these liabilities, the court may announce these persons insolvent to the amount of the loss they inflicted on the bank according to the Law of the Republic of Azerbaijan on Insolvency and Bankruptcy based upon the temporary officer's appeal. If such illegal actions are taken to cause bank's shareholders to make profit, the court may take a similar decision on shareholders who earned profit from similar illegal actions.

57-10.7. The provisions of Article 57-10 of this Law shall apply to resolution of insolvent banks realized by the temporary officer based upon Article 57 of this Law.

CHAPTER VIII-I

VOLUNTARY RESTRUCTURING OF BANK'S LIABILITIES

Article 57-11. Voluntary restructuring of bank's liabilities

57-11.1. Bank's liabilities due to its creditors, except for liabilities to insured depositors, may be restructured voluntarily in the order specified in this Law.

57-11.2. If a bank is not capable or there is a threat of failure of not being capable to meet creditor's (s') claim(s) related to meeting its liability(ies) due to lack and short of funds or impossibility to use funds due to whatever reasons it may start voluntary restructuring of bank's liabilities based upon a relevant decision by the Supervisory Board. A copy of the Supervisory Board's decision on voluntary restructuring of bank liabilities shall be delivered to the Central Bank no later than the first business day following the date the said decision was taken.

57-11.3. The Central Bank shall sign a written agreement with the bank on the issues related to voluntary restructuring bank liabilities within ten calendar days after receiving the Supervisory Board decision on voluntary restructuring of bank liabilities. This period may be extended up to 10 calendar days at the decision of the Central Bank.

57-11.4. The bank shall develop a draft restructuring financial plan within 10 days after the Central Bank enters into a written agreement with the bank on voluntary restructuring of bank liabilities and deliver it to the latter in writing for review.

57-11.5. In the event the Central Bank has proposals on draft restructuring plan delivered for review it shall submit a relevant written notification to the bank and request making changes and/or additions to the restructuring plan. After making additions and/or changes to the plan the bank shall submit the draft restructuring plan to the Central Bank again. If the Central Bank agrees with the draft

restructuring plan it shall send a written notification to the bank.

57-11.6. After receiving a written notice of the Central Bank on consent to the restructuring plan, the bank shall apply to court to commence voluntary restructuring of bank liabilities within the period provided for in the Central Bank's notice under the civil procedure law. Restrictions provided for in Articles 57-11.8 and 57-11.21 of this Law shall apply from the date the court decision on launch of restructuring (hereinafter referred to as 'the court decision on voluntary restructuring bank liabilities') takes effect and within the period bank liabilities are restructured voluntarily based on the restructuring plan not exceeding 180 days in any case. This period may be extended by court ~~in total up to 90 days~~ at the appeal of the bank whose liabilities are under restructuring via coordination with the Central Bank. Every appeal may be extended up to 180 days. No restrictions shall be imposed on the number of such extensions.

57-11.7. Within 7 calendar days after the court decision on voluntary restructuring bank liabilities is taken, the bank shall publish information on restructuring liabilities included to the restructuring plan at least in two regular print media covering the territory of the Republic of Azerbaijan and in one internationally recognized media outlet, as well as on its official website, which shall indicate that copies of the court decision on voluntary restructuring bank liabilities and the restructuring plan may be obtained from the court or bank's legal address by all creditors whose claims are included to the restructuring plan.

57-11.8. According to Article 57-11.6 herein, the bank shall exercise the following rights from the date the court decision on voluntary restructuring bank liabilities shall take effect:

57-11.8.1. suspend implementation of buy/sell, change, gifting agreements or any other agreements on alienation of bank's any property, and signing agreements on debt, credit, guarantee or any other types of financing that impose the bank to any risks, including the credit risk.

57-11.8.2. suspend execution of liabilities included to the bank's restructuring plan approved by the court decision.

57-11.9. The bank shall convene a meeting of creditors whose claims are included to the restructuring plan to get a consent on the plan. If changes are made to the coordinated plan according to Article 57-11.5 of this Law until the creditors' meeting is held, the restructuring plan shall be delivered to the Central Bank for review at least thirty calendar days prior to the creditors' meeting.

57-11.10. The Central Bank shall review the submitted restructuring plan within ten calendar days as per Article 57-11.9 of this Law and in case of availability of notes to the plan, request their elimination from the bank in writing. The bank shall consider proposals by the Central Bank on the restructuring plan and deliver it to the Central Bank with relevant changes. The bank shall publish information on the restructuring plan approved by the Central Bank within 5 business days at least in two regular print media covering the territory of the Republic of Azerbaijan and in one internationally recognized media outlet, as well as on its official website, which shall indicate that copies of the restructuring plan may be obtained from the bank's legal address by all creditors whose claims are included to the restructuring plan.

57-11.11. Creditors, whose claims are to be restructured, shall take part in the meeting either personally or by their authorized representatives. To have the restructuring plan approved by creditors whose claims are included to the restructuring plan, according to the restructuring plan, consent of at least two thirds of creditors who have claims to be restructured shall be required.

57-11.12. After the restructuring plan is approved as per Article 57-11.11 of this Law, the bank shall deliver the restructuring plan in writing to the Central Bank within one business day. If the restructuring plan is not approved as per Article 57-11.11 of this Law, the bank shall send a written information to the Central Bank within one business day on impossibility to restructure liabilities as per Article 57-11.11 of this Law. Where the restructuring plan is not approved as per Article 57-11.11 of this Law, the voluntary restructuring of bank liabilities shall be deemed failed. Provided that the restructuring plan is approved by creditors as per Article 57-11.11 of this Law, voluntary restructuring of bank

liabilities shall be maintained with respect to all liabilities of the bank due to creditors to be restructured under the restructuring plan.

57-11.13. After the Central Bank reviews the restructuring plan, the bank shall appeal to court under the civil procedure legislation for approval of the restructuring plan.

