State registration with the	Approved by
Ministry of Justice of Azerbaijan Republic	Resolution of November 18, 2008 by the Management Board of the Central Bank of Azerbaijan Republic
Registration No. 3436 December 10, 2008	Protocol No. 34
Minister ________________ Togrul Musayev	Governor of the Management Board ___________________ E.Rustamov

REGULATIONS ON ISSUE OF LOANS IN BANKS

(as amended on April 15, 2010)

BAKU — 2008

1. General provisions

1.1. These Regulations have been developed in accordance with the Laws of Azerbaijan Republic «On the Central Bank of Azerbaijan Republic» and «On banks», other laws of Azerbaijan Republic, regulations issued by the Central Bank of Azerbaijan Republic (hereinafter referred to as «the Central Bank»), as well as best international practices.
1.2. These Regulations identify the minimum requirements with respect to credit risk and lending strategies and policies to be developed and put in place by commercial banks and local branch offices of foreign banks (hereinafter referred to as «banks) operating in the Republic of Azerbaijan.
1.3. All banks shall develop and implement a lending strategy, as well as credit risk management policies and procedures, including risk identification, measurement and control policies and procedures, in consistency with the nature and scope of their operations.
1.4. Each bank's lending strategy, lending and credit risk management policies and procedures shall be developed by the Management Board in consultation with relevant committees, and approved by the Supervisory Board.
1.5. Each bank's approved strategy and policies shall be documented and communicated to relevant business units and staff members.
1.6. Strategies and policies shall be reviewed no less than once a year.
1.7. Provisions hereof shall not apply to interbank loans, except as otherwise provided in paragraph 4.1.12 hereof.

1. Lending strategy

2.1. Each bank's lending strategy shall be determined based on its overall vision. The lending strategy shall identify the areas to which the bank's credit resources shall be directed by types of loans (mortgage, consumer, retail loans), in due consideration of the structure of borrowed funds, sufficiency and adequacy of information resources. The strategy shall clearly define the bank's standing on loan portfolio diversification (economic sectors, geographic regions, currency, loan maturity and yield), non-collaboration with borrowers engaged in illegal activities and other lending-related issues.
2.2. The lending strategy shall cover address strategic issues such as maintaining a balance between the bank's field of business specialization and excessive concentration, and conducting lending operations either in a centralized manner or through branch offices as well.

3. Lending criteria

3.1. Criteria for loan application review by the bank shall include the amount, term, exposure level of the proposed loan, the prospective borrower's line of business and other factors. Criteria shall be clustered in at least the following factors:
3.1.1. Purpose and source of repayment of the loan:
3.1.2. Level of risk/exposure associated with the borrower and the loan requested;
3.1.3. Market and economic sensitivity of the proposed loan as well as the proposed collateral;
3.1.4. The borrower's credit history, as well as current creditworthiness measured by projected cash flows based on background information and various case scenarios;
3.1.5. The borrower's retail lending expertise;
3.1.6. Status of the economic/market sector associated with the type of the loan and the borrower's

standing in that sector;
3.1.7. Conditions and maturity of the loan, including option to amend the loan agreement during the term of the loan;
3.1.8. Adequacy and, if necessary, marketability or usability of the collateral.

3.2. For first-time borrowers, the bank shall evaluate their reputation and creditworthiness. However good reputation shall not necessarily constitute the sole grounds for granting a loan.
3.3. For evaluation of loan applications from legal entities, the bank shall identify whether the prospective customer has a corporate governance system and whether it is adequate as the bank measures the potential credit risk.
3.4. The bank shall assign an internal rating/grade to each borrower based on the above described criteria (except for individuals and unincorporated entrepreneurs).

