

“Approved”

Financial Markets Supervisory Authority
of the Republic of Azerbaijan
Resolution № 16
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Chairman of the Board of Directors

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Regulations on prudential regulation of credit unions

1. General Provisions

These Regulations have been developed in accordance with Para 10 of Article 5 and Para 2 of Article 18 of the Law of the Republic of Azerbaijan on Credit Unions (hereinafter – the Law) and determine prudential norms and requirements, as well as reporting on activities of credit unions.

2. Definitions

2.0. Definitions used herein bear the following meanings:

2.0.1. fully secured loan - loan whose timely and full repayment is secured by collateral with the market value equal to or over the unpaid amount of this loan (pledged movable and immovable property), guarantee, warranty and other means as set under the Civil Code of the Republic of Azerbaijan.

2.0.2. partly secured loan – loan secured by collateral, the market value of which is less than the unpaid amount of the loan or by other securitization;

2.0.3. unsecured loan – loan without any security or whose security has no market value or not documented under the Civil Code of the Republic of Azerbaijan regardless its value;

2.0.4. current loan – loan, whose principal amount and interest are repaid as of the contractual date;

2.0.5. overdue loan - loan where payments against the principal amount or interest accrued thereupon, or the outstanding portion of either principal amount or accruals, are delinquent for more than 30 calendar days beyond the contractual maturity date;

2.0.6. capital – total of authorized capital and retained earnings (amount after taxes and obligatory deductions from profit) of a credit union.

3. Prudential norms and requirements

3.1. The following prudential norms and requirements are established on activities of credit unions:

- 3.1.1. minimum amount of authorized capital;
- 3.1.2. minimum amount of capital and its adequacy ratio;
- 3.1.3. maturity matching of assets and liabilities;
- 3.1.4. maximum amount of a loan to one member;
- 3.1.5. maximum amount of an unsecured loan;
- 3.1.6. requirements on special reserves to be created against expenses to cover possible losses depending on classification of loans.

3.2. New prudential norms and requirements and changes therein set by the Financial Markets Supervisory Authority of the Republic of Azerbaijan (hereinafter – the FIMSA) for functional credit unions take effect no earlier than one month, while changes to requirements to minimum amount and adequacy ratio of capital take effect no later than six months upon formal notification of credit unions.

4. Authorized capital

Authorized capital of a credit union should not fall below AZN 4000 (four thousand).

5. Capital and its adequacy ratio

- 5.1. Capital of a credit union shall not fall below AZN 4000 (four thousand).
- 5.2. The capital adequacy ratio should not fall below 0.25 within one year upon launch of a credit union, and no less than 0.20 later.
- 5.3. The capital adequacy ratio is calculated as the ratio of credit union capital to the sum of outstanding principal amount of current and overdue loans as of the reported date.

6. Maturity matching of assets and liabilities

- 6.1. Maturity of loans by a credit union and accrued interest should override maturity of credit union's liabilities.
- 6.2. The maturity matching norm of assets and liabilities shall equal minimum 1 or over.
- 6.3. The maturity matching norm for assets and liabilities is calculated as the ratio of total assets (current loans, payable interest and other assets) to total liabilities (externally

attracted loans, interest accruals and other liabilities) as of the reported date at least on liabilities delinquent for 0-30, 31-90, 91-180, 181-365 and over 365 days.

6.4. Overdue loans of credit union members and debt amounts on interest accrued to them are ignored in total assets when calculating the maturity matching norm for assets and liabilities.

7. Maximum amount of a loan to one member

7.1. Maximum amount of a loan to one member shall not exceed 10 times of the share of the member in question in authorized capital of a credit union and 10 percent of the mutual loan fund, according to Para 2, Article 20 of the Law.

7.2. When calculating maximum amount of the loan to one member, his/her outstanding principal debt on credit liabilities to the credit union as of the date shall be taken into account.

8. Maximum amount of an unsecured loan

8.1. Maximum amount of unsecured loans to CU members should equal 0.2 or over.

8.2. Maximum amount of unsecured loans is calculated as the ratio of total unsecured loans and the unsecured portion of partly secured loans issued by CU to CU capital.