57-11.14. From the moment the court decision on approval of the voluntary restructuring of bank liabilities takes effect and within the period of its validity:

57-11.14.1. any proceeding initiated against the bank on any relevant execution document on the liabilities to be restructured should be suspended.

57-11.14.2. execution of claims by creditors whose liabilities are to be restructured against the bank arising from those liabilities shall be suspended.

57-11.15. The bank's restructuring plan shall include at least the following:

57-11.15.1. the purpose, order of maintenance and period of restructuring.

57-11.15.2. a list of restructured liabilities.

57-11.15.3. a list of actions to be taken as part of restructuring.

57-11.15.4. restrictions to be applied to the bank's activity.

57-11.16. If the bank under restructuring is a part of any holding company, the bank's restructuring plan should indicate factors affecting affiliates of the bank holding company during restructuring.

57-11.17. Voluntary restructuring of bank liabilities shall be terminated if:

59-11.17.1. a court takes a decision on termination of voluntary restructuring of bank liabilities as per Article 57-12 of this Law.

57-11.17.2. the Central Bank takes a decision on revocation of the license and forced liquidation of the bank whose liabilities are restructured.

57-11.17.3. the Supervisory Board decides to terminate voluntary restructuring of bank liabilities.

57-11.18. When voluntary restructuring of bank liabilities is terminated due to full implementation of the restructuring plan, bank's liabilities included to the restructuring plan shall be deemed duly executed.

57-11.19. The bank shall send a notice on completion of voluntary restructuring of bank liabilities within 3 calendar days or a copy of the court decision on termination of voluntary restructuring of bank liabilities within 10 calendar days after the decision takes effect to the Central Bank and creditors whose claims are included to the restructuring plan in the order and within the timeframe specified in the restructuring plan.

57-11.20. The Central Bank shall oversee the implementation of the restructuring plan by the bank.

57-11.21. Except for the cases specified in the restructuring plan the bank may not take a decision on bank's participation in other legal entities or on increase of the stake when its liabilities are under restructuring.

Article 57-12. Termination of voluntary restructuring of bank's liabilities

57-12.1. court shall take a decision on termination of voluntary restructuring of bank liabilities based upon the appeal by the Central Bank if:

57-12.1.1. the restructuring period implied in the court decision on voluntary restructuring of bank liabilities expires.

57-12.1.2. actions implied in the restructuring plan are fully executed.

57-12.1.3. voluntary restructuring is prematurely suspended at the Central Bank's decision if:

57-12.1.3.1. there are sufficient grounds that voluntary restructuring of bank liabilities shall not result in bank's financial soundness and improved activities.

57-12.1.3.2. there is no consent of creditors as per Article 57-11.11 of this Law.

57-12.1.3.3. actions implied in the restructuring plan are not performed under the plan.

57-12.1.3.4. orders or other written instructions of the Central Bank over the period of voluntary

restructuring of bank's liabilities are not implemented.

57-12.2. Based upon the restructuring plan, when implementing all actions, proceedings initiated on any relevant execution document before the court decision on voluntary restructuring of bank liabilities takes effect, shall be terminated.

Chapter IX LIQUIDATION OF BANKS

Article 58. Voluntary liquidation

58.1. If the *Central Bank* revokes the bank license based on a decision of the general meeting of shareholders in accordance with Article 17 of this Law, bank's shareholders shall voluntarily liquidate the bank.

58.2. Voluntary liquidation of the bank, *as per the requirements of the present Law*, shall be implemented in the order stipulated in the Civil Code of the Republic of Azerbaijan. In this case the bank shall submit documents and information requested by the *Central Bank* and to investigate arisen issues, upon a written request of the *Central Bank*, create conditions for access to premises for its authorized representatives and for work with accounting books and records of the bank with respect to its liquidation.

58.3. If the *Central Bank* finds out that the liquidation committee does not ensure bank's liquidation in the order specified in the legislation and that the bank does not follow Article 58.2 of this Law, it *takes* relevant actions on forced liquidation of the bank under this Law.

Article 59. Forced liquidation

59.1. Except for voluntarily liquidated banks or those announced bankrupt, the *Central Bank* shall apply to court on forced liquidation of the bank, the license of which is revoked for other reasons as stipulated in Article 16 herein, and appointment of liquidator(s).

~~*The nominee of liquidator(s) shall be proposed to the court by the financial markets supervisory authority. Related parties, as well creditors and debtors of the bank (except for the financial markets supervisory authority) may not be appointed as liquidators.*~~

59.2. The court shall review the application of the *Central Bank* on forced liquidation of the bank and appointment of the liquidator at the latest within seven calendar days from the date of receipt by the court and take an appropriate decision. Non-participation of the bank in the court shall not prevent the review of the application.

The court shall appoint the Fund as a liquidator at its decision on bank's forced liquidation. The court decision on bank's forced liquidation shall be sent to the Central Bank and the Fund at the latest on the day following the day it was resolved. The Fund may assign liquidator functions to legal entities or individuals on a contractual basis. The Fund shall be personally responsible for bank's liquidation with less expenses in view of rights and legal interests of all creditors and assigning the liquidator functions to other persons shall not release it from responsibility. The amount of service fees or salaries of legal entities and individuals to be attracted by the Fund as liquidators shall be set in coordination with the Central Bank. Cost estimates related to bank liquidation shall be approved by the Central Bank at the Fund's report every three months.

The liquidator attracted by the Fund on a contractual basis, shall comply with the requirements on civil impeccability provided for in this Law. Related parties, shareholders, creditors, and debtors of the bank under forced liquidation shall not be attracted to the bank's liquidation process. If any of such instances is revealed upon involvement of the liquidator, their activities shall be terminated at the Fund's decision and a new liquidator shall be appointed to the bank.