1. Bank's lending policies

4.1. The bank's lending policies shall address the business of lending comprehensively and shall be used as guidance for lending transactions. Each bank's lending policy shall cover the following, in consistency with the scope, nature and complexity of its lending transactions:
4.1.1. ***Levels of authority.*** The lending policy shall clearly identify the levels of lending authorities of each department and unit involved in lending transactions. The existing banking laws, expertise and qualifications of employees shall be taken into account when assigning decision-making and loan application assessment authorities to the bank's business units and individual employees.
In order to prevent any conflicts of interest, the credit risk evaluation as well as loan classification function of the bank should be separate and independent from the function responsible for overseeing the quality of the loan portfolio, as well as compliance, prudential reporting, internal requirements and limits. The bank shall appoint persons or business units responsible for discharging such functions.
The bank's management shall take efforts to prevent the bank's promotional policy from conflicting with the lending policy (increasing the number and amount of loans granted in excess of the limits set should not be incentivized).
4.1.2. ***Lending limits and loan concentrations.*** The bank's policy shall identify limits, regular monitoring and reporting requirements with respect to all known loan concentrations (loan types, related parties, economic sectors, geographic regions, etc.).
Determination of limits should incorporate the required level of return on each type of loan and the outcomes of sensitivity evaluation of the loan portfolio as well as borrowed funds used to finance loans.
The bank policy shall set, at a minimum, the following limits with respect to the loan portfolio or the total capital, in compliance with the Central Bank's related prudential requirements:
4.1.2.1. maximum exposure for each type and loan concentrations by type;
4.1.2.2. ratio of total loans to total deposits;
4.1.2.3. ratio of total loans to total deposits and other borrowed funds;
4.1.2.4. maximum exposure per a single borrower or a group of connected borrowers and concentration of such loans;
4.1.2.5. loan concentration by geographic location, including concentration by a single country or closely connected countries;
4.1.2.6. loan concentration by major currencies;
4.1.2.7. maximum exposure to related parties and concentration of such loans;
4.1.2.8. loan concentration by borrower status (legal entities, individuals and unincorporated entrepreneurs);
4.1.2.9. concentration by security type (real estate, securities, etc.);

4.1.2.10. concentration of loans with the same maturity;
4.1.2.11. concentration of loans with the same pledgor;
4.1.2.12. concentration of non-performing loans;
4.1.2.13. maximum unsecured (blank) exposure and concentration of such loans;
4.1.2.14. maximum exposure by branch offices and concentration of such loans (if branch office is authorized to lend).

Significant loan concentrations shall be reported to the management regularly. Loans in excess of the limits established, as well as loans to new sectors shall be granted only with the Supervisory Board's approval. Additional risk evaluation and monitoring procedures should be put in place for such loans.

4.1.3. ***Types and areas of lending.*** Each bank shall develop and put in place individual lending, monitoring and control policies for each type of loan, in consistency with the lending strategy and nature of different types of loans.

If a need arises for types of loans not covered by the bank's existing lending strategy, appropriate procedures shall be developed to this effect.

For loans to non-residents and persons operating outside the country, the bank's policies shall have risk assessment and monitoring procedures for the creditor's country of origin or operation.

For loans in foreign currency (granted in and outside the country), the foreign exchange risk associated with such loans as well as the transfer risk associated with international transactions should be taken into account.

In order to verify whether a loan is used in consistency with its stated purpose, the bank shall analyze the customer's operations when evaluating the loan application, as well as regularly monitor the customer's activities and take appropriate measures as it services the loan. The bank shall analyze the borrower's operations in accordance with the «Know Your Customer» standard of the Basel Committee for Banking Supervision.

4.1.4. ***Loan maturities and terms.*** The maturity/term of a loan (principal and interest) shall be predicated on the purpose, type, source of repayment of the loan, seasonal/periodic nature of the borrower's business as well as realistic cash flow projections.

The lending policy shall identify the criteria for loan roll-overs and the bank's request for early repayment, which shall also be specified in the underlying loan agreements.

For annuity payments on loans, the lending policy shall identify the terms and conditions of early/premature annuity payments and procedures for re-valuation and payment of annuities (reduction of annuity amounts and/or extension of annuity terms).

For loans with down-payments (when the borrower pays upfront a portion of the property purchased using the loan proceeds from his own funds), the lending policy shall identify the related minimum requirements.

4.1.5. ***Setting interest rates on loans.*** The lending policy shall identify the economic and market conditions as well as various factors used to determine the interest rates for individual loans and different types thereof. When setting interest rates to be applied to loans, banks shall consider loan service costs, overal administrative costs, possible loan loss reserves and a sufficient margin of profit, portfolio losses, as well as whether additional fees would be charged.

When the bank applies the minimum or maximum interest rates depending on the type of the loan, it shall identify the criteria for their application.

4.1.6. ***Discounts.*** Banks shall define relevant criteria for discounted loans. Clear and precise procedures should be determined for discounted lending, i.e., for granting loans to borrowers at more favorable conditions as compared to other borrowers who take loans of the same type, and such procedures should not be in conflict with the bank's overall lending strategy as well as the existing banking laws.

