

**NATIONAL BANK OF AZERBAIJAN REPUBLIC**

**Financial Statements**

**31 December 1999**

**Together with Independent Auditors' Report**

INDEPENDENT AUDITORS' REPORT

To the Board of the National Bank of Azerbaijan Republic:

We have audited the accompanying balance sheet of the National Bank of Azerbaijan Republic (the "NBAR") as of 31 December 1999, and the related profit and loss account and statements of changes in funds and cash flows for the year then ended. These financial statements are the responsibility of the NBAR's management. Our responsibility is to express an opinion on these financial statements based on our audits. The financial statements of the NBAR as of 31 December 1998, were audited by other auditors whose report dated 14 June 1999, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management of the NBAR, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above give a true and fair view of the financial position of the NBAR as of 31 December 1999, and the results of its operations and its cash flows for the year then ended in accordance with Statements of International Accounting Standards issued by the International Accounting Standards Committee.

Baku  
Azerbaijan Republic



15 July 2000

# National Bank of Azerbaijan Republic - 1999 Financial statements

## Balance sheets 31 December 1999 and 1998 (millions of Manats)

	Notes	1999	1998
<b>Assets</b>			
Cash on hand	11	21,126	8,902
Monetary gold		-	4,730
Placements with foreign banks	12	2,913,038	1,798,204
Government securities	13	148,123	11,251
Loans and advances to resident banks, net	14	638,024	592,814
Special drawing rights in IMF	15	887,959	639,790
Advances to Government	16	345,264	345,264
Premises and equipment, net	17	127,360	139,724
Accrued interest receivable		5,339	9,080
Other assets		499	708
<b>Total assets</b>		<b>5,086,732</b>	<b>3,550,467</b>
<b>Liabilities</b>			
Money in circulation	18	1,195,579	974,004
Due to IMF	19	2,639,953	1,887,427
Due to commercial banks	20	161,477	171,951
Due to budget	21	666,270	307,576
Other deposit accounts	22	181,773	44,145
Accrued interest payable		9,628	5,851
Other liabilities		658	8,597
<b>Total liabilities</b>		<b>4,855,338</b>	<b>3,399,551</b>
<b>Charter fund and reserves</b>			
Charter fund	23	24,385	22,785
Reserves		207,009	128,131
<b>Total equity</b>		<b>231,394</b>	<b>150,916</b>
<b>Total liabilities and equity</b>		<b>5,086,732</b>	<b>3,550,467</b>
<b>Financial commitments and contingencies</b>	24	<b>14,188</b>	<b>58</b>

### Signed on behalf of the Board of Directors

Alim Guliyev  First Deputy of the Chairman of the Board

Khadija Gasanova  Director of Accounting and Reporting Department

Baku  
Azerbaijan Republic

15 July 2000

*The accompanying notes are an integral part of these financial statements.*

## National Bank of Azerbaijan Republic - 1999 Financial statements

### Profit and loss accounts

For the years ended 31 December 1999 and 1998

(millions of Manats)

	Notes	1999	1998
Interest income		154,203	118,234
Interest expense		42,382	43,639
<b>Net interest income</b>	4	<b>111,821</b>	<b>74,595</b>
Provision for losses	7	28,860	15,725
<b>Net interest income after provision for losses</b>		<b>82,961</b>	<b>58,870</b>
Fees and commissions received	5	16,145	10,538
Translations gains (losses), net		88,619	(33,796)
Other operating income		1,902	5,505
<b>Non interest income (expense), net</b>		<b>106,666</b>	<b>(17,753)</b>
Salaries and employment benefits	6	9,532	7,071
Administrative expenses	6	12,787	12,028
Production of bank notes		17,969	-
Fees and commissions paid	5	5,339	2,201
Depreciation of tangible fixed assets		12,727	6,689
<b>Non interest expense</b>		<b>58,354</b>	<b>27,989</b>
<b>Net profit</b>		<b>131,273</b>	<b>13,128</b>

*The accompanying notes are an integral part of these financial statements.*

## National Bank of Azerbaijan Republic - 1999 Financial statements

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### Statements of changes in funds

For the years ended 31 December 1999 and 1998

(millions of Manats)

	Charter fund	Reserves	Total equity
<b>Balance at 1 January 1998</b>	<b>21,765</b>	<b>128,645</b>	<b>150,410</b>
Capitalization of profit	1,020	(1,020)	-
Transfer to Ministry of Finance	-	(12,622)	(12,622)
Net profit for the year	-	13,128	13,128
<b>Balance at 31 December 1998</b>	<b>22,785</b>	<b>128,131</b>	<b>150,916</b>
Capitalization of profit	1,600	(1,600)	-
Transfer to Ministry of Finance	-	(50,795)	(50,795)
Net profit for the year	-	131,273	131,273
<b>Balance at 31 December 1999</b>	<b>24,385</b>	<b>207,009</b>	<b>231,394</b>