59.3. The court decision on forced liquidation and appointment of liquidators shall be sent to

immediate execution from the date of adoption and *filing a complaint against the decision shall not suspend its execution under the Administrative Procedural Code*. The liquidator shall immediately publish information on initiation of the liquidation process and appointment of the liquidator in *media*, and an appropriate notification shall be sent by him/her to Supervisory and Management Boards.

59.4. The court decision on forced liquidation of the bank and appointment of the liquidator may be appealed in court by the bank's shareholders or Supervisory Board in accordance with the procedures of the *Administrative Procedural Code of the Republic of Azerbaijan*. A copy of the claim shall be sent to the *Central Bank*.

The court decision on forced liquidation shall remain in force until all defense measures are used and does not interrupt liquidator's authorities to continue liquidation activities.

59.5. From the moment the court decision on forced liquidation of the bank and appointment of the liquidator is taken:

59.5.1. all authorities on bank's management, including authorities of the general meeting of shareholders shall be transferred to the liquidator (*if a temporary officer is appointed to the bank, his/her authorities shall be terminated by the Central Bank from the moment a court decision on bank's forced liquidation is taken*).

59.5.2. actions of officers or shareholders of the bank, taken on behalf of the bank, shall not have any legal force.

59.5.3. all seizures on assets for the purpose of safeguarding bank assets and execution of court decisions shall lose their legal force.

59.5.4. except for bank's liabilities, covered within the amount of collateral (mortgage), remaining assets shall be protected from arrest or disposal.

59.6. *From the date a liquidator is appointed to the bank (if a temporary officer is appointed, the temporary officer) bank's managerial bodies shall hand over bank's seals, stamps, all property, accounting books, and other documents with an acceptance act. Similar handover shall be maintained in the cases when the liquidator appointed to the bank is substituted by another one. The acceptance act shall be approved by the decision of the court that issued a judgment on liquidation of the bank. Liquidator's orders and instructions shall be binding for the staff of the bank under liquidation.*

59.7. All liquidation-related costs shall be compensated from bank assets. The court shall fix liquidator(s)' salary at *Central Bank's* proposal. These costs shall be compensated out-of-turn.

59.8. Bank's forced liquidation, *as per the requirements of the present Law*, shall be implemented under the Civil Code of the Republic of Azerbaijan. Interim liquidation balance, a report on the status of liquidation activities and liabilities, as well as the liquidation balance of the bank under forced liquidation shall be approved by the court. Deadline for submission of relevant reports shall be determined by the court.

59.9. The liquidator may conduct one or some operations, stipulated in Article 74 of this Law at the court decision.

59.10. Within the period of bank's forced liquidation, the liquidator shall report on his/her activities to the Central Bank in the form and within the term determined by the latter, as well as submit documentation and data it requests.

~~*If a fact on improper implementation of his/her functions by the liquidator is revealed, the court may substitute him/her with another one by the request of the Central Bank.*~~

59.11. When conducting activities on forced liquidation if the liquidator detects existence of any of the grounds, indicated in Article 61 of this Law, he/she shall apply to the *Central Bank* with a substantiated request to launch insolvency procedures against the bank.

Article 60. Regulation of insolvency and bankruptcy of banks

60.1. The Law of the Republic of Azerbaijan on Insolvency and Bankruptcy and any other laws, that completely or partially change and replace that law, shall not apply to banks.

60.2. Banks may be announced bankrupt only as per this Law at the decision of the court. An out-of-court procedure for declaring the bank bankrupt shall not be allowed.

Article 61. Grounds to start insolvency procedures

61.1. Banks' insolvency procedures may start on one or some of the following grounds:

61.1.1. the *Central Bank* finds out that bank's total regulatory capital falls behind 25 percent threshold set for total regulatory capital of banks, or the total regulatory capital adequacy ratio is below 3 percent.

61.1.2. the bank is incapable to meet its financial liabilities on due date (*except for the restructuring period from the moment a written agreement is concluded between the bank and the Central Bank on voluntary restructuring of bank liabilities under Article 57-11 herein*).

61.1.3. the bank is incapable to cover matured financial liabilities upon submission of creditors' claims (*except for the restructuring period from the moment a written agreement is concluded between the bank and the Central Bank on voluntary restructuring of bank liabilities under Article 57-11 herein*).

Article 62. Application to initiate an insolvency procedure

62.1. The court shall review an application on initiation of the insolvency procedure with respect to the bank if:

62.1.1. the *Central Bank* submits an application along with the decision on revoking the banking license and financial statements, verifying existence of the grounds specified in Article 61 of this Law.

62.1.2. creditors submit an application along with other documents, verifying the request of creditors in accordance with Article 62.2 of this Law.

62.2. If the bank fails to meet its liabilities in accordance with Article 61.1.3 herein, one or some creditors can apply to the *Central Bank*. The authority shall review the appeal within 5 calendar days from the day of receiving, and if the *Central Bank* finds out the fact of non-performance of its duties by the bank, it shall take a decision on taking the matter on the banking license and initiation of bankruptcy procedures to court. The *Central Bank* shall submit the application to the court within 3 calendar days from the date of taking a relevant decision. If a fact of non-execution of liabilities by the bank is not revealed, the *Central Bank* shall send substantiated rejection to creditors. Rejection by the *Central Bank* of the creditors' appeal shall not prevent them from submission of the relevant appeal to court.

62.3. The moratorium shall take effect immediately upon submission of the application by the *Central Bank*. In view of the moratorium, no creditor may take measures, requiring compensation of his/her debts or transfer of bank's property in return to debt or withhold any collateral (mortgage), or continue or initiate the procedure, related to raising claims against the bank without the permit of court.

Article 63. Appointment of a temporary officer

63.1. Upon submission by bank creditors of a petition to the *Central Bank* on initiation of the insolvency procedure on the bank under Article 61.1.3 of this Law, it shall appoint a temporary officer to the bank under Article 57 of this Law. The temporary officer shall immediately assume bank management under Article 57-2 of this Law.