4.1.7. ***Appraisal and acceptance of collateral (means of insuring performance of credit obligations).*** The collateral shall have a value sufficient to safeguard the bank from any losses and damages that may arise in connection with the underlying credit transaction, yet shall not be treated as the only or principal source of repayment for the loan. The principal borrower must have a sound and safe financial position and sufficient funds generated in the normal course of business in order to repay the loan.

A loan may be secured or unsecured (blank). The bank shall identify separate criteria for granting unsecured loans. Unsecured loans may be granted only to highly creditworthy and reputable borrowers with a proven adequate income. When granting an unsecured loan, the bank should request the borrower to present his financial statements (for individuals, a documentary evidence/statement of payroll and/or official income from other sources) and credit history covering a longer period of time. Financial statements (payroll statements) shall cover a period of at least six preceding months for individuals, and two years for legal entities.

The lending policy shall identify acceptable ratios of market value of security to be pledged to loan value.

For collateral accepted as security for a loan, the lending policy shall identify the procedures for collateral appraisal by the bank's expert or an external appraiser in accordance with the applicable laws. Criteria should be defined for appraisal of collateral by bank employees or external appraisers. Bank employees responsible for collateral appraisal shall have the necessary qualifications and expertise. Requirements with respect to qualifications, expertise and professionalism, as well as selection mechanisms of external appraisers shall be identified. Collateral securing loans in excess of 5% of the bank's total capital granted to a single borrower or a group of connected borrowers shall be evaluated separately by at least two external appraisers. If their evaluations differ from each other, the bank shall use the lower price of collateral.

In order to minimize losses on loans secured with collateral, a conservative approach shall be used to determine the market value of the collateral, and stringent criteria shall be employed to select the appraiser.

When collateral is accepted as security for a loan, the bank shall require all technical and legal documentation on the property provided as collateral. The bank's lending policy shall identify appropriate measures (*such as periodic inspections, etc.*) in order to detect any discrepancies and inconsistencies between the collateral-related documents and the actual availability and quality of the collateral, to make sure that the borrower maintains the collateral in an adequate condition, as well as to put in place insurance claims with respect to collateral.

If loans are secured with securities, the bank shall identify the evaluation procedures with respect to such securities, in consideration of their real value and marketability.

The bank's policy shall specify the possibilities, criteria and procedures of replacing the collateral, as well as revising the ratio of the value of the collateral to the loan value. Furthermore, the bank shall identify the minimum ratio of the new collateral's value to the loan value, in accordance with its policy and the Central Bank's related requirements.

If the property provided by the borrower as collateral needs to be replaced, the bank shall make sure that the ratio of the value of the replacement collateral to the outstanding amount of the loan is not below the original level of the ratio.

If a loan is secured with securities, warranties, guarantees or bank deposits, the bank shall review the terms of such collateral. If the term of such collateral is less than the maturity of the underlying loan or if the borrower needs to replace the collateral, the bank shall make sure that the quality and marketability/liquidity characteristics of the replacement collateral, as well as the ratio of the value of the replacement collateral to the outstanding amount of the loan, are not less than the characteristics of the original collateral.

For the bank to have enough time to appraise the replacement collateral and make appropriate decisions with respect to such collateral, the replacement collateral should be furnished before the term of the original collateral expires.

For the bank to determine the real market value and to ensure that the marketability of the collateral is monitored before the loan is matured, the bank shall regularly re-valuate the collateral. To this end, the bank's policies shall identify the amount of loans where the underlying collateral needs to be regularly revaluated, as well as the frequency of such revaluations. The bank's policy shall identify the response procedures with respect to adverse trends in the cost of collateral. The bank shall determine the collateral evaluation schedule, reporting system and individuals responsible for evaluation.

For oversight of collateral securing consumer and micro-loans, the bank shall develop and put in place a specialized system in consideration of the characteristics of such collateral. This system shall verify whether collateral is adequate in relation to the terms and maturity of the loan.

For loans secured with guarantees or warranties, the bank shall request comprehensive and detailed financial information on the guarantor. The structure and composition of such information shall be specified in the bank's policies.