*The accompanying notes are an integral part of these financial statements.*

## National Bank of Azerbaijan Republic - 1999 Financial statements

### Cash flow statements

For the years ended 31 December 1999 and 1998

(millions of Manats)

	1999	1998
<b>Cash flows from operating activities</b>		
Net profit for the year	131,273	13,128
Provision for loan losses	28,860	15,725
Depreciation	12,727	6,689
Net effect of other adjustments	-	(2,283)
<b>Operating profit before changes in operating assets and liabilities</b>	<b>172,860</b>	<b>33,259</b>
<b>Increase/decrease in operating activities</b>		
Net (increase)/decrease in special drawing rights in IMF	(30,490)	21,115
Net increase in loans and advances to resident banks	(178,549)	(4,999)
Net decrease in advances to Government	-	15,000
Net decrease in other assets	3,949	8,044
Net decrease in due to commercial banks	(10,473)	(50,052)
Net (decrease)/increase in due to budget	358,694	(74,407)
Net (decrease)/increase in other deposit accounts	137,628	(29,844)
Net (decrease)/increase in other liabilities	(4,161)	2,029
<b>Net cash flow from (used in) operating activities</b>	<b>449,458</b>	<b>(79,855)</b>
<b>Cash flows from investing activities</b>		
Purchase of tangible fixed assets, net	(363)	(31,241)
<b>Net cash flow used in investing activities</b>	<b>(363)</b>	<b>(31,241)</b>
<b>Cash flows from financing activities</b>		
Transfer to Ministry of Finance	(50,795)	(5,000)
Money issued in circulation, net	221,575	(239,578)
Loans received from IMF, net	534,847	199,074
<b>Net cash flow from (used in) financing activities</b>	<b>705,627</b>	<b>(45,504)</b>
<b>Change in cash and cash equivalents</b>	<b>1,154,722</b>	<b>(156,600)</b>
<b>Cash and cash equivalents, beginning of the year</b>	<b>2,112,065</b>	<b>2,268,665</b>
<b>Cash and cash equivalents, end of the year</b>	<b>3,266,787</b>	<b>2,112,065</b>

### Additional disclosures

Exchange of loans for treasury bills 140,000

*The accompanying notes are an integral part of these financial statements.*

## National Bank of Azerbaijan Republic - 1999 Financial statements

### Notes to the Financial Statements

31 December 1999

(millions of Manats)

#### NOTE 1 - PRINCIPAL ACTIVITIES

The National Bank of Azerbaijan Republic (the "NBAR") fulfils its principal role of supporting the national currency and maintaining the stability of the financial sector in Azerbaijan. In this capacity, the NBAR represents the Government of Azerbaijan in its dealings with international financial institutions, including the International Monetary Fund (the "IMF") and the World Bank. The NBAR acts in accordance with the Law "On the National Bank of Azerbaijan Republic" dated 10 June 1996.

#### NOTE 2 - BASIS OF PRESENTATION

The financial statements have been prepared in accordance with Statements of International Accounting Standards (IAS) and are presented in the millions of Azerbaijan Manats, unless otherwise indicated.

The NBAR maintains its books of accounts and prepares statements for regulatory purposes in accordance with Azerbaijani accounting and banking legislation and instructions (AAL). The accompanying financial statements are based on the NBAR's accounting records, appropriately adjusted and reclassified for fair presentation in accordance with the standards prescribed by the International Accounting Standards Committee.

The preparation of financial statements in conformity with IAS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The NBAR's funds (equity) and profit are reconciled between AAL and IAS as follows:

	1999		1998	
	Equity	Profit	Equity	Profit
<b>Azerbaijani Accounting Legislation</b>	<b>295,358</b>	<b>166,504</b>	<b>242,440</b>	<b>110,552</b>
Loan loss reserve	(106,377)	(28,860)	(77,517)	(15,725)
Foreign exchange adjustment on loans due to IMF	61,222	41,902	19,320	(4,983)
Effect of accrued interest payable to IMF	(9,629)	3,758	(16,217)	(16,217)
Write off of assets	(9,311)	-	(9,824)	-
Payments to IMF charged directly to funds	-	(49,205)	-	(27,422)
Additional depreciation	(7,943)	(4,958)	(2,985)	(2,985)
Effect of other accrued interest, net	5,737	(3,272)	9,009	(186)
Other foreign exchange adjustments	3,695	15,485	(11,790)	(20,801)
Expenses charged directly to funds	-	(10,756)	-	(5,625)
Other	(1,358)	675	(1,520)	(3,480)
<b>International Accounting Standards</b>	<b>231,394</b>	<b>131,273</b>	<b>150,916</b>	<b>13,128</b>

## National Bank of Azerbaijan Republic - 1999 Financial statements

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### NOTE 3 - PRINCIPAL ACCOUNTING POLICIES

**a) Basis of accounting**

The financial statements have been prepared under the historical cost convention as modified by the revaluation of fixed assets, except for the recognition of financial instruments at estimated fair value.

