

‘Approved’
The Central Bank of
the Republic of Azerbaijan

Decision № 19/2
19 August 2014

Took effect on 29 August 2014

Registration# 23201408190192

Regulations on reorganization of banks

1. General provisions

These Regulations have been developed under Article 29 of the Law of the Republic of Azerbaijan on Banks and determine banks’ reorganization procedures in the form of mergers, consolidations and conversions.

2. Definitions

2.0. The definitions used herein shall bear the following meanings:

2.0.1. Consolidation – reorganization of banks in the form of transfer of rights and responsibilities (assets and liabilities) of two or more banks to a newly launched bank (a legal heir) in line with an acceptance act;

2.0.2. Merger – reorganization of banks in the form of transfer of rights and responsibilities (assets and liabilities) of one or more banks to another operating bank (a legal heir) in line with an acceptance act;

2.0.3. Conversion – reorganization of banks in the form of transfer of bank’s rights and responsibilities (assets and liabilities) through change of its

organizational – legal form to a newly launched non-bank credit institution (hereinafter – NBCI) (a legal heir);

2.0.4. Reorganized bank – a bank intending to reorganize in the form of consolidation, merger or conversion;

2.0.5. Bank merger – bank, the rights and responsibilities (assets and liabilities) of which are transferred to a reorganized bank (a legal heir) through termination of its functioning.

3. Bank reorganization

3.1. Bank's (s') reorganization comprises the following phases:

3.1.1. written appeal to the Central Bank of the Republic of Azerbaijan (hereinafter – the CBA) to obtain a prior consent for reorganization;

3.1.2. a joint meeting of all shareholders of reorganized banks to take a relevant decision upon the consent of the CBA (when transforming – a general meeting of shareholders of the bank transforming to the NBCI);

3.1.3. creditors of reorganized bank(s) are informed on the decision on reorganization under Article 58 of the Civil Code of the Republic of Azerbaijan;

3.1.4. state registration of the bank or NBCI – the legal heir, created as a result of reorganization;

3.1.5. revocation of the banking license of the reorganized bank(s) upon state registration and issue of a relevant special permit (license) for the legal heir bank or launched NBCI.

3.2. To obtain a prior consent of the CBA for reorganization, the bank(s) issue a written application to the CBA at least 90 calendar days prior to the date of the general meeting of shareholders under Item 3.1.2 herein. The application is developed under the requirements of Article 30 of the Law of the Republic of Azerbaijan on Administrative Execution. The application is signed by the chairman (men) of the Supervisor Board of reorganized bank(s) and verified by bank's(s') stamp(s).

3.3. The appeal to obtain a consent for reorganization of bank(s) is

reviewed under the Law of the Republic of Azerbaijan on Administrative Execution.

3.4. The general meeting of shareholders of reorganized banks (general meeting of shareholders of the bank, transforming to NBCI) should be held and a decision on reorganization be taken within 3 months upon the consent of the CBA on reorganization.

3.5. A copy of minutes of the general meeting of shareholders of reorganized banks (general meeting of shareholders of the bank, transforming to NBCI) shall be submitted to the CBA within 5 days upon the activity day. In the event of bank conversion to NBCI, a copy of minutes of the general meeting of shareholders of the bank submitted to the CBA shall be attached with a plan of discharge of liabilities due to bank depositors and other deposit account holders approved by the general meeting of shareholders.

3.6. In the event the general meeting of shareholders of reorganized banks (the general meeting of shareholders of the bank transforming to NBCI) is not held or a decision on reorganization taken within the time frame specified in Item 3.4 herein, the CBA annuls its prior consent on reorganization of bank(s).

4. Conditions for issue of prior consent

4.1. The following conditions should be met to issue a prior consent for bank's(s') reorganization:

4.1.1. The legal heir bank should have minimum aggregate capital set by the CBA, and the newly created NBCI – minimum paid-in capital set for NBCIs;

4.1.2. In the event of consolidation or merger, financial indicators of the legal hair bank should comply with prudential norms set by the CBA for banks on capital adequacy of aggregate and Tier I Capital and leverage ratios;

4.1.3. Financial statements of the bank intending to transform to NBCI should determine availability of sufficient funds to fully discharge liabilities due to bank's depositors and other deposit account holders or sources of additional funds to be attracted;

4.1.4. Nominees to positions of administrators of the legal heir bank or the NBCI should comply with the requirements of the Laws of the Republic of Azerbaijan in Banks and Non-bank Credit Institutions.

