

**THE CENTRAL BANK
OF THE REPUBLIC OF AZERBAIJAN**

ANNUAL REPORT - 2015

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FOREWORD

The Azerbaijani economy withstood detrimental implications of the processes in the global economy, global energy markets and partner countries in 2015.

2015 was a year of high uncertainties in the global economy and elevated economic risks, which triggered slide in global commodity and oil prices. Global oil prices plunged to historical lows of the recent decade.

As an integral part of the global economy, the Azerbaijani economy was also affected by complex global and regional economic processes. Falling oil prices led to considerable decline of foreign exchange revenues.

The current account of the balance of payments completed 2015 with deficit after enjoying large surplus over many years. Surplus of the foreign trade balance dropped over 5 times as much. The situation in economic partner countries decelerated remittances from other sources.

The challenges to make the national economy more sustainable became critical amid strengthening of long-term external shocks, which were followed by adequate economic policy maneuvers.

Deficit in the balance of payments and budget cuts reduced significantly foreign exchange supply. Moreover, domestic demand for foreign currency increased and dollarization trends elevated as a result of psychological spillover of devaluations in neighboring countries.



The manat was devalued in February 2015 given serious pressures on the FX market and the exchange rate of manat allowing save foreign exchange reserves.

The FX market and the exchange rate of manat started adapting to the oil price of USD 50-55 in the aftermath of the February devaluation. However, starting from end-July slump in oil prices refreshed the pressure on the FX market elevating the expectations on changes of the exchange rate of Manat, which resulted in high imbalance in the FX market.

The new environment necessitated the FX market and the exchange rate adjustment to new oil prices. The Central Bank decided to move to a floating exchange rate regime in December 2015. Tactically being a macroeconomic maneuver, this transition strategically targeted the diversification of the national economy.

One of the paramount objectives of the Central Bank and the Government was price stability. Although prices were prone to hikes due to exchange rate swings, overall inflation was on an acceptable level in 2015.

Maintaining stability in the banking system was a critical task amid complex economic environment and accordingly, the flexibility of banking supervision and prudential regulation heightened. The Central Bank took efforts to adapt banks to exchange rate movements, and preserve banking sector's financial sustainability and eased certain quantitative regulatory requirements, which allowed adequately manage banking sector risks and avert mass bank failures.

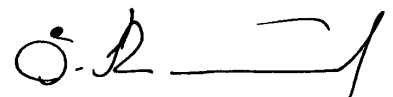
The Bank continued with efforts to maintain growth in the banking system and optimize the value of loans for market participants in 2015, taking actions to reduce interest rates for loans through active dialogues with the banking community.

The Central Bank also targeted uninterrupted and safe functioning of payment systems. In 2015 to ensure ongoing and stable functioning, the national

payment system was re-established over the local telecommunication network, which enabled national currency denominated settlements to be fully protected from external effects and foreign risks.

Overall, the robust economic capacity which was the result of the policy pursued under the leadership of Honorable President Ilham Aliyev, allowed minimize the implications of unfavorable economic conjuncture in 2015, which went down to history as a too complicated year.