**b) Cash and cash equivalents**

For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, monetary gold balances, correspondent accounts including overnight deposits, short term placements with other banks and treasury bills with maturity of three months or less from the date of acquisition.

**c) Monetary gold**

Monetary gold consists of the stocks of gold bars of international standard held at a foreign bank. Monetary gold is valued at the year-end fixing of the London Bullion Market. Exchange gains and losses arising as a result of changes in London Bullion prices or AZM/USD exchange rate are included in the statement of income.

**d) Government securities**

Government securities are Ministry of Finance (the "MinFin") Treasury bills and fixed interest securities. The Treasury bills have been purchased at a discount at auctions conducted by the NBAR on behalf of the MinFin. The NBAR acts as agent and depository for the Ministry of Finance in registering transactions with Treasury bills. The discount Treasury bills are stated at cost adjusted for accretion of discount. Accretion of discount is credited to income over the term of the Treasury bills. Interest on fixed interest securities is recognized on an accrual basis.

**e) Placements with, and loans and advances, to banks**

Placements and loans are stated at the principal amounts outstanding, net of provisions for bad and doubtful loans. Provisions for bad and doubtful loans are based on the evaluation by management of the collectibility of loans and advances. Specific provisions are made against loans whose recovery has been identified as doubtful. A general provision is made against potential bad and doubtful loans which are present in the loan portfolio but which have not been specifically identified at the date of the financial statements. The aggregate provisions made during the year are charged against profit for the year.

Provision estimates require the exercise of judgment and the use of assumptions. The principal factors considered in determining the size of provisions are the growth, composition and quality of the loan portfolio, the level of overdue loans, current economic conditions and the value and adequacy of collateral.

Loans and advances which cannot be recovered are written off and charged against the provision for bad and doubtful debts. Such loans are written off after all necessary legal procedures have been completed and the amount of the loss has been determined. Recoveries of amounts previously provided for are treated as a reduction in the charge for provision for bad and doubtful debts for the year.



## National Bank of Azerbaijan Republic - 1999 Financial statements

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### **f) Advances to Government**

Advances to Government are stated at principal amounts outstanding. The NBAR believes that the advances are fully recoverable and as such no provisions are raised against outstanding amounts.

### **g) Balances with IMF**

The NBAR is the fiscal agent of the MinFin in respect to its relationship with the International Monetary Fund ("IMF"). As the agent, NBAR reflects in its balance sheet the membership quota of the Azerbaijani Government in IMF as well as the corresponding Government securities issued in respect of the quota. The NBAR is also the depository for the long-term debt securities issued in the favor of IMF.

The NBAR's assets include the quota contributions and holdings of Special Drawing Rights ("SDRs"). The amount due to IMF consists of loans issued by IMF under various credit facility agreements signed between the Government and the IMF, together with securities issued by MinFin on behalf of the Government of Azerbaijan Republic to IMF, in settlement of Quota amounts.

Charges and interest expenses in respect to the credit facilities provided by IMF to MinFin are included in the NBAR's Statement of Income. Interest on the credits is paid by the NBAR on behalf of MinFin and is shown as interest expense, and differences arising from the revaluation of the SDR balances into Manat are included in gains and losses from foreign currency translation.

### **h) Premises and equipment**

Premises and equipment are stated at cost or revalued amounts, less accumulated depreciation.

A statutory revaluation of premises and equipment was last made on 30 September 1996 and the revaluation surplus has been included in the reserves. The revaluation is performed on the basis of indices, which are provided by the Cabinet of Ministers of the Azerbaijan Republic and are designed to restate the net book value of the asset to a level which more closely reflects market value. The indices vary according to asset type and acquisition date.

Construction in progress is carried at cost. Upon completion, assets are transferred to premises and equipment at cost. Construction in progress is not depreciated until the asset is available for use.

### **i) Depreciation**

Depreciation is applied on a straight-line basis over the estimated useful lives of the assets using the following rates:

Premises	2% per annum;
Computers	25% per annum;
Motor vehicles	10% per annum;
Furniture, fixtures and others	12.5-20% per annum.

### **j) Money issued in circulation**

The balance for money issued in circulation comprises Azerbaijani Manat banknotes issued by the NBAR since the introduction of the national currency in 1992.

### **k) Revenue recognition**

Revenue recognition policy is based on accrual principles whereby income is recognised when earned and expenses recognised when incurred. Interest income is suspended when overdue by more than 90 days and is excluded from interest income until received. Interest income includes the discount on short-term zero coupon treasury bills held for investment purposes.

## National Bank of Azerbaijan Republic - 1999 Financial statements

### *l) Income taxes*

Profits generated by the NBAR are not subject to tax.

### *m) Foreign currency translation*

Transactions denominated in foreign currency are recorded at the exchange rate prevailing at the transaction date. Exchange differences resulting from the settlement of transactions denominated in foreign currency are included in the statement of income using the exchange rate prevailing on the transaction date.