9. Special reserve fund

9.1. The credit union should evaluate all its loans at least once a quarter and create special reserves against expenses depending on loan classification to cover losses incurred as a result of its activities in order to have a distinct and unbiased view of its financial standing and transaction results.

9.2. The credit union analyzes all loans and relates them to relevant classification categories pursuant to these Regulations.

9.3. Loans are classified into standard and non-standard loans for classification purposes. Standard loans include satisfactory, while non-standard loans include non-satisfactory, doubtful and loss loans.

9.4. Special reserves are created in the following amounts on classifications:

9.4.1. satisfactory loans – 0% of outstanding amount of principal and interest, of which contractual maturity on principal amount and interest debt is delinquent for 30 days;

9.4.2. non-satisfactory loans - 30% of outstanding amount of principal and interest, of which contractual maturity on principal amount or interest debt is delinquent for 31-90 days;

9.4.3. doubtful loans - 60% of outstanding amount of principal and interest, of which contractual maturity on principal amount or interest debt is delinquent for 91-180 days;

9.4.4. loss loans - 100% of outstanding amount of principal and interest, of which contractual maturity on principal amount or interest debt is delinquent for over 181 days.

9.5. If a credit union identifies improvement of the quality of loans during assessment, the created reserves are reduced against crediting of a relevant expenses account or the reduced amount of the reserve, previously deducted from income, is recorded in income.

9.6. Loss loans are written off by a credit union from the balance sheet in the amount of principal and interest at the decision of the general meeting of a credit union, or, if authorized, the Supervisory Board.

9.7. Loans written off from the balance sheet are recorded in the off-balance sheet account for at least 5 years. Documents on loans written off from the balance sheet are stored within the period established in the Guidelines on maintenance of archivation in the banking system of the Republic of Azerbaijan.

9.8. Funds received by the credit union for repayment of assets previously written off from the balance sheet as loss loans are channeled to reduce relevant expenses account or reduced amount of the reserve previously deducted from income is included to income.

10. Reporting

10.1. The credit union delivers the following quarterly reports to the FIMSA on its operations:

10.1.1. general information (Annex 1);

10.1.2. information on managerial bodies and an internal auditor (Annex 2)

10.1.3. balance sheet (Annex 3);

10.1.4. income statement (Annex 4);

10.1.5. other reports on activities (Annex 5 -12).

10.2. Statements are signed by the chairman of the Management Board of the credit union and the member of the Management Board responsible for development of financial statements and stamped.

10.3. Reports are delivered in hard and soft copy until the 7th day of the month following the reported quarter.

10.4. Audited annual balance sheet, and income statement are submitted together with the auditor opinion no later than 31 May of the next year.

Annex 1
to Regulations on prudential regulation
of credit unions

Reference form 1

Name of a credit union: _____

Reported period: _____

Development date: _____

General information	
Address	
Contact number	
Fax	
E-mail	
Name of bank(s), it opened account(s) with	
Administrative areas, within the scope of operation	
Number of branches	
Number of members, including	
a) as of the early year	
b) as of the reported date	
# of loans issued over a year	
# of loans issued over the reported quarter	
# of overdue loans as of the reported date	
Total number of staff	
Who compiled the report	

Chairman of the Management Board _____ (1st, last and middle names)

Member of the Management Board _____ (1st, last and middle names)

Reference form 2

Name of a credit union: _____

Reported period : _____

Date of development: _____

Information on managerial bodies and an internal auditor

1 st , last and middle names	Position	e-mail	Contact numbers
1	2	3	4
Supervisory Board			
Management Board			
Credit Committee			
Internal auditor			

Chairman of the Management Board _____ (1st, last and middle names)

Member of the Management Board _____ (1st, last and middle names)

Annex 3
to Regulations on prudential regulation
of credit unions

Reference form 3

Name of a credit union: _____

Reported period: _____

Date of development: _____

BALANCE SHEET

(in AZN)

	BALANCE ITEMS	AMOUNT
ASSETS		
1.	Cash	
2.	Bank accounts	
3.	Total loans	
4.	Special reserve fund	
5.	Net loans (loans less "Special reserve fund")	
6.	Government securities	
7.	Fixed assets	
8.	Accrued interest	
9.	Other assets	
	Total assets	
LIABILITIES		
	Liabilities	
1.	Loans taken	
2.	Payable interest	
3.	Other liabilities	

4.	Total liabilities	
Equity		
1.	Regulatory capital	
2.	Retained earnings (loss)*	
	Net profit from previous years (loss)	
	Net profit of current year (loss)	
3.	Total equity	
	Total liabilities	

* if the CU operates with loss, it should be stated in brackets.