~~63.2. In the event stipulated in Article 63.1 of this Law, the appointment of the temporary officer shall not be subject to provisions of Article 52.6 of this Law.~~

Article 64. Court proceeding

64.1. The court, upon acceptance of the application on initiation of insolvency procedures, shall invite the *Central Bank*, all other applicants, and the bank itself, and if the application is submitted by the *Central Bank* the temporary officer of the bank to participate in a closed session on application review. Court proceedings shall start within 48 hours from the moment of submission of the application.

64.2. Court proceedings shall be completed within seven calendar days from the date of the application delivery. The court shall reject or satisfy the application based on court proceedings.

Article 65. Grounds for rejection of application

65.1. The application on initiation of the insolvency procedure shall be rejected by court if:

65.1.1. the application is not submitted in line with the requirements of Article 62.1 herein.

65.1.2. the *Central Bank* opposes against the application in accordance with Article 65.2 herein.

65.1.3. any document submitted to court for substantiation of the application or other evidence is false or inaccurate and if this application fails to comply with the provisions of this Law without these or other documents.

65.1.4. the application submitted by creditors is groundless.

65.1.5. satisfactory proofs are presented to court and the *Central Bank* on recovery of capital in the amount, sufficient to eliminate grounds specified in Article 61.1 of this Law.

65.2. If an application on announcing the bank bankrupt is submitted by bank's creditors, the *Central Bank* may protest the application if:

65.2.1. the *Central Bank* finds out no grounds to initiate bank's insolvency. The court may require from the *Central Bank* to demonstrate proofs verifying its judgment, including financial statements of the bank, approved by the *Central Bank*.

65.2.2. in accordance with Article 57-9.7 of this Law, a decision of the relevant executive authority on financial remediation is submitted to court.

Article 66. Rejection of a groundless application submitted by bank's creditors

66.1. If bank's creditors submit a groundless application on initiation of an insolvency procedure against the bank, the court may, at any time, reject this application, on the basis, specified in Article 65.1.4 of this Law, in writing with or without proceedings. *If the application is rejected*, the court shall *oblige* applicants to compensate for costs and damages, incurred by the bank and/or the *Central Bank* in consequence of the application submission.

66.2. The person, found guilty in submission of a groundless application to initiate insolvency procedure, shall be liable in accordance with the administrative legislation of the Republic of Azerbaijan.

Article 67. Forced liquidation of the bank not declared bankrupt

If the application on initiating an insolvency procedure on the bank, submitted by the *Central Bank*, is rejected for the reasons other than those indicated in Articles 65.1.3—65.1.5 of this Law, the forced liquidation of the bank shall be conducted in accordance with Article 59 of this Law.

Article 68. Decision on declaring the bank bankrupt

The bank shall be declared bankrupt in accordance with the court decision on providing the

application on initiation of an insolvency procedure and liquidator(s) shall be appointed to the bank. The court decision to announce the bank bankrupt shall be immediately enforced and insolvency proceedings shall be initiated from that moment.

Article 69. **Submission and publication of the decision on announcing the bank bankrupt**

The liquidator shall, immediately upon announcing the bank bankrupt, submit this decision to the bank and publish the decision in *media* three times with seven calendar day intervals.

Article 70. **Filing a complaint**

70.1. Bank's shareholders or the Supervisory Board, as well as the Central Bank may appeal the court decision on announcing the bank bankrupt under the *Administrative Procedural Code of the Republic of Azerbaijan*. The court decision announcing the bank bankrupt shall remain in force until all protective measures are applied.

70.2. Appeal of court decision by the bank shall not stop the actions of the liquidator to discharge his/her duties within the bank's insolvency procedure execution.

70.3. Appeal of the court order by the *Central Bank* shall stop actions of the liquidator on sale and transfer of bank assets until resolution of the dispute in court.

Article 71. **Liquidator**

71.1. *A court shall appoint the Fund a liquidator at its decision on announcing the bank bankrupt. The Fund may assign liquidator functions to legal entities or individuals on a contractual basis. The Fund shall be kept personally responsible for liquidation of the bank with fewer expenses in view of the rights and legal interests of all creditors and its assigning liquidator functions to other persons shall not release it from responsibility. The amount of service fees or salaries of legal entities and individuals to be attracted by the Fund as liquidators shall be established in coordination with the Central Bank. Cost estimates related to bank's liquidation shall be approved by the Central Bank at the Fund's report. The liquidator attracted by the Fund on a contractual basis, shall comply with the requirements on civil impeccability provided for herein. Related parties, shareholders, creditors, and debtors of the bank under forced liquidation shall not be attracted to the bank's liquidation. If any of such instances are revealed upon appointment of the liquidator, their activities shall be terminated at the Fund's decision and a new liquidator shall be appointed to the bank.*

71.2. The liquidator's salary (*service fee*) and incurred costs related to the bank liquidation process shall be compensated from bank assets, while the shortfall shall be compensated by the Fund (*with the right of recourse*).

71.3. The liquidator appointed to the bank shall be bank's sole legal representative and authorities of the general meeting of shareholders, as well as other managerial bodies shall be taken over by the liquidator. All claims against the bank shall be submitted to the liquidator.

71.4. The acceptance act on documentation and property of the liquidated bank from bank officers to the liquidator shall be approved by court.

The liquidator, in the cases required by the provisions of this Law, may, at any time, apply to court for instructions.

The liquidator shall act under the control of court in close cooperation with the *Central Bank*.

71.5. The liquidator, if necessary, may involve independent lawyers, accountants and other experts under conditions approved by court in hired labor with the bank, announced insolvent.