Monetary assets and liabilities denominated in foreign currency are translated into AZM at the official exchange rates at the balance sheet date. Foreign currency gains and losses arising from the translation of assets and liabilities are reflected in the statement of income as foreign exchange translation gains or losses. As at 31 December 1999, the principal rates of exchange used for translating foreign currency balances were:

SDR 1 = AZM 6,001.29 (1998: SDR 1 = AZM 5,464.63)

USD 1 = AZM 4,373.00 (1998: USD 1 = AZM 3,890.00).

### *n) Pension costs*

The NBAR contributes to the Azerbaijan Republic state social insurance and employment funds for its employees. The NBAR's contribution amounts to 37% of employees' gross salaries.

### *o) Reclassifications*

Certain reclassifications have been made to 1998 balances to conform to the 1999 presentation.

## NOTE 4 - NET INTEREST INCOME

Net interest income comprises:

	1999	1998
<b>Interest income</b>		
Placements with foreign banks	137,471	100,633
Government securities	15,175	937
Loans and advances to Government	1,273	1
Loans and advances to resident banks	-	16,261
SDR holdings with IMF	284	402
<b>Total interest income</b>	<b>154,203</b>	<b>118,234</b>
<b>Interest expense</b>		
Loans borrowed from IMF	41,625	43,639
Deposit from European Committee deposit	757	-
<b>Total interest expense</b>	<b>42,382</b>	<b>43,639</b>
<b>Net interest income</b>	<b>111,821</b>	<b>74,595</b>

Interest income from debt securities includes coupon interest received and accrued, discount accretion and revaluation (mark-to-market) adjustments. As the NBAR does not separately account for discount accretion and mark-to-market of treasury bills and fixed interest securities, revaluation adjustment totaling AZM 3.4 billion for 1999 is included in interest income from Government securities.

## National Bank of Azerbaijan Republic - 1999 Financial statements

### NOTE 5 - FEE AND COMMISSION RECEIVED AND PAID

	1999	1998
Cash withdrawals and account handling	14,174	9,717
Foreign currency trading	1,419	-
Other	552	821
<b>Total fee and commission received</b>	<b>16,145</b>	<b>10,538</b>
Cash withdrawals and account handling	4,306	-
Foreign currency trading	1,033	-
Other	-	2,201
<b>Total fee and commission paid</b>	<b>5,339</b>	<b>2,201</b>

### NOTE 6 - SALARIES AND ADMINISTRATIVE EXPENSES

Salaries and administrative expenses comprise:

	1999	1998
Salaries	7,068	5,161
Social security costs	2,464	1,910
<b>Salaries</b>	<b>9,532</b>	<b>7,071</b>
Occupancy	3,786	1,763
Operating taxes	1,609	1,020
Communications	794	1,435
Business development	627	1,629
Security	452	271
Other	5,519	5,910
<b>Administrative expenses</b>	<b>12,787</b>	<b>12,028</b>

The NBAR does not have pension arrangements separate from the State pension system of the Azerbaijan Republic. State pension system requires current contributions by the employer calculated as a percentage of current gross salary payments; such expense is charged to the profit and loss accounts in the period the related compensation is earned by the employees.

### NOTE 7 - RESERVES FOR LOSSES

Provisions for losses in the profit and loss accounts represent the charge required in the current year to establish total reserves for losses carried forward in accordance with IAS.

The movement in the reserves for earning assets during 1999 and 1998 was:

	Loans to banks
<b>1 January 1998</b>	<b>72,841</b>
Provisions charged to profit	15,725
Loans charged off	(11,049)
<b>31 December 1998</b>	<b>77,517</b>
Provisions charged to profit	28,860
<b>31 December 1999</b>	<b>106,377</b>

Reserves for losses are deducted from the related asset. In accordance with the NBAR's charge off policy, loans may only be written off in case of overdue more than one year based in decision of the Chairman and by approbation of the other members of the Board.

## National Bank of Azerbaijan Republic - 1999 Financial statements

### NOTE 8 - ASSET AND LIABILITY MATURITIES

The maturity of banking assets and liabilities at 31 December 1999 and 1998 are as follows:

	1999								Total
	On demand	Less than 1 month	1-3 months	3 - 6 months	6 months to 1 year	1 to 5 years	Overdue	No maturity	
<b>Assets</b>									
Cash on hand	21,126	-	-	-	-	-	-	-	21,126
Placements with foreign banks	2,009,499	575,565	327,974	-	-	-	-	-	2,913,038
Government securities	-	48,123	-	-	-	100,000	-	-	148,123
Loans and advances to resident banks, gross	324,498	4,500	13,700	25,133	36,550	-	340,020	-	744,401
Special drawing rights in IMF	30,918	-	-	-	-	-	-	-	30,918
Advances to Government	-	-	-	-	-	-	-	345,264	345,264
	<b>2,386,041</b>	<b>628,188</b>	<b>341,674</b>	<b>25,133</b>	<b>36,550</b>	<b>100,000</b>	<b>340,020</b>	<b>345,264</b>	<b>4,202,870</b>
<b>Liabilities</b>									
Money in circulation	-	-	-	-	-	-	-	1,195,579	1,195,579
Due to IMF	2,145	27,647	16,237	73,141	117,025	1,546,717	-	-	1,782,912
Due to commercial banks	161,477	-	-	-	-	-	-	-	161,477
Due to budget	666,270	-	-	-	-	-	-	-	666,270
Other deposit accounts	181,773	-	-	-	-	-	-	-	181,773
	<b>1,011,665</b>	<b>27,647</b>	<b>16,237</b>	<b>73,141</b>	<b>117,025</b>	<b>1,546,717</b>	<b>-</b>	<b>1,195,579</b>	<b>3,988,011</b>
<b>Net position</b>	<b>1,374,376</b>	<b>600,541</b>	<b>325,437</b>	<b>(48,008)</b>	<b>(80,475)</b>	<b>(1,446,717)</b>	<b>340,020</b>	<b>(850,315)</b>	<b>214,859</b>
<b>Cumulative Gap</b>	<b>1,374,376</b>	<b>1,974,917</b>	<b>2,300,354</b>	<b>2,252,346</b>	<b>2,171,871</b>	<b>725,154</b>	<b>1,065,174</b>	<b>214,859</b>	

	1998								Total
	On demand	Less than 1 month	1-3 months	3 - 6 months	6 months to 1 year	1 to 5 years	Overdue	No maturity	
<b>Assets</b>									
Cash on hand	8,902	-	-	-	-	-	-	-	8,902
Monetary gold	4,730	-	-	-	-	-	-	-	4,730
Placements with foreign banks	1,798,204	-	-	-	-	-	-	-	1,798,204
Government securities	-	11,251	-	-	-	-	-	-	11,251
Loans and advances to resident banks, gross	-	345,179	-	42,390	-	-	282,762	-	670,331
Special drawing rights in IMF	428	-	-	-	-	-	-	-	428
Advances to Government	-	-	-	-	-	-	-	345,264	345,264
	<b>1,812,264</b>	<b>356,430</b>	<b>-</b>	<b>42,390</b>	<b>-</b>	<b>-</b>	<b>282,762</b>	<b>345,264</b>	<b>2,839,110</b>
<b>Liabilities</b>									
Money in circulation	-	-	-	-	-	-	-	974,004	974,004
Due to IMF	10,928	-	-	-	55,678	1,181,459	-	-	1,248,065
Due to commercial banks	171,951	-	-	-	-	-	-	-	171,951
Due to budget	307,576	-	-	-	-	-	-	-	307,576
Other deposit accounts	44,145	-	-	-	-	-	-	-	44,145
	<b>534,600</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>55,678</b>	<b>1,181,459</b>	<b>-</b>	<b>974,004</b>	<b>2,745,741</b>
<b>Net position</b>	<b>1,277,664</b>	<b>356,430</b>	<b>-</b>	<b>42,390</b>	<b>(55,678)</b>	<b>(1,181,459)</b>	<b>282,762</b>	<b>(628,740)</b>	<b>93,369</b>
<b>Cumulative Gap</b>	<b>1,277,664</b>	<b>1,634,094</b>	<b>1,634,094</b>	<b>1,676,484</b>	<b>1,620,806</b>	<b>439,347</b>	<b>722,109</b>	<b>93,369</b>	

The above tables do not include the effect of reserves for losses, which total AZM 106.4 billion and AZM 77.5 billion at 31 December 1999 and 1998, respectively.

## National Bank of Azerbaijan Republic - 1999 Financial statements

### NOTE 9 - CURRENCY DENOMINATIONS OF ASSETS AND LIABILITIES

The NBAR's assets and liabilities are denominated as follows:

	1999				Total
	Azerbaijan Manats	USD	SDR	Other currencies	
<b>Assets</b>					
Cash on hand	6,632	14,491	-	3	21,126
Placement with foreign banks	-	2,912,980	-	58	2,913,038
Government securities	148,123	-	-	-	148,123
Loans and advances to resident banks, gross	419,875	324,499	-	27	744,401
Special drawing rights in IMF	-	-	887,959	-	887,959
Advances to Government	345,264	-	-	-	345,264
All other assets	130,828	2,267	103	-	133,198
	<b>1,050,722</b>	<b>3,254,237</b>	<b>888,062</b>	<b>88</b>	<b>5,193,109</b>
<b>Liabilities</b>					
Money in circulation	1,195,579	-	-	-	1,195,579
Due to IMF	857,041	-	1,782,912	-	2,639,953
Due to commercial banks	69,995	91,479	-	3	161,477
Due to budget	666,270	-	-	-	666,270
Other deposit accounts	149,219	354	32,200	-	181,773
All other liabilities	658	-	9,628	-	10,286
	<b>2,938,762</b>	<b>91,833</b>	<b>1,824,740</b>	<b>3</b>	<b>4,855,338</b>
<b>Net position</b>	<b>(1,888,040)</b>	<b>3,162,404</b>	<b>(936,678)</b>	<b>85</b>	<b>337,771</b>