4.1.8. ***Financial information on borrowers.*** The bank's policy shall require borrowers to submit financial statements in order to enable the bank to determine the borrower's ability to repay the loan both before and after the loan is granted. For incorporated borrowers, this requirement shall include the audited financial statements for the last financial year ended, tax returns, cash flow statement and other reports. Individuals shall be required to present a statement of payroll/salary and/or other officially ascertained sources of income. When the law requires legal entities to prepare their financial statements in compliance with the International Financial Reporting Standards, the bank shall specify submission of such statements as a condition of the loan.

Assessment of the borrower's financial position should be documented. If necessary, banks may engage independent experts and advisors to assess the borrower's financial information and records. The bank's policy shall include an assessment of the borrower's performance on debts to other parties, warranties and other contractual obligations, in order to verify the completeness and accuracy of the borrower's financial information. To this end, banks may use the data and records of the Centralized Credit Registry. Furthermore, banks may obtain additional information from auditors, rating agencies, tax and other state authorities, etc.

The borrower's financial position shall be monitored until the loan has been repaid in full.

4.1.9. ***Lending to a single borrower or a group of connected borrowers.*** When making a lending decision, the bank shall verify whether several borrowers constitute a group of borrowers in the sense of finance and management. In addition, the bank should define procedures for identification of loans grantable to a single borrower or a group of connected borrowers for various activities. The bank shall take account of the Central Bank's relevant regulations when developing lending procedures with respect to a single borrower or a group of connected borrowers.

4.1.10. ***Lending to the bank's related parties and persons acting on behalf of related parties.*** The bank's policy shall identify the terms and restrictions with respect to lending to the bank's related parties and persons acting on behalf of related parties (hereinafter referred to as «related parties»). Such terms and restrictions shall be in compliance with the Central Bank's relevant regulations. The bank's policy shall stress that related parties shall not enjoy any preferential treatment as far as lending is concerned compared to other borrowers of the same creditworthiness.

For evaluation of an incorporated related party's loan request, the bank shall require such party to present at least two latest annual audited financial statements.

The bank's related party may not be involved in the evaluation, approval and follow-up monitoring of the loan granted to such party. Loans granted to such parties must be secured.

The bank's policy shall identify the reporting system and frequency with respect to related party loan reports to be submitted to the Supervisory Board.

4.1.11. ***Syndicated and joint loans.*** If a bank acts as a member of a syndicated and joint loan, it shall act upon its own complete assessment of the loan application, without reliance on the joint assessment of the risk it assumes by the lead bank or other participating banks. The bank's policy should contain a provision to this effect.

4.1.12. ***Interbank lending.*** The bank's policy shall identify separate procedures for interbank lending. Such procedures shall, among others, specify:

- lending limits for borrowing banks and grounds for determining such limits;
- when interbank loans are granted on special terms, including interest rates different from market rates, substantiation of such terms;
- assessment of the bank's ability to provide appropriate collateral;
- concentration of interbank loans;
- setting of risk limits with respect to a bank holding company;
- consideration of foreign country and currency risks.

4.1.13. ***Off-balance sheet liabilities.*** The bank's policy shall describe in detail the purposes and uses of other obligations assumed by the bank, including guarantees, letters of credit or similar instruments issued by the bank. Requirements shall be determined with respect to issuing, documenting and reporting such instruments. Documentation shall be in the form of information used for lending. Additional documentation requirements shall be specified for letters of credit (disbursements, documentary evidence of country of production of goods, payment requests, receipts, insurance documents of items purchased and other documents required under the best international practices).

4.1.14. ***Special reserve for possible loan losses.*** The bank's policy shall identify the procedures for evaluating the adequacy of special reserves to be established for possible loan losses, including evaluation timeframes and responsible persons. Such procedures shall be in compliance with the Central Bank's relevant regulations.

4.1.15. ***Quality control of the loan portfolio.*** The bank's policy shall identify regular quality control of the loan portfolio as mandatory. Persons responsible for such control and related timeframes shall be identified.

Banks may categorize loans using various criteria (consumer loans, credit cards issued to individuals, etc.) in order to employ various evaluation methods to assess the quality of the loan portfolio. The bank shall select and evaluate a sample of loan from the above mentioned categories on a random, proportionate or statistical sampling method. The quality parameters derived for the loan sample in course of the evaluation exercise shall be proportionately applied to the respective category.

