

Approved by	Approved by
State Securities Committee of Azerbaijan Republic under the auspices of the President of Azerbaijan Republic	Resolution of May 1, 2001 by the Management Board of the Central Bank of Azerbaijan Republic
Decree No.049 June 4, 2001	Protocol No. 15
Chairman _____ H. Babayev	Governor of the Management Board _____ E.Rustamov

**REGULATION
FOR
ISSUING, SELLING AND CIRCULATING SHORT-TERM NOTES
OF THE CENTRAL BANK OF AZERBAIJAN REPUBLIC**

(as amended on August 30, 2004; September 14, 2006; March 7, 2008, and April 15, 2010)

I. General provisions

1.1. This Regulation has been developed in accordance with the Civil Code of Azerbaijan Republic, the Law of Azerbaijan Republic «On the Central Bank of Azerbaijan Republic», the Regulations «On the State Securities Committee under the auspices of the President of Azerbaijan Republic» approved by Presidential Decree No.161 of July 26, 1999, and identifies the procedures for issuing, selling and circulating short-term notes (hereinafter referred to as «short-term notes») of the Central Bank of Azerbaijan Republic (hereinafter referred to as the «Central Bank»).

II. Definitions

- 2.1. *Short-term notes of the Central Bank* — registered undocumented state discounted securities issued by the Central Bank for a period of up to one year. Short-term notes represent a monetary policy tool used for regulating the money supply in circulation. Only banks licensed by the Central Bank may hold short-term notes;
- 2.2. removed.
- 2.3. *Investor* — a bank acquiring short-term notes;
- 2.4. *Stock exchange* — an entity organizing securities trading among its members and securing the performance of deals closed;
- 2.5. *Depository* — an entity providing the services of keeping the Central Bank-issued short-term notes, and registering and ascertaining ownership, as well as any encumbrances with respect to such notes;
- 2.6. *Initial offer of short-term notes (hereinafter referred to as «initial offer»)* - a method of sale of short-term notes by the issuer to first holders;
- 2.7. *Competitive bid* — a buyer's offer to the Central Bank to conclude a short-term note purchase agreement on the terms and conditions proposed in the bid (precise price and amount). A competitive bid is provided when the proposed price is not below the cut-off price;
- 2.8. *Non-competitive bid* — a buyer's offer to the Central Bank to conclude a short-term note purchase agreement for an amount specified in the bid at the average weighted price of initial offer;
- 2.9. *Circulation of short-term notes* — execution of title deeds providing grounds for assignment of ownership rights in short-term notes;
- 2.10. *Payment of short-term notes* — withdrawal of short-term notes from circulation and transfer of cash to holders' accounts to the extent of the par value of the notes by the Central Bank;
- 2.11. removed;
- 2.12. *Direct auction* — an auction carried out by declaring the price of short-term notes by the Central Bank. At a direct auction investors submit only non-competitive bids;
- 2.13. *Indirect auction* — an auction carried out by declaring the amount of short-term notes by the Central Bank. At an indirect auction investors submit both competitive and non-competitive bids.

III. Short-term notes market authorities of the Central Bank

- 3.1. The Central Bank shall have the following rights and authorities as the Issuer of short-term notes:
- 3.1.1. to enter into agreements with professional participants of the securities market that identify

mutual relations;

3.1.2. to determine and enforce short-term notes initial offer procedures;

3.1.3. to organize additional sales of short-term notes not sold through initial offer;

3.1.4. to close secondary market deals involving short-term notes.

IV. Procedures for issuing short-term notes

4.1. Short-term notes shall be put up for initial offer after the issue of short-term notes has acquired state registration with the State Securities Committee under the auspices of the President of Azerbaijan Republic (hereinafter referred to as «SSC»).

4.2. The Central Bank shall submit the following documents to the SSC for registration of the data sheet of short-term notes to be issued within 1 (one) calendar year:

4.2.1. application for registration of the data sheet of short-term notes;

4.2.2. a copy of the Central Bank's resolution to issue short-term notes;

4.2.3. data sheet of short-term notes;

4.2.4. removed.

4.3. The data sheet of short-term notes shall specify the following details on short-term notes to be issued during that calendar year:

4.3.1. full name and legal address of the issuer;

4.3.2. date of the decision to issue short-term notes, and the body that made the decision;

4.3.3. calendar year, in which short-term notes will be issued;

4.3.4. total par value of short-term notes;

4.3.5. par value of a short-term note;

4.3.6. number of short-term notes;

4.3.7. rights vested in each short-term note;

4.3.8. removed;

4.3.9. where short-term notes are available for sale;

4.3.10. details of the depository providing accounting and assignment services for short-term notes.