	1998				Total
	Azerbaijan Manats	USD	SDR	Other currencies	
<b>Assets</b>					
Cash on hand	-	8,578	-	324	8,902
Placement with foreign banks	-	1,794,139	-	4,065	1,798,204
Government securities	11,251	-	-	-	11,251
Loans and advances to resident banks, gross	381,329	288,978	-	24	670,331
Special drawing rights in IMF	-	-	639,790	-	639,790
Advances to Government	345,264	-	-	-	345,264
All other assets	147,883	6,249	71	38	154,241
	<b>885,727</b>	<b>2,097,944</b>	<b>639,861</b>	<b>4,451</b>	<b>3,627,983</b>
<b>Liabilities</b>					
Money in circulation	974,004	-	-	-	974,004
Due to IMF	-	-	1,887,427	-	1,887,427
Due to commercial banks	83,890	88,028	-	33	171,951
Due to budget	139,653	167,923	-	-	307,576
Other deposits	44,145	-	-	-	44,145
All other liabilities	8,488	-	5,851	108	14,447
	<b>1,250,180</b>	<b>255,951</b>	<b>1,893,278</b>	<b>141</b>	<b>3,399,550</b>
<b>Net position</b>	<b>(364,453)</b>	<b>1,841,993</b>	<b>(1,253,417)</b>	<b>4,310</b>	<b>228,433</b>

The above tables do not include the effect of reserves for losses, which total AZM 106.4 billion and AZM 77.5 billion at 31 December 1999 and 1998, respectively.

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### NOTE 10 – CONCENTRATION OF ASSETS AND LIABILITIES

The geographical concentration of assets and liabilities in connection with banking activities is as follows at 31 December 1999 and 1998:

1999			
	OECD countries	Non OECD countries	Total
<b>Assets</b>			
Cash on hand	-	21,126	21,126
Placement with foreign banks	2,824,441	88,597	2,913,038
Government securities	-	148,123	148,123
Loans and advances to resident banks, gross	-	744,401	744,401
Special drawing rights in IMF	887,959	-	887,959
Advances to Government	-	345,264	345,264
All other assets	2,371	130,827	133,198
	<b>3,714,771</b>	<b>1,478,338</b>	<b>5,193,109</b>
<b>Liabilities</b>			
Money in circulation	-	1,195,579	1,195,579
Due to IMF	2,639,953	-	2,639,953
Due to commercial banks	-	161,477	161,477
Due to budget	-	666,270	666,270
Other deposits	69,765	112,008	181,773
All other liabilities	9,628	658	10,286
	<b>2,719,346</b>	<b>2,135,992</b>	<b>4,855,338</b>
<b>Net position</b>	<b>995,425</b>	<b>(657,654)</b>	<b>337,771</b>

  

1998			
	OECD countries	Non OECD countries	Total
<b>Assets</b>			
Cash on hand	-	8,902	8,902
Placement with foreign banks	1,642,373	155,831	1,798,204
Government securities	-	11,251	11,251
Loans and advances to resident banks, gross	-	670,331	670,331
Special drawing rights in IMF	639,790	-	639,790
Advances to Government	-	345,264	345,264
All other assets	5,906	148,335	154,241
	<b>2,288,069</b>	<b>1,339,914</b>	<b>3,627,983</b>
<b>Liabilities</b>			
Money in circulation	-	974,004	974,004
Due to IMF	1,887,427	-	1,887,427
Due to commercial banks	-	171,951	171,951
Due to budget	-	307,576	307,576
Other deposits	-	44,145	44,145
All other liabilities	5,717	8,730	14,447
	<b>1,893,144</b>	<b>1,506,406</b>	<b>3,399,550</b>
<b>Net position</b>	<b>394,925</b>	<b>(166,492)</b>	<b>228,433</b>

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### NOTE 11 – CASH ON HAND

Cash on hand comprises manats issued into circulation as well as foreign currency held in the NBAR's vault at 31 December 1999 and 1998, respectively.

	1999	1998
Manat cash	6,632	-
Foreign currency cash	14,494	8,902
<b>Total cash</b>	<b>21,126</b>	<b>8,902</b>

### NOTE 12 – PLACEMENT WITH FOREIGN BANKS

Placements with foreign banks comprise:

	1999	1998
Current accounts	2,009,499	1,710,764
Time deposits	903,539	87,440
<b>Placements with foreign banks</b>	<b>2,913,038</b>	<b>1,798,204</b>

The NBAR maintains a correspondent account with the Federal Reserve Bank of New York. The balances on this account as of 31 December 1999 and 1998 amounted to AZM 1,838.4 billion and AZM 1,284.5 billion, respectively.