The following loans shall undergo individual comprehensive assessments, irrespective of their amount and type:

- all loans granted to legal entities;
- all loans granted to bank shareholders and bank's related parties;
- all loans with interest rates, payment and other terms revised after the origination date;
- all loans where interest and/or principal payments are past due for more than 30 days, including loans with capitalized interest or rolled-over loans;
- all loans classified as sub-standard;
- non-performing loans;
- other loans as may be defined in the bank's policy.

The loan portfolio quality assessment shall also cover:

– the number of borrowers, average loan maturity and average loan interest rate;
– loan portfolio breakdown, including an analysis of the total number and total amount of loans by various types (currency, maturity (short-term or long-term), lines of business, types of ownership (state-owned, private, municipally-owned), borrower status (legal entity or

individual), etc.).

Banks shall put in place an early warning system for problem loans and determine procedures for removal of problems identified, as part of the loan portfolio control efforts.

Banks shall develop and regularly assess mechanisms to measure the loan portfolio's sensitivity to external economic, financial and market risk-related factors, including interest rate fluctuations, exchange rate, liquidity indicators, periodic/seasonal indicators of economic sectors, price fluctuation forecasts. Evaluation mechanisms may include stress-tests, scenario analysis and other mathematic methods. Banks shall regularly verify whether such methods are up to date and adequate.

Findings of loan portfolio sensitivity evaluation shall be presented to the Management Board and Supervisory Board for decision-making purposes. Loan portfolio sensitivity assessments shall be taken into account when the bank's policies and limits are revised.

4.1.16. ***Management reporting.*** The bank's policy shall identify the reporting formats, types and timeframes for presenting various sides of credit risk and loan management, including loan recovery/collection measures and loan portfolio quality assessment, as well as procedures for taking appropriate measures to remove any deficiencies identified. Reports shall be sufficiently detailed and prepared in a manner that would enable various management levels, including the Supervisory Board, to evaluate risk factors inherent in relevant areas and business units, as well as the bank's overall operations.

The bank's policy shall identify the procedures for credit reporting of branch offices.

4.1.17. ***Protection of consumer rights.*** The bank's policy shall identify criteria for obtaining loans as well as grounds for refusing loans. Regardless of the outcome, all written loan requests/applications shall be registered in the bank's log. Banks shall hold meetings with prospective borrowers when loan requests are received or evaluated.

The bank shall sign a loan agreement with the borrower when granting a loan. The loan agreement shall specify in a clear and easily readable format at least the following:

- purpose and exact designation of the loan;
- terms and conditions of the loan (loan amount, maturity, annual interest rate regardless of the loan maturity, fees (if applicable), other requirements of the bank);
- loan repayment schedule;
- conditions for extension of loan maturity, as well as the bank's entitlement to demand early repayment, and the borrower's entitlement for early repayment;
- procedures for modification of loan conditions during the term of the loan;
- rights and responsibilities of the parties;
- liability of the parties;
- dispute settlement procedures.

Collateral shall be documented in accordance with the existing laws and, when applicable, registered with the competent state authorities.

Banks shall provide borrowers with detailed explanations relating to issues described above and shall make appropriate entries to this effect in the underlying loan agreements.

The maximum period for review of loan requests/applications and making of loan-related decisions by the bank shall be identified and customers shall be replied to within such timeframes, depending on the type of the loan in question.

In case of refusal to grant a loan, request for which has been entered in the bank's log, the bank shall provide the individual or legal entity requesting the loan with a clear written reply indicating the reasons for refusal.

When making a lending decision, banks shall consider the cost effectiveness of the requested loan and its consistency with the bank's strategic goals, and shall not discriminate against borrowers based on their nationality, religion, language, gender, origin, morals, political and social convictions. The bank's written refusal to grant the loan requested shall clearly stress that the decision made was in no manner based on such discrimination.

The letter of refusal shall indicate that the bank shall not divulge the borrower's business project to any third party without a prior written consent from the borrower.

Banks shall have a log of customer claims/complaints to maintain a record of all written and electronic complaints. The complaint log shall specify the time of complaint, details of the claimant and the complaint, measures taken by the bank and the current status of the complaint.

Banks shall publicize the availability of such a log as well as the complaint filing procedures, and shall post it on their web-sites.

4.1.18. ***Disclosures to consumers.*** Each bank shall develop a list of documents required to obtain a loan, depending on the types of loans, and disseminate such lists to consumers. In addition, terms and conditions of mortgage loans, in particular social mortgage and other discounted loans financed by the government, shall be disseminated separately.