Chairman of the Management Board_____ (1st, last and middle names)

Member of the Management Board_____ (1st, last and middle names)

Reference form 4

Name of a credit union: _____

Reported period: _____ Date _____ of _____

development: _____

Income statement

Items	Reported period	From early year, including reported quarter
1.Total interest income		
including:		
a)on issued loans		
b)on government securities		
2.Total interest expenses		
including:		
a)on loans		
b)other		
3.Net interest income (loss) (row 1 less row 2)		
4.Total non-interest income		
including:		
a)extraordinary income		
b)other income		
5.Total non-interest expenses		
including: a)total salary and similar expenses		
a1) salary and allowances		
a2)awards		

a3) social security expenses		
a4) other types of compensation and allowances		
b) expenses related to fixed assets		
b1) rent fees		
b2) amortization		
b3) other expenses related to fixed assets		
c) operating and commissioning expenses		
d) other expenses		
6. Gains (losses) from operations (row 3 plus row 4 less row 5)		
7. Deductions to creation of special reserve fund (expenses)		
8. Profit (loss) before tax (row 6 less row 7)		
9. Profit tax		
Net retained earnings (losses) after taxes (row 8 less row 9)		

Note: in case of loss on row 8, the amount is moved to row 10.

Chairman of the Management Board _____ (1st, last and middle names)

Member of the Management Board _____ (1st, last and middle names)

Reference form 5

Name of a credit union: _____

Reported period: _____

Date of development: _____

Report on regulatory (prudential) ratios

Prudential norms	Ratios	Actual
Authorized capital	4 thousand at a minimum	
Capital	4 thousand at a minimum	
Capital adequacy ratio	minimum 0.25 within 6 months from the date of launch of operations, later minimum 0.20	
Maturity matching of assets and liabilities		
0-30 days	minimum 1.0	
31-90 days	minimum 1.0	
91-180 days	minimum 1.0	
181 days – over	minimum 1.0	
Maximum amount of a loan to one member to his/her share in regulatory capital	maximum 10	
Total loans of a member to the Mutual Loan Fund ratio	maximum 0.1	
Maximum amount of unsecured loans	maximum 0.2	

Chairman of the Management Board _____ (1st, last and middle names) Member of the Management Board _____ (1st, last and middle names)

Annex 6
to Regulations on prudential regulation
of credit unions

Reference form 6

Name of a credit union: _____

Reported period: _____

Date of development: _____

Report on members and their loans

Names of members	Legal address	Manager's 1st, middle and last names	Member's share in regulatory capital (in AZN)	Amount of loans the CU granted to its members (in AZN)	Outstanding amount of loans CU granted to its member / their shares in authorized capital (column 5 divided by column 4)	Amount of the CU's mutual loan fund as of the lending date (in AZN)
I. Legal persons Total	X	X			X	X
including: 1. 2.						
II. Individuals Total	X	X			X	X
including: 1. 2.						
Total	X	X			X	X

Note: outstanding amount of all loans obtained by each member shall be indicated in Column 5 irrespective the number of loan agreements.

Columns marked with X not to be filled out.