71.6. *According to Article 61.12 of the Civil Code of the Republic of Azerbaijan, the liquidator shall send banking statistics reports to ~~the financial markets supervisory authority~~ and the Central Bank until a record on liquidation of the bank under the liquidation is entered to the state register of legal entities.*

71.7. According to Articles 59.2 and 71.1 herein from the date of appointment the liquidator shall:

71.7.1. exercise all authorities on bank management, including authorities of the general meeting of shareholders.

71.7.2. take actions to safeguard bank's property and documents, develop an interim balance sheet and manage bank's assets.

71.7.3. develop a registry of bank's liabilities due to its depositors and take legal actions on payment of compensations.

71.7.4. record creditors' claims and take actions on their payment.

71.7.5. take actions on payment of debts due to the bank.

71.7.6. terminate labor agreements between the bank and its employees at any time.

71.7.7. take actions on termination of contracts signed by the bank as per Article 79 of this Law.

71.7.8. if provided for in the actions plan, ensure sale, or transfer of bank's assets and liabilities.

71.7.9. restructure loans issued by the bank (prolongation, decrease or annulment of interest rates, write off loss loans).

71.7.10. investigate the cases which led to bank's forced liquidation, appeal to related authorities to bring to justice those suspected in occurrence of such circumstances and solicit in court on behalf of the bank.

~~71.8. The person, replacing the liquidator, in all cases of replacement of the liquidator by another person, shall assume authorities of the liquidator, receive accounting books and reporting documentation and bank assets at liquidator's disposal, as well as documentation of accounting and reporting of the liquidator, developed on the bank in the process of the bank's liquidation based on an acceptance act. The acceptance act shall be approved by the court.~~

Article 71-1. Control over liquidator's activities by the Central Bank

71-1.1. The Central Bank shall control the liquidator over the entire period of his/her activity.

71-1.2. The Central Bank shall be authorized to:

71-1.2.1. request information on liquidator's activities.

71-1.2.2. receive a report from the liquidator.

71-1.2.3. issue recommendations and binding written instructions on discharge of liquidator's current activities.

71-1.2.4. review liquidator's activities.

71-1.2.5. consider complaints by concerned parties on decisions taken by the liquidator under this Law with respect to the management of the bank.

71-1.3. The liquidator shall report to the Central Bank on his/her activities in the form and timeframe established by the latter and deliver documents and information requested by the Central Bank during the bank's insolvency.

Article 72. Implications of declaring a bank bankrupt

72.1. From the moment of enforcement of the resolution on announcing the bank bankrupt:

72.1.1. only actions of the liquidator or his/her authorized representative shall have the legal force on behalf of the bank.

72.1.2. all claim proceedings against the bank shall be terminated.

72.1.3. no other claims shall be proceeded by court against the bank and all claims against the bank shall be raised only within the insolvency procedures, stipulated in this Law.

72.1.4. all seizures on assets shall lose legal force in the cases stipulated in the legislation.

72.1.5. fulfillment of execution orders directed to bank assets shall be terminated, except for execution of debts on secured assets within debt amount in accordance with Article 81 of this

Law.

72.1.6. accrual of interests and other fees on bank liabilities shall be suspended. Whilst accrual of interests and other fees on bank assets shall be continued.

72.2. Upon enforcement of the decision on announcing the bank bankrupt, transfer of bankrupt bank shares by the liquidator to other persons shall be *executed* only by a court decision in accordance with Article 74 of this Law.

Article 73. Finality of settlements in payment systems

73.1. Irrespective the provisions of Article 72.1 herein:

73.1.1. payment orders on payments included in the payment systems and recognized as irrevocable under the rules of those systems, including payments on securities shall remain in legal force if a decision on announcing the bank bankrupt is taken and be binding for the third party, provided that payment orders are irrevocable until the enforcement of the decision.

73.1.2. transfers, specified in Article 73.1.1 of this Law, shall not have any legal force and not be binding for the third party, provided that the liquidator is able to prove that the system operator was informed on decision making on announcing the bank bankrupt before these payment orders were made irrevocable in accordance with the rules of the applied system.

73.2. No legislative act or instruction, cancelling or postponing the agreement and the transaction, made before the enforcement of the decision on announcing the bank bankrupt, may cancel results of the clearing, executed via payment systems.

Article 74. Transfer and sale of bank shares, assets, and liabilities

74.1. *To safeguard financial markets stability* and make the bank more valuable for creditors, at the appeal of the *Central Bank*, a court may take a decision for the bank liquidator to conduct one or some operations under the conditions recommended by the *Central Bank* and approved by the court, to provide the following:

74.1.1. complete or partial transfer of charter capital of the bank and/or

74.1.2. complete or partial transfer or sale of bank assets and liabilities together.

74.2. The bank, upon announcement of its bankruptcy, and prior to its liquidation may be applied to at any time and receive permit to conduct operations as per Article 74.1 of this Law. The application to that end, submitted to the court, shall be reviewed within one week and an appropriate decision shall be taken.

74.3. To conduct the operation, for which permit was received in accordance with Article 74.1 of this Law, consent of bank shareholders or any of its management authorities shall not be required. Transfer of liabilities shall enter into force for all interested parties from the day following the date of publication of relevant information in *media*.

74.4. No court decision shall be required for sale of bank assets in a regular order within the bank's insolvency procedures.

Article 75. Report on the condition of property

75.1. The bank liquidator, within thirty calendar days from the date of the court decision on announcement of the bank bankrupt, shall submit to the court a report on property status. The report shall include:

75.1.1. bank assets, including bank claims on unpaid bank shares, issued loans, including liabilities on guarantees and securitization, non-executed sale, and purchase contracts, as well as the balance value and appraised sale (market) value of assets.

75.1.2. contracts, that provide a basis for other persons to own the property of the bank, including rent, leasing and collateral (mortgage) agreements.

75.1.3. agreements on supply of services to the bank.