Sample estimations of loan repayments (principal and total interest payable on the loan on annuity basis) and minimum income requirements to borrowers shall be posted in the bank's offices in order to educate consumers on the bank's lending practices.

4.1.19. ***Treatment of problem loans.*** The bank's policy shall address the bank's treatment of problem loans. In consideration of its operational characteristics, each bank shall define problem loans and determine criteria for classification of loans as problem loans.

Status of a loan should be considered deteriorated if any of the following applies:
- financial information required by the bank was not provided on time;
- interest and principal payments are delinquent;
- the borrower's actual cash flow deviates from the projections and business-plan presented;
- the borrower's financial position has deteriorated;
- a request has been made to extend the term for principal and interest repayment;
- lawsuits have been filed against the borrower;
- the borrower refuses to meet with the bank;
- the Centralized Credit Registry has reported a deterioration of the bank's creditworthiness;
- any other information has been obtained that may adversely affect the borrower's creditworthiness.

For control purposes, each loan and borrower shall be addressed individually. The bank's policy shall, among others, include the following control measures:

- measures taken to ensure that the borrower gets access to additional funds and provides supplementary collateral;
- measures taken in collaboration with the borrower in order to find ways to strengthen the borrower's financial capacities and creditworthiness (engaging advisory services, reduction of operating costs and/or increase of revenues, development of an asset disposal program, reorganization of the enterprise, development of a loan restructuring program, revision of loan terms, etc.);
- transfer of the borrower's loan-related obligations to another individual or legal entity;
- foreclosure on the collateral in order to recover the underlying loan in accordance with the existing laws.

When a bank's problem loans, especially non-performing loans reach a certain amount or threshold ratio to the loan portfolio, the bank should limit its lending operations and take appropriate sanitation measures.

4.1.20. ***Delinquencies, repayment and charge-offs.*** The bank's policy shall identify the cases of,

and grounds for non-accrual, depending on the type and delinquency period of loans, in accordance with the Central Bank's prudential requirements, as well as identify the relevant requirements to report such instances to the related internal committees, the Management Board and Supervisory Board for discussion (the problem loan report shall specify in detail the reasons of deterioration, possible losses and proposed measures to improve the quality of loans, etc.).
The bank's policy shall identify the requirements and procedures for loan recovery, consistent follow-up and more stringent measures. Except for restructured loans, banks shall refrain from unsubstantiated replacement of past due loans with new loans. If previous loans to a borrower have been charged-off as bad loans against special reserves, a new loan may be granted to such borrower in exceptional cases and after a thorough analysis only if the previous loans have been repaid in full.
Banks shall develop and put in place policies and procedures for loan classification and bad loan charge-off in accordance with the Central Bank's regulations.

4.1.21. ***Loan restructuring.*** Banks shall develop and put in place policies and procedures for loan restructuring in connection with deterioration of the borrower's financial position, in compliance with the restructured loan classification requirements specified in the Central Bank's relevant regulations.
4.1.22. ***Contents of the credit file (history).*** Banks shall maintain credit files (histories) for all borrowers. Customer information shall be kept confidential and shall not be divulged to third parties, except as otherwise provided in the applicable laws.
The minimum set of documents required for obtaining a loan, loan monitoring and control to be kept on credit files is presented in Annex 1 hereto.

4.3. ***Management Information System.*** Banks shall develop and put in place adequate Management Information Systems (MIS) that identifies the credit risk levels and areas, lending, credit management and control requirements, as well as the quality of the loan portfolio and off-balance sheet liabilities. The MIS shall specify the composition and structure of the loan portfolio, and identify risk concentrations and compliance with limits. The MIS should inform the relevant employees and executive officers of the bank of credit risk indicators reaching a certain critical level.

5. Final provisions

5.1. These Regulations shall take effect within 3 (three) months from the date of state registration, save for paragraph 3.4.
5.2. Paragraph 3.4 hereof shall take effect within 6 (six) months from the date of state registration.