4.4. A notice shall be issued to the Central Bank upon registration of the data sheet of short-term notes.

4.5. The Central Bank shall file an application to the SSC containing the following details and information for the purposes of state registration of the short-term note issuance at least 3 (three) business days before the commencement of the initial offer of short-term notes:

4.5.1. total par value of the short-term note issuance;

4.5.2. par value of each short-term note in the issuance;

4.5.3. number of short-term notes in the issuance;

4.5.4. commencement date of the short-term notes sales;

4.5.5. circulation period and maturity of short-term notes.

4.6. The SSC shall provide the Central Bank with a Certificate of state registration of the securities issue or a written rejection of registration on the next business day following submission of the application.

V. initial offer/sale procedures

5.1. Short-term notes shall be put up for primary sales through direct or indirect auctions in accordance with the procedures defined by the Central Bank.

5.2. initial offer/sales may be carried out at the Central Bank or by the Stock Exchange in accordance with the procedures agreed upon with the Central Bank.

5.3. The following parameters of initial offer/sales of short-term notes shall be declared at least 1 (one) business day before initial offer/sale by the Central Bank:

Direct auction: primary sale date, state registration number of short-term notes, amount of short-term notes with state registration, price of short-term notes, bid submission deadline, enforcement measures to be applied by the Central Bank if obligations defined in bids are not honored, and other terms and conditions of the issue;

Indirect auction: primary sale date, state registration number of short-term notes, amount of short-term notes with state registration, amount of short-term notes to be offered at the auction, amount of limits on non-competitive bids, bid submission deadline, enforcement measures to be applied by the Central Bank if obligations defined in bids are not honored, and other terms and conditions of the issue.

- 5.4. Members of the stock exchange may submit bids for purchase of short-term notes during by the bid submission deadline on the day of primary sales.
- 5.5. If the primary sale/offer is carried out at the Central Bank, investors shall submit their written bids to the relevant department of the Central Bank authorized to organize and conduct the initial offer/sale of short-term notes (Annex 2).
- 5.6. If the primary sale/offer is held at the Stock Exchange, bids shall be submitted by members of the stock exchange to the Stock Exchange.
- 5.7. A bid shall specify:
 - 5.7.1. name of the member of the stock exchange;
 - 5.7.2. for bids submitted on behalf and at the expense of an investor, the investor's full name;
 - 5.7.3. state registration number of short-term notes;
 - 5.7.4. for competitive bids, cost of the transaction as percentage (to the extent of one hundredth of the par);
 - 5.7.5. for competitive bids, amount of short-term notes purchased at each price docket;
 - 5.7.6. for non-competitive bids, the transaction amount.
- 5.8. Any bid may be revoked by a member of the stock exchange, or an investor, if the primary sale/offer is held at the Central Bank, before the bid submission deadline.
- 5.9. Stock exchange members may submit bids to the Stock Exchange both on their own behalf and at their own expense, and on behalf and at the expense of investors they service.
- 5.10. A total registry of bids submitted for primary sale/offer shall be prepared based on bid submission results (Annex 3).
- 5.11. The Central Bank shall identify the minimum sale (hereinafter referred to as the «cut-off price») and average weighted prices of short-term notes, as well as the amount of competitive and non-competitive notes accepted, to the extent of the scope of the issue at the indirect auction by the deadline established for announcement of primary sale/offer results. The average weighted price shall be calculated in accordance with Annex 4 attached hereto. The amount of short-term notes purchased is the whole number resulting from dividing the non-competitive bid amount by the average weighted price of primary sale/offer. The Central Bank shall identify the amount of short-term notes to be provided for a direct auction by the deadline established for announcement of the primary sale/offer through direct auctioning.
- 5.12. If the amount of bids submitted with equal prices exceeds the amount of short-term notes offered by the Central Bank in this price docket, such bids may be paid in part. In this case, bids shall be covered proportionately.
- 5.13. After appropriate settlements have been completed with respect to primary sale/offer results, a transaction registry statement shall be issued to Stock Exchange members, or investors, if the initial offer/sale is held at the Central Bank.
- 5.14. The transaction registry statement shall assert the conclusion of a short-term note sale/purchase agreement between Stock Exchange members participating in the initial offer/sale, or, if the initial offer/sale is held at the Central Bank, between the Central Bank and investors.
- 5.15. Interactions and relations between stock exchange members and investors they

service with respect to transactions involving short-term notes shall be governed by underlying agreements not in conflict with any of the provisions hereof.

- 5.16. Short-term notes not sold through the initial offer/sale may be offered additionally in accordance with the procedures defined by the Central Bank.