### NOTE 13 – GOVERNMENT SECURITIES

Securities owned comprise:

	1999 Carrying value	1998 Carrying value
Fixed interest securities	140,000	-
Treasure bills	8,123	11,251
<b>Government securities</b>	<b>148,123</b>	<b>11,251</b>

Fixed interest securities at 31 December 1999 are long term coupon securities issued by MinFin bearing interest from 7% to 13% and held until maturity. In January 2000 MinFin repaid AZM 40.0 billion. Maturity of another portion of the fixed interest securities ranged from year to five years.

Treasury bills represented by short term state securities held until maturity and repaid by the Ministry of Finance in January 2000.

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### NOTE 14 - LOANS AND ADVANCES TO RESIDENT BANKS

Loans and advances to resident banks at 31 December 1999 and 1998 comprised:

	1999	1998
Manat loans		
- Short-term loans to state-owned banks	289,000	286,000
- Overdraft loans to state-owned and private banks	30,482	27,648
- Other loans to private banks	100,420	67,705
	<u>419,902</u>	<u>381,353</u>
Foreign currency loans		
- Short-term placements in foreign currency	324,499	288,978
	<u>324,499</u>	<u>288,978</u>
	<u>744,401</u>	<u>670,331</u>
Less: Provision for doubtful debts	(106,377)	(77,517)
<b>Total loans and advances to resident banks – net</b>	<u>638,024</u>	<u>592,814</u>

At 31 December 1999, the NBAR had loans totaling AZM 318. 0 billion, which were not accruing interest. Interest income foregone in 1999, related to non-accrual loans outstanding at year-end, was approximately AZM 3.7 billion.

Short-term loans in Manat include loans to certain state-owned banks in accordance with the financial support program for certain sectors of the economy. As of 31 December 1999 and 1998 total amount of such loans made AZM 274.0 billion. These loans have been rescheduled to 1 January 1999 by the order of the President of Azerbaijan. At 21 February 2000 the Cabinet of Ministers issued a Decree under which debts of state owned banks to NBAR will be restructured to state long term securities with low interest rate. The restructuring should be completed till 1 December 2000.

Other loans denominated in Manat have a maturity of 6 months and bear interest at annual rates of between 10% and 14%.

Short-term placements in foreign currency represent amounts advanced to a resident bank.



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### NOTE 15 – SPECIAL DRAWING RIGHTS IN THE IMF

	1999	1998
Quota	857,041	639,362
SDR holdings	30,918	428
<b>Total special drawing rights in IMF</b>	<b>887,959</b>	<b>639,790</b>

The IMF Quota, denominated in SDR 160.9 million (1998 – 117.0 million), represents the membership subscription of the Azerbaijan Republic and is non-interest bearing. Securities issued by the Azerbaijan Republic in settlement of this amount and held by the NBAR for the benefit of the IMF are shown as liabilities (see Note 20).

SDR holding is current account with IMF bearing approximately 3% annual interest.

### NOTE 16 - ADVANCES TO GOVERNMENT

	1999	1998
Advances for Republican Budget Financing		
- 1996	11,914	11,914
- 1995	99,237	99,237
- 1994	234,113	234,113
<b>Total advances to Government</b>	<b>345,264</b>	<b>345,264</b>

Beginning from 1 January 1998, no interest is applicable on advances to State budget. The NBAR is in discussion with the Government regarding collection of these advances.

### NOTE 17 - TANGIBLE FIXED ASSETS

	1999	1998
Building and premises	80,937	81,669
Fixtures and equipment	60,746	61,071
Computers	5,857	5,623
Motor vehicles	5,228	5,590
	<b>152,768</b>	<b>153,953</b>
Less – accumulated depreciation	(25,408)	(14,229)
<b>Tangible fixed assets</b>	<b>127,360</b>	<b>139,724</b>

### NOTE 18 - MONEY IN CIRCULATION

Money in circulation has been shown net of cash reserve balances held in the NBAR at the year-end and represents the amount of Manat issued into circulation since the introduction of the national currency in 1992. Total cash reserves held in the NBAR at 31 December 1999 was AZM 1,058.2 billion (1998 – AZM 964.8 billion).

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### NOTE 19 – DUE TO IMF

	1999	1998
Loans received	1,780,767	1,247,931
Securities issued in respect of Quota	857,041	639,362
Accounts with IMF	2,145	134
<b>Total due to IMF</b>	<b>2,639,953</b>	<b>1,887,427</b>

Loans received from the International Monetary Fund are granted for terms of up to 10 years and bear interest from 0.5-5.0% (1998: 0.5 to 4.8%) per annum. The first repayment took place in 1999. All loans received from the IMF are denominated in SDRs. The loans have been extended under various programs such as Stand-by arrangements (CTFR), Extended arrangements (EFFFR), Contingency and Compensatory (CCFF), Systemic Transformation (STF) and PRGF (formerly ESAF) arrangements.

### NOTE 20 – DUE TO COMMERCIAL BANKS

	1999	1998
Correspondent accounts	93,265	74,479
Obligatory reserves in other currencies	64,297	83,190
Obligatory reserves in Manat	3,915	14,282
<b>Total accounts of commercial banks</b>	<b>161,477</b>	<b>171,951</b>

Obligatory reserves represent amounts transferred to the NBAR by commercial banks, calculated as a percentage of their eligible liabilities to deposit holders. These amounts are non-interest bearing.