75.1.4. transactions conducted by the bank within ninety calendar days prior to the decision made on announcing the bank bankrupt, and with related parties within one year.

75.1.5. information on revealed facts on deliberate set up of conditions for bank's bankruptcy by bank's officers, hiding, destruction of property or property liabilities, as well as information on them and other illegal actions.

75.2. The report shall be developed quarterly. General information shall be *delivered* for their information to bank creditors whose claims are included in the list of approved claims prepared in accordance with Article 77 of this Law.

Article 76. Registration of claims

76.1. Claims against the insolvent bank, except for the cases stipulated in Articles 77.1 and 77.2 of this Law, shall be registered in writing by the liquidator within sixty calendar days from the date of the first publication of the information on court decision on announcing the bank bankrupt in *media*. The court may extend this term for all creditors only once for the period of thirty calendar days. Creditors shall be provided with a receipt on registration of claims on creditor inquiries.

76.2. To have their claims registered, creditors shall submit documents, which verify the legal basis for their claims, as well as the following information:

76.2.1. creditor's name and address.

76.2.2. amounts of interests and other payments, included to principal amount of the claim.

76.2.3. information on collateral (mortgage) or guarantee on claims.

76.3. A court decision on announcing the bank bankrupt shall stop the flow of claim period on deposits reflected in accounting and reporting documentation. Flow of the claim on all remaining claims shall be terminated upon registration of these claims. Duration on all claims shall restart on the date of inclusion of these claims to the distribution schedule in accordance with Article 87 of this Law.

Article 77. Acceptance of claims

77.1. Except for claims with respect to deposits, reflected in bank's accounting and reporting documentation, only claims received under Article 76 of this Law shall be registered. Claims with respect to deposits shall be accepted to the extent of amounts reflected in accounting documentation.

77.2. Except for the claims raised for the amount less than that reflected by the bank, claims reflected in bank's accounting and reporting documentation, shall be accepted in the amount reflected in documentation. Claims in lower amount shall be accepted in the submitted amount.

77.3. Bank creditors, whose claims are secured by collateral (mortgage) of bank assets, may have their claims registered in the amount of difference between required amount and potential sale price of assets at public auctions. Any claim, registered in such a form, shall not be executed until the end of sales or sale of assets in another form in accordance with Article 81 of this Law.

77.4. Claims, the amount of which is not fixed, may be accepted at the liquidator's estimated value.

77.5. Upon analysis of registered claims, the liquidator shall include accepted claims to the list of accepted claims and rejected claims to the list of rejected claims with the indication of grounds for rejection. Claims registered with partial rejection, shall be included to both lists of

accepted and rejected claims. Both lists shall contain the name and address of the claimant, amount of claims and evidences on securitization of raised claims. Claims included to the lists, shall be categorized, and prioritized for payment.

77.6. Both lists shall be developed within 30 days from the date of completion of the registration due date of claims and submitted to court for approval. The liquidator shall, on a quarterly basis, deliver updated lists to court for approval thereafter. Until approval of these lists, the court in coordination with the liquidator may transfer claims from one list to the other. The court may identify which proofs are required for approval of rejected claims.

77.7. A court, no later than sixty calendar days from the date of submission of the list of rejected claims, shall fix the date of hearings for clarification purposes. Creditors, whose claims are rejected, may submit evidence verifying their claims to liquidator and to court during these hearings. The date for each hearing shall be sent to creditors by a postal notification and information published by the liquidator in mass media. No creditor shall be notified on launch of hearings with respect to the same claim more than once. Upon completion of hearings the court shall take a decision on approval or rejection of claims. If the creditor fails to participate in the hearing, he/she has been notified under the *Civil Procedural Code of the Republic of Azerbaijan* for non-valid excuse, his/her claims shall be rejected. The creditors, whose claims are rejected, shall be notified thereon by the liquidator.

77.8. The claims, approved by court shall be final. These claims shall be removed from the list of accepted or rejected claims and included to the list of approved claims. This list shall be retained by the court and the liquidator. The creditors, whose claims are approved by court, shall be notified in writing by the liquidator.

77.9. The liquidator shall not execute any payment to accounts of claims rejected by court. The creditor, whose claim was rejected by court, may submit an appeal on the decision of the court within two weeks from the date of receiving a notification on this decision. Such appeals shall be reviewed no later than 7 calendar days from the date of submission of appeal to court, and a relevant decision shall be taken. Filing an appeal shall not suspend the validity of the court's decision to reject the claim.

77.10. For the purposes of banking secrecy, the specified lists shall not be provided to creditors for familiarization.

Article 78. Offsetting

78.1. Offsetting of liabilities may be maintained between the bankrupt bank and its creditors provided that the requirements of Article 82 of this Law are complied with.

78.2. If the liquidator reveals debts illegally taken by the bank before the court decision on initiating insolvency proceedings comes into force, it shall not be allowed to offset them, and the claims obtained by the bank and arisen liabilities after the decision is made.

Article 79. Termination of existing contracts

79.1. The liquidator at any time may unilaterally terminate all existing contracts of a bankrupt bank on supply of goods and services, including sale, rent, lease and forward agreements. At this the bank's creditor may file a suit on compensation for losses due to violation of the agreement to the court that took a decision on bank's bankruptcy.

79.2. The liquidator may, at any time under *the Labor Code of the Republic of Azerbaijan*, terminate labor agreements, made by and between the bank and bank staff.

Article 80. Dispute resolution through negotiations

The bank's liquidator, upon obtaining a prior consent of the court, to regulate claims, may

start negotiations with any creditor or debtor of the bank. Consequences of such an arrangement may not be appealed or protested.

Article 81. Secured claims

81.1. All assets, which are securitization for approved claims of creditors to the bank and securitization on own claims of the bank, shall be sold by the liquidator at an open auction, except for the following instances:

81.1.1. sale by the liquidator of tradable securities, foreign currency, and other assets, within the shortest term on the market where such assets are traded, is allowed.