VI. Circulation and payment of short-term notes

- 6.1. Short-term notes may be used in trading, collateral, REPO and other secondary market transactions.
- 6.2. REPO transactions involving short-term notes shall be carried out in accordance with the procedures defined by the Central Bank and SSC for REPO transactions involving Government securities (considering the provisions hereof).
- 6.3. Ownership rights to short-term notes shall be transferred as of the time the buyer's account with the Depository is charged.
- 6.4. Collateral transactions involving short-term notes shall be carried out in accordance with the existing laws, provisions hereof and other applicable laws and regulations.
- 6.5. Secondary market circulation of short-term notes shall be organized via the Stock Exchange or based on transactions entered into directly by banks.
- 6.6. Short-term notes shall be paid upon maturity before the next auction or a new initial offer/sale on the secondary market begins.
- 6.7. If the maturity date of short-term notes falls on a non-working day, the payment shall be made on the next business day. In this case, short-term notes shall be paid at the par value.

VII. Depository accounting of transactions involving short-term notes

- 7.1. Rights to short-term notes and assignments/transfers of rights to short-term notes shall be ascertained with entries in depo accounts of holders held with the Depository.
- 7.2. Collateralization of short-term notes shall be ascertained with entries in the official collateral registry.

VIII. Settlements on transactions involving short-term notes

- 8.1. Settlements on transactions involving short-term notes shall be made on non-cash basis.
- 8.2. Settlements shall be executed by appropriate units of the Central Bank based on the following:
- 8.2.1. transaction registry statements, if the initial offer/sale is held at the Central Bank;
- 8.2.2. if transactions are executed via the Stock Exchange, settlement/payment documents prepared by the Stock Exchange;
- 8.2.3. removed.
- 8.3. removed.
- 8.4. removed.

IX. Issuance, trading status reporting and disclosures

- 9.1. If short-term notes are put up for initial offer/sale via the Stock Exchange, the Central Bank shall issue an instruction to hold an auction to the Stock Exchange, describing the parameters of the initial offer/sale. If the initial offer/sale is held at the Central Bank, investors shall be provided with

official disclosures describing the parameters of the initial offer/sale.

9.2. Upon completion of the initial offer/sale, auction outcomes shall be officially disclosed by the Stock Exchange, if the auction is held at the Stock Exchange, or by the Central Bank, if the auction is held at the Central Bank.

9.3. The Stock Exchange shall prepare official disclosures on secondary market auction results in accordance with Annex 5 hereof.

9.4. Information kept by the Stock Exchange and the Depository not included in the official disclosures (pursuant to provisions hereof), including the terms and conditions of specific sales/purchases of short-term notes, and private information of the parties, shall be treated as privileged information.

X. Final provisions

10.1. This Regulation shall take effect upon approval by the SSC.

BID
for acquisition of short-term notes of the Central Bank of Azerbaijan Republic

_____ hereby declares an intention to participate in
(name of bank)

the initial offer/sale of short-term notes of the Central Bank, state registration No. _____, to be held on «_____» _____ 2001, on the terms and conditions, and for the amount stated in _____ sheets attached to this Bid.

No.	Transaction cost (%)	Total par value of short-term notes (AZN)	Compounded transaction amount (2*3)
1	2	3	4

Bid submitted on behalf and at the expense of the bank

Non-competitive		

Competitive		

_____ accepts the terms and conditions laid out in the «Regulation
(name of bank)

for issuing, selling and circulating short-term notes of the Central Bank of Azerbaijan Republic», and the cut-off and average weighted prices of the short-term notes offered, and hereby undertakes to honor the associated obligations and liabilities.

The bank hereby accepts:

- 1) the Central Bank shall have the right to charge-off funds to the extent of the liability assumed under the bid secured during the initial offer/sale, based on the results of the initial offer/sale; and
- 2) the Central Bank shall have the right to take pre-defined enforcement measures of the bank fails to honor its liabilities under the secured bid.

Corporate Seal

Signature _____

UNOFFICIAL TRANSLATION

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Overall Register
of bids submitted for the initial offer/sale of short-term notes, issue No. _____, dated
« _____ » _____ 2001

Number of bids	Price, %	Yield, %	Competitive		Non-competitive		Total		Average weighted price, %	Average weighted yield, %
			Amount of bids at par value, AZN (compound ed)	Production amount, AZN (compound ed)	Amount of bids at par value, AZN (compound ed)	Production amount, AZN (compound ed)	Amount of bids at par value, AZN (compound ed)	Production amount, AZN (compound ed)		

Procedures for Calculation
of the average weighted price based on the initial offer/sale results

The average weighted price for each issue of short-term notes shall be calculated as follows based on the results of the initial offer/sale:

$$P = \frac{C}{Q} * 100\%$$

where:

P is the average weighted price of the initial offer/sale (percentage);

C is the production amount of the short-term note offer/sale (AZN);

Q is the amount of short-term notes sold at par value (AZN).

The average weighted price for the initial offer/sale results at direct auctions shall be equal to the price declared by the Central Bank.