### NOTE 21 – DUE TO BUDGET

	1999	1998
Budget current accounts	20,618	8,747
Other budget accounts	645,516	298,636
Funds received from the World Bank	136	193
<b>Total budget accounts</b>	<b>666,270</b>	<b>307,576</b>

All budget accounts are non-interest bearing and payable on demand.

### NOTE 22 - OTHER DEPOSIT ACCOUNTS

	1999	1998
State organizations	109,911	5,328
Non-state organizations	38,871	38,817
European Commission	32,200	-
Other	791	-
<b>Total other deposit accounts</b>	<b>181,773</b>	<b>44,145</b>

Other deposit accounts are payable on demand and non-interest bearing except for deposit of European Committee. This deposits bears interest rate based on interest rate paid by correspondent bank where NBAR placed these funds less 0.5% fees of NBAR and payable on demand.

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### NOTE 23 - CHARTER FUND AND RESERVES

In accordance with the Law "On the National Bank of Azerbaijan Republic", the Charter and Reserve Funds of the NBAR are to be increased each year by transfers from the NBAR's profit, as calculated under AAL.

The amounts to be transferred to the different funds are set annually by the NBAR's management. Any surplus amounts not transferred to the NBAR's internal funds are transferred to the Republican Budget. For the years ended 31 December 1999 and 1998 the NBAR transferred to the Republican Budget AZM 50.8 billion and AZM 5.0 billion, respectively.

### NOTE 24 - FINANCIAL COMMITMENTS AND CONTINGENCIES

a) *Guarantees and letters of credit*

Financial commitments and contingencies at 31 December 1999 and 1998 comprise:

	1999	1998
<b>Commitments given</b>		
Letters of credit	14,188	58

b) *Lease obligations*

At 31 December 1999 the NBAR had no material lease obligations.

c) *Capital commitments*

At 31 December 1999 the NBAR had no material capital commitments.

d) *Legal*

In the ordinary course of business, the NBAR is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations of the NBAR.

e) *Insurance*

The NBAR has obtained insurance coverage related to property owned, including Head Office building as well as office equipment. Total value of insurance contract is AZM 218.0 million. Liability insurance is generally not available in Azerbaijan at present.

f) *Other issues*

In December 1999 the NBAR entered into contract on design and implementation of the Real Time Gross Settlements (RTGS) system. Total value of the contract is GBP 1,480,000. The acquisition of the RTGS system is financed through the World Bank credit issued to the MinFin, and is a part of the Institution Building Technical Assistance Project financed by the World Bank. Management believes that the NBAR will refund these funds to the Ministry of Finance during 10-15 years with estimated interest rate 1%.

### NOTE 25 – FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by a quoted market price.

The estimated fair values of financial instruments have been determined by the NBAR using available market information and appropriate valuation methodologies, where they exist. However, judgement is necessarily required to interpret market data to determine the estimated fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amount the NBAR could realize in a current market exchange.

## **National Bank of Azerbaijan Republic - 1999 Financial statements**

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Management does not believe that it is practicable to estimate the fair value of loans and term deposits. Due to NBAR's function as a central bank and an agent for the Government, such loans and term deposits are often not issued or obtained for commercial purposes, and, accordingly the terms of such loans and deposits are also not commercial terms. These instruments are not currently traded in the Azeri financial markets and an objective estimate of fair value is not available. The stability of the interest rate and exchange rate environment significantly affects the fair value of financial instruments. The NBAR has from time to time significantly changed interest rates in order to support the Manat. However, the exchange rate of the Manat against fully convertible currencies has been relatively stable since in early 1996. Management considers the interest rate and exchange rate environment in setting interest rates on loans and term deposits and they intend the fair value of these instruments to approximate fair value at the date of issuance. Management reduces the risk of significant fluctuations in fair value by issuing loans and term deposits with short maturity. However, management does not believe that an objective basis for the fair value of loans and term deposits can be obtained with sufficient reliability in a cost effective manner.

The following methods and assumptions were used to estimate the fair value of the NBAR's other financial instruments.

### **Financial assets**

For monetary assets, excluding loans, fair value approximates the carrying value and balances denominated in foreign currencies have been translated at appropriate year-end exchange rates.

The fair values of certain financial assets carried at cost, including cash and amounts due from banks, accrued interest and other financial assets are considered to approximate their respective carrying values due to their short-term nature and negligible credit losses. The carrying value of long-term fixed interest securities is estimated to approximate their fair value.

### **Financial liabilities**

For monetary liabilities, excluding term deposits, fair value approximates the carrying value and balances denominated in foreign currencies have been translated at appropriate year-end exchange rates. Such liabilities are mainly short-term in nature.

The fair value of deposit liabilities without a stated maturity is the carrying amount.