ANNEX 1
to the Regulations on Issue of Loans in Banks
issued by the Central Bank of Azerbaijan Republic

Credit file (history)

Each borrower's credit file (history) shall specify a list of the documents actually available therein and shall contain at least the following documents and records (soft or hard copies):

1. General documents

- loan application/request indicating the amount, currency and maturity of the loan requested, signed by the borrower or his assignee(s);

- for individual borrowers, an identity card;
- address (location), telephone number, fax number and e-mail of the borrower (if available);
- for incorporated borrowers, the chief executive officer's full name;
- details of the borrower's business (occupation or social status for individuals);
- duly attested copies of incorporation documents (constituent and state registration documents);
- for incorporated borrowers, decision by its competent executive body to take a loan and a documented confirmation of authority of the individual authorized to sign credit documents;
- a copy of the registration certificate issued by the tax authorities, indicating the taxpayer's identification number (TIN) (if required by the applicable laws);
- source of repayment of the loan (primary and alternative sources);
- indication of whether the loan is secured or unsecured;
- collateral/security;
- report of the bank's assessment of the borrower's creditworthiness;
- business-plan (if required depending on the loan type);
- opinions of relevant business units or executive officers of the bank on extension of the loan in accordance with the bank's policies and procedures;
- copy of the minutes of the lending meeting of the bank's competent bodies or the decision to grant the loan signed by the relevant authorized executives;
- loan agreement;
- for individual borrowers, an official note/statement from the employer indicating his salary, position and employment period and/or an officially attested statement of other sources of the individual's income (pension, benefit, financial aid, dividends, compensation, etc.);
- a statement from the Centralized Credit Registry (CCR) regarding the borrower's obligations, if required herein;
- for incorporated borrowers, audited financial statements for the latest financial year and latest reporting period ended. If the borrower is a related party, audited financial statements for at least last two years;
- for incorporated borrowers, quarterly financial statements throughout the term of the loan;
- for incorporated borrowers, the bank's opinion on the borrower's corporate governance structure;
- a summary of concentration risk associated with a single borrower or a group of connected borrowers (if applicable);
- for incorporated borrowers, the borrower's rating assigned by the bank;
- documents ascertaining that the loan is used in consistency with the stated purpose (copies of the borrower's contracts with sellers and contractors, documentary evidence of expenses, etc.);
- report prepared by the relevant unit of the bank with respect to the designated use of the loan, inspection and monitoring of the borrower's financial position throughout the term of the loan;
- loan repayment schedule and actual payments (indicating dates and amounts);
- additional covenants and documents ascertaining that the loan has been restructured.

2. Collateral documentation:

- Collateral agreement executed (approved) in accordance with the applicable laws;
- copies of documents attesting the ownership title to the collateral;
- if the collateral is in joint or third party ownership, documentary evidence of consent of all owners to pledge the asset (if applicable);
- if the bank financed the purchase of the asset pledged as collateral (real estate, automobile,

etc.), documentary evidence of the purchase price of such asset;
- date and method of collateral appraisal, results of appraisal specifying the appraiser, in accordance with the existing laws;
- report of physical and technical inspection of the collateral: type of collateral inspected, place of inspection and name of examiner, as well as a summary of evaluation findings (indicating its maintenance condition, etc.);
- if the bank requires insuring the collateral in the bank's favor, related insurance documents (insurance agreement and certificate);
- summary of revaluation of collateral performed in accordance with the provisions hereof;
- if loan security is a guarantee or warranty, summary of the guarantor's financial position and findings of the bank's assessment of the guarantor;
- documentation of supplementary collateral (if necessary);
- documentation of collateral replacement (if necessary);
- for incorporated pledgors:
- copies of legal documents attesting the legal entity's existence (constituent/incorporation and state registration documents);
- decision by the competent executive body of the pledgor (if the competence lies with a collegial executive body);
- documents confirming the authority of the signatory to the pledge/collateral agreement;
- for individual pledgors:
- documentary evidence of the individual's income source(s);
- other information relating to the individual's creditworthiness, including a statement from the CCR;
- for loans secured with cash, documents ascertaining that the account has been blocked.

3. Other documents:

- Loan recovery/collection documents and records (letters to borrowers and their related parties, results of loan recovery/collection efforts, etc.);
- for construction loans, documents related to construction projects, including project implementation-related reports, cost estimates, actual costs, project and project phase status/progress reports and construction inspection reports;
- other legal documents (e.g., any official claim against the borrower pending settlement, or any official claim/complaint filed by the borrower against the bank);
- communications with the borrower;
- reports of negotiations with the borrower (type of communication for each case — e.g., telephone conversations, meetings, etc., considered important by the bank, who the negotiations were held with, a brief summary, date, outcome of discussions, etc.);
- other documents as may be required by the bank's policies and procedures.