Chairman of the Management Board _____(1st, middle and last names)

Member of the Management Board _____(1st, middle and last names)

Reference form 7

Name of a credit union: _____

Reported period: _____

Date of development: _____

Maturity matching of assets and liabilities

(in AZN)

Assets	Days remaining to beginning of maturity						
	0-30	31-90	91-180	181-365	over 365	Overdue loans and other debts	Total
1. Cash and balance of bank accounts		X	X	X	X	X	
2. Loans issued							
3. Receipts from investments to government securities						X	
4. Interest receipts from loans issued and investments							
5. Receipts from other assets*	X	X	X			X	
6. Total receipts from all sources							
Liabilities							
1. Attracted loans						X	
2. Interest accrued on attracted loans						X	
3. Other liabilities**						X	

4.Total liabilities						X	
Ratio							
Assets to liabilities						X	X

*Other assets - receipts expected from disposal of repossessed collateral and other assets if the loan is not repaid.

**Other liabilities - CU's liabilities on salary payments, budget and similar liabilities.

Explanation: - Additional explanation on gains from other assets, and other liabilities shall be provided.

Overdue liabilities shall be included in the column (Column 2) indicating 0-30 day maturity.

Columns marked with X not to be filled out.

Chairman of the Management Board _____(1st, middle and last names)

Member of the Management Board _____(1st, middle and last names)

Annex 8
to Regulations on prudential regulation
of credit unions

Reference form 8

Name of a credit union: _____
 Reported period: _____ Date _____ of _____
 development: _____

Report on issued loans and their securitization

(in AZN)

#	# of members who obtained a loan	Loan's issue and maturity date	Amount of the loan issued	Annual interest rate of the loan issued	Outstanding loan amount	Market value of securitization
1	2	3	4	5	6	7
Secured loans						
1.						
2.						
	Total:	X		X		X
Partly secured loans						
1.						
2.						
	Total:	X		X		X
Unsecured loans						
1.						
2.						
	Total:	X		X		

Explanation: Loans, members obtained, are included in this table separately on each member and each loan agreement in line with loan agreements.

Columns marked with X not to be filled out.

Chairman of the Management Board _____ (1st, middle and last names)

Member of the Management Board _____ (1st, middle and last names)

Annex 9
to Regulations on prudential regulation
of credit unions

Reference form 9

Name of a credit union: _____

Reported period: _____

Date of development: _____

Report on attracted funds (in AZN)

#	Name of the organization which granted a loan to the CU	Contractual			Outstanding amount of funds
		date of issue and maturity	amount	annual interest rate	
1.					
2.					
.					
.					
	Total:	X		X	

Columns marked with X not to be filled out.

Chairman of the Management Board _____ (1st, middle and last names)

Responsible member of the Management Board _____ (1st, middle and last names)

Annex 10
to Regulations on prudential regulation
of credit unions

Reference form 10

Name of a credit union: _____

Reported period: _____ Date _____ of _____

development: _____

Report on classification of the credit portfolio (in AZN)

Overdue loans	Amount	Interest rate	Amount of the special reserve fund
Non-satisfactory		30	
Doubtful		60	
Loss		100	
Total:		X	

Explanation: Columns marked with X not to be filled out.

Chairman of the Management Board _____ (1st, middle and last names)

Responsible member of the Management Board _____ (1st, middle and last names)

Annex 11
to Regulations on prudential regulation
of credit unions

Reference form 11

Name of a credit union: _____

Reported period: _____ Date _____ of _____

development: _____

Report on other assets and liabilities

(in AZN)

	Asset name (purpose)	Date of creation	Amount
1.			
2.			
3.			
n.			
	Total:	X	
	Name of the liability (sources)		
1.			
2.			
3.			
n.			
	Total:	X	

Explanation: Columns marked with X not to be filled out.

Chairman of the Management Board _____ (1st, middle and last names)

Responsible member of the Management Board _____ (1st, middle and last names)

Reference form 12

Name of a credit union: _____
 Reported period: _____ Date _____ of _____
 development: _____

Report on off-balance sheet items

LIABILITIES	Total
1. Unused credit lines	
2. Other off-balance sheet liabilities	

ADDITIONAL ITEMS	Total
1. Principal amount of loss loans written off from balance sheet	
2. Interest debt of loss loans written off from balance sheet	

Explanation: Columns marked with X not to be filled out.

Chairman of the Management Board _____ (1st, middle and last names)
 Responsible member of the Management Board _____ (1st, middle and last names)