81.1.2. sale of tradable securities, foreign currency and other assets that are the securitization of bank's debts within the shortest term on the market where such assets are traded is allowed by creditors, who dispose of these assets.

81.1-1. Assets, specified in Article 81.1 of this Law, shall be sold at an open auction no later than 30 days upon the effective date of the court decision on announcing the bank bankrupt.

81.2. If the liquidator finds out that he/she cannot sell assets, stipulated in Article 81.1 of this Law, at an open auction at a reasonable price, the court may permit him/her to sell such assets by other means at the price approved by the court.

81.3. Assets not specified in Article 81.1.2 of this Law, upon the request of the liquidator, shall be transferred by the creditor to disposal of the liquidator immediately.

81.4. Claims of creditors with securitization shall be compensated from proceeds out of the sale of securitization in an extraordinary manner. If the securitization does not compensate for the creditors' claim in full, the unpaid amount shall be compensated in the order, specified in Article 82 herein as unsecured claim of the creditor.

Article 82. Priority of payments

82.1. The assets of a bank declared bankrupt shall be distributed among its creditors in the following order of priority:

~~82.1.1. except for deposits of individuals in the form of debt securities, claim of an individual on his/her deposit amounting up to ten million manat.~~

82.1.2. claims on insurance of deposits of individuals on the Fund's right of regress.

82.1.3. all costs and expenditures, incurred by the temporary officer and the liquidator with respect to implementation of bankruptcy procedures, including their salaries, court expenses and liquidator's obligations assumed with respect to implementation of liquidation measures.

82.1.4. claims of bank employees related to injuries and mortalities during business hours.

82.1.5. claims of current and former bank employees on payment of allowances, and salaries to be paid for not more than six months' period prior to the date of the court decision on announcing the bank bankrupt.

82.1.6. bank liabilities related to procedures of the temporary officer on management and financial remediation.

82.1.7. amounts payable in taxes to the state budget, compulsory state social insurance contributions and unemployment insurance contributions to extra-budgetary state funds, as well as compulsory health insurance contributions to the compulsory health insurance fund.

82.1.8. claims of unsecured creditors.

82.2. Residual assets shall be paid to bank shareholders pro-rata to their shares in accordance with the legislation.

Article 83. Liquidation plan

83.1. The liquidator shall, no later than 120 calendar days from the date of the court decision on announcing the bank bankrupt, apply to court for approval of the developed detailed plan on bank's liquidation:

83.1.1. current financial statements, indicating bank assets and liabilities at their probable liquidation value, forecasted financial statements of the bank for three months following the current date. The liabilities column of the balance sheet shall contain claims from creditors, including rejected claims.

83.1.2. quarterly reports on past and forecast profit and loss of the bank.

83.1.3. report on the actions taken regarding the sale of the bank's fixed and other assets, as well as planned sales.

83.1.4. report on court and out-of-court actions, directed at coverage of bank claims, including actions on cancellation of illegal contracts and transfers, as well as the rights, arisen from such contracts and transfers.

83.1.5. report on illegal actions of bank officers and actions directed at receiving compensation in favor of the bank.

83.1.6. report on extension of validity or partial termination of existing contracts, such as insurance contracts, employment, and service agreements, including a detailed analysis of financial provision of bank employees.

83.1.7. report on bank liabilities and a schedule of implied payments to creditors next quarter.

83.1.8. report on incurred and future liquidation costs and expenditures.

83.2. The liquidation plan shall be updated quarterly. The liquidation plan, upon approval by court, shall be *submitted* for information, except for the information constituting bank secrecy, to creditors of the bank, whose claims are included to the list of approved claims, developed in accordance with Article 77 of this Law.

Article 84. Financial remediation of bankrupt banks

A bankrupt bank may not be completely or partially subject to financial remediation, other than the cases stipulated in Article 57-9 of this Law.

Article 85. Inadmissibility of amicable agreements with creditors

Amicable agreements or other contracts by and between the bank and creditors, directed at reinstatement of the banking activity shall not be allowed.

Article 86. General meeting and committee of creditors

86.1. A general meeting of creditors with respect to liquidation of the bankrupt bank may be held only if a court, by the enquiry of the liquidator, supported by the *Central Bank*, shall take a decision on the necessity for convening such a meeting for efficient liquidation of the bank.

86.2. A creditors' committee on issues related to liquidation of the bankrupt bank may be established only in the event, if court, by the enquiry of liquidator, supported by the *Central Bank*, shall take a decision on the necessity for establishment of such a committee for representation and protection of significant interests of creditor groups.

86.3. Court decisions, allowing convening of the general meeting of creditors or establishment of the committee of creditors, shall establish a scope of responsibilities and authorities of the meeting or the committee.

Article 87. Payment of claims

87.1. Claims approved under Article 82 of this Law shall be categorized and included to the distribution schedule, classified in accordance with the order of payment. Claims per category

shall be settled only upon complete settlement of claims of the previous group. If there are no sufficient funds to settle the claims within the group, payments shall be distributed in percentages, pro-rata to claims.

87.2. A schedule of payments to bank creditors, whose claims are approved and included to the distribution schedule, shall be submitted to court by the liquidator for approval.

87.3. The schedule of payments, approved by court, shall be final and not subject to appeal.

87.4. Upon approval of the payment schedule by court, the liquidator shall immediately execute payments, included therein. Unpaid amounts for payment to creditors, payment amounts of which are included to the schedule of payments, in the event of impossibility to contact with such creditors, shall be deposited to a special account with the Central Bank. The liquidator, publishing information in *media*, shall offer these creditors to apply for obtaining these funds. Funds deposited under these procedures may be received by specified creditors on these claims or their heirs prior to the expiry of the claim term under these claims. Upon the expiry of the claim deadline, unpaid amounts shall be transferred to the state budget.