5. Special requirements on reorganization of banks through consolidations or mergers

5.1. The appeal to the CBA to obtain a prior consent for reorganization as consolidation or merger includes the following information and documents:

5.1.1. date and draft agenda of the joint general meeting of shareholders of reorganized banks;

5.1.2. information on deadline of reorganization;

5.1.3. information on legal heir bank's organizational structure, indicating branches, departments and representative offices (if such divisions are envisaged);

5.1.4. information and documents on compliance of nominees to positions of administrators of the legal heir bank resulting from the reorganization with the requirements of the Law of the Republic of Azerbaijan on Banks;

5.1.5. information on the capital structure of the legal heir bank;

5.1.6. information on new owners of qualifying holding in the legal heir bank capital in line with the Law of the Republic of Azerbaijan on Banks and information on changes to shares of qualifying holders (if any) in paid-in capital.

5.2. The agenda of the joint general meeting of reorganized banks' shareholders should include at least the following issues:

5.2.1. decision on reorganization of banks;

5.2.2. approval of summarized and consolidated financial statements (balance sheet) and acceptance act;

5.2.3. approval of legal heir bank's charter or changes therein, as well as statutes of legal heir bank's branches, departments and representative offices (if any);

5.2.4. appointment of legal heir bank's administrators (except for the cases related to authorities of bank's other managerial bodies).

6. Special requirements on reorganization of banks through conversion

6.1. The appeal to the CBA to obtain a prior consent for reorganization as conversion includes the following information and documents:

6.1.1. date and draft agenda of the joint general meeting of shareholders of reorganized banks;

6.1.2. the plan on discharging liabilities due to depositors and other deposit account owners before the launch of the NBCI, as well as, if additional funds are to be attracted to meet these obligations, documents on attraction of these funds;

6.1.3. draft charter and organizational structure of the NBCI to be created;

6.1.4. information and documents on compliance of nominees to positions of administrators of the NBCI to be created with the requirements of the Law of the Republic of Azerbaijan on Non-bank Credit Institutions;

6.1.5. information on capital of the NBCI to be created.

6.2. The agenda of the joint general meeting of shareholders of the bank transformed to the NBCI should include at least the following issues:

6.2.1. decision on reorganization of the bank;

6.2.2. decision making, confirming the bank's obligation on non-reimbursement of dividends to bank's shareholders, as well as dividends on preferential shares, non-prolongation of terms of existing savings (deposits), non-acceptance of new savings (deposits) from individuals and legal entities, as well as non-issue of new loans and non-execution of new investment operations from the date of the decision on conversion to an NBCI until completion of reorganization;

6.2.3. approval of newly created NBCI's charter, as well as statutes of its branches, departments and representative offices (if any);

6.2.4. approval of the plan on discharging bank's liabilities due to depositors and other deposit account holders;

6.2.5. approval of the list of exposures, in the event of termination of bank's liabilities by other creditors or their immature implementation and claims on compensation for losses (indicating information on the creditor and terms of bank's liabilities due to him/her) and the plan of their disbursement;

6.2.6. appoint administrators of the newly launched NBCI.

6.3. The bank transformed to the NBCI should deliver a report signed by the Chairman of the Management Board and the chief accountant and verified by the bank stamp on the implementation of the plan from the date of approval of discharging its liabilities due to depositors and other deposit account holders by the general meeting of shareholders to the CBA within the first five work days of the following month on a monthly basis.

6.4. In the event the bank fails to meet the deadline set in the implementation plan on discharging liabilities due to depositors and other deposit account holders it should without fail inform the CBA in writing.

6.5. If cases on bank's non-discharge of liabilities due to depositors and other deposit account holders in line with the implementation plan, as well as violation of liabilities undertaken under sub-item 6.2.2 herein are revealed, the CBA revokes its prior consent on reorganization and terminates the reorganization.

7. Final provision

Except for prudential norms specified in sub-items 4.1.1 and 4.1.3 herein, in the event of violation of other prudential norms in the legal heir bank resulting from consolidation or merger, the legal heir bank should eliminate these violations within 6 months upon obtaining the banking license.