Article 88. Insolvency procedure on a local branch of a foreign bank

88.1. The insolvency procedure on the local branch of the foreign bank may be initiated if:

88.1.1. any of the conditions specified in Article 61 of this Law is found out.

88.1.2. insolvency procedures against the foreign bank are initiated in its home country. At that, the procedure shall be initiated by the application of the *Central Bank*.

88.2. For the purposes of provisions of this chapter, any branch of a foreign bank, including its assets and liabilities, resulting from its activities in the Republic of Azerbaijan, or somehow related to it, shall be considered a subsidiary bank of the foreign bank, provided that irrespective of this, the foreign bank shall be completely responsible for liabilities of the local branch.

88.3. From the moment of presentation of the court decision on initiation of insolvency procedures against the local branch of the foreign bank, all operations, conducted by the local branch of the foreign bank in the Republic of Azerbaijan shall be terminated. In this case, types of activities specified with the prior written permit of the liquidator assigned to the branch shall be an exception.

88.4. A local branch of the foreign bank announced bankrupt shall be subject to Article 78 of this Law only in the event of offsetting or deduction of liabilities resulting from foreign bank's operations in the Republic of Azerbaijan, or somehow related to it.

88.5. In the event of initiation of insolvency procedures on the foreign bank that has a branch in the Republic of Azerbaijan, assets of its local branch shall be, in the first place, used for payment of liabilities of the branch generated from banking activities in the Republic of Azerbaijan.

88.6. The insolvency procedure initiated on the local branch of the foreign bank in the Republic of Azerbaijan shall not constrain the right of branch creditors to direct the claims at bank's assets abroad for compensation of branch creditor claims.

Article 89. Insolvency of banks with a network of branches in more than one country

89.1. To ensure equal use by local and foreign creditors of assets of the bankrupt bank, acting via the network of branches in more than one country:

89.1.1. if a local bankrupt bank has branches and representative offices in another country, the *Central Bank* shall cooperate to the possible extent with banking regulatory and supervisory authorities of that country.

89.1.2. if a creditor of the local bankrupt bank partially is paid for his/her claims from the

bank branch in another country, outstanding balance on creditor claims may be presented to the bank announced bankrupt.

89.1.3. the court determines to which extent the decision on announcing the bank bankrupt taken abroad and measures taken in a foreign country on protection of bank's assets and financial remediation relates to their branches in the Republic of Azerbaijan.

89.1.4. if a foreign bank is in a liquidation process in its country of residence, and the *Central Bank* considers transfer or passing of assets acceptable from the point of view of interests of creditors of local branches of the foreign bank located in the Republic of Azerbaijan, the *Central Bank* shall apply to court to take a decision on transfer or passing of such assets to the liquidator in a foreign country.

Article 90. Participation of the *Central Bank* in court proceedings related to bankruptcy

The first instance court, when reviewing the case on announcing the bank bankrupt or in connection with the bank announced bankrupt, shall receive an opinion of the *Central Bank* on this issue in accordance with the Civil Procedure Code of the Republic of Azerbaijan.

Article 91. Completion of insolvency procedures

91.1. Upon completion of bank liquidation and submission to court of the relevant report, the liquidator by the court decision shall be released from his/her duties. The same court decision shall contain an instruction on transfer of accounting and other documentation of the bank to the State Archive in accordance with the legislation.

91.2. In the event of payment to bank creditors or depositing with the *Central Bank*, in accordance with the procedures of Article 87.4 of this Law of the funds generated from sale of bank assets, the insolvency procedure of the bank shall be deemed completed by the court decision.

91.3. The court decision on completion of the bank's insolvency procedure shall be sent by court to the *Central Bank* and state registration authorities, as well as be published in *media*. The liquidated bank shall be removed from the state registry of legal entities.

Chapter XI

TRANSITIONAL AND FINAL PROVISIONS

Article 92. Protection from court claims

The Central Bank, members of the Management Board and other executives of the Central Bank, the financial markets supervisory authority and members of its Board of Directors and other executives, as well as temporary officers and liquidators, appointed under this Law, during discharge of regulatory, supervisory and liquidator functions stipulated herein, shall not be liable for any losses incurred as a result of any actions or inactions, provided there are no evidences that such actions or inactions resulted from illegal actions or negligence.

Article 93. Transitional provisions

93.1. Banks operating for a year from the moment of enforcement of this Law shall provide fulfillment of the following requirements:

93.1.1. banks operating as limited liability companies shall be reorganized into joint-stock companies in accordance with the provisions of Article 19 of this Law.

93.1.2. participation of banks in other legal entities engaged in activities prohibited by the

provisions of Article 33 of this Law shall be annulled.

93.2. Local representative offices of foreign banks, registered prior to enforcement of this Law, shall be registered with the central registry maintained by the *Central Bank* within a year, and submit reporting documentation to the *Central Bank* in accordance with Chapter V herein.

Article 94. **Final provisions**

94.1. Along with the cases directly indicated in this Law, Chapters IV, VI, VIII, VIII-I, IX, X of this Law shall also apply to local branches of foreign banks.

94.1-1. For the purposes of this Law, conviction of relevant persons shall be identified based on a reference issued by the relevant executive authority upon request of the Central Bank.

94.2. This Law shall take effect from the date of publication.

94.3. Due to enforcement of this Law, the Law of the Republic of Azerbaijan 'on Banks and Banking Activity' dated 14 June 1996 and the Decree of the Milli Majlis of the Republic of Azerbaijan 'on Approval of Regulations on Maintaining Banking Secrecy' dated 19 January 1995 shall be deemed void.

Ilham ALIYEV,
President of the Republic of Azerbaijan

Baku city, 16 January 2004

№ 590-IIQ