Elman Rustamov
Governor

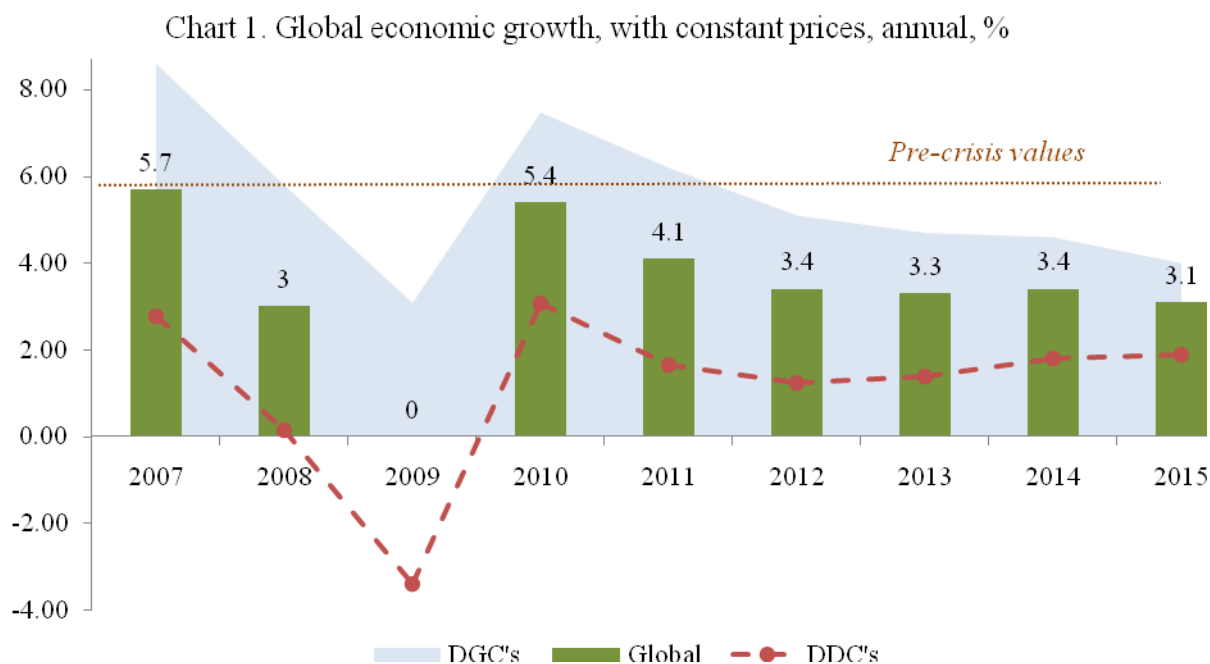


I. THE GLOBAL ECONOMIC ENVIRONMENT IN 2015

The global economic growth pace was lower than expected particularly in emerging developing countries (DGCs) in 2015. Over the year the global economy was affected by uneven recovery in DDCs, ongoing decline in global commodity prices, slowdown in the Chinese economic growth rate, the tighter monetary policy in the USA and mounting geopolitical tensions.

The IMF estimates the **global economic growth** to be 3.1% in 2015, dropping by 0.3 p.p. year on year.

The economic growth rate was 1.9% in DDCs (year on year increase 0.1 p.p.), while it was 4% in developing countries (DGCs) (year on year decrease 0.6 p.p.).



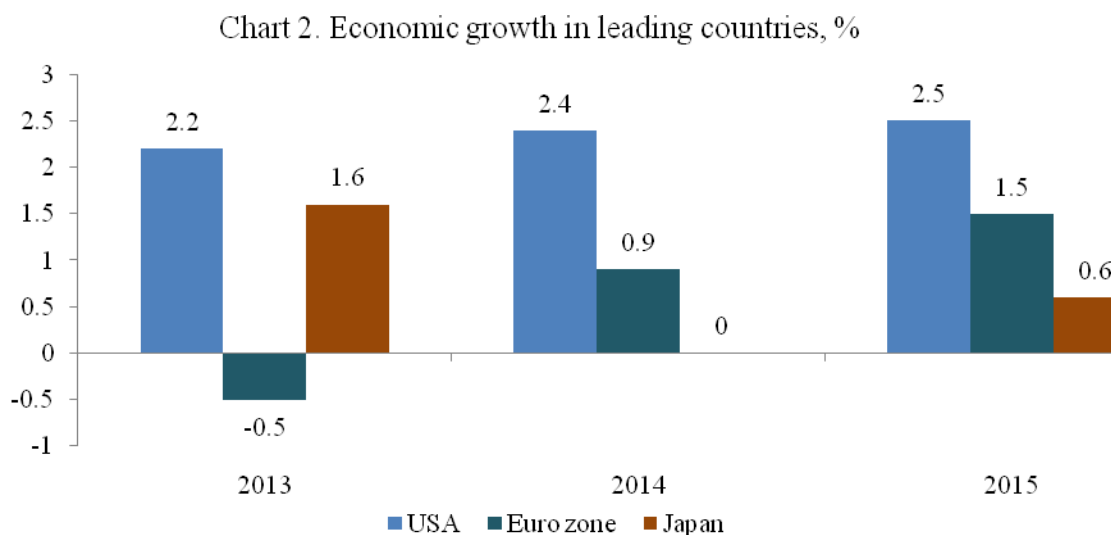
Source: IMF

Economic activity in the USA year over year increased in the reported year. Growth was mainly driven by the components of domestic demand, particularly consumption expenditure, which account for 70% of GDP. In the meantime,

increase in investments contributed to the employment meanwhile increasing real income of the population over the year. The Fed shifted the federal funds rate to 0.5% from 0.25% on the backdrop of elevated economic activity. Export was negatively affected by the stronger US dollar, low commodity prices and slack economic activity in DGCs.

Japanese economic growth is estimated to be 0.6%. Decline in commodity prices, loose financing conditions and increase in household income contributed to economic growth.

Economic growth is estimated to be 1.5% in the euro zone. Low oil prices, fiscal stimulus and the QE underpinned aggregate demand. Revived production and services affected employment and hence, consumer demands over the reported year. The QE by the ECB was followed by the credit expansion and improved financing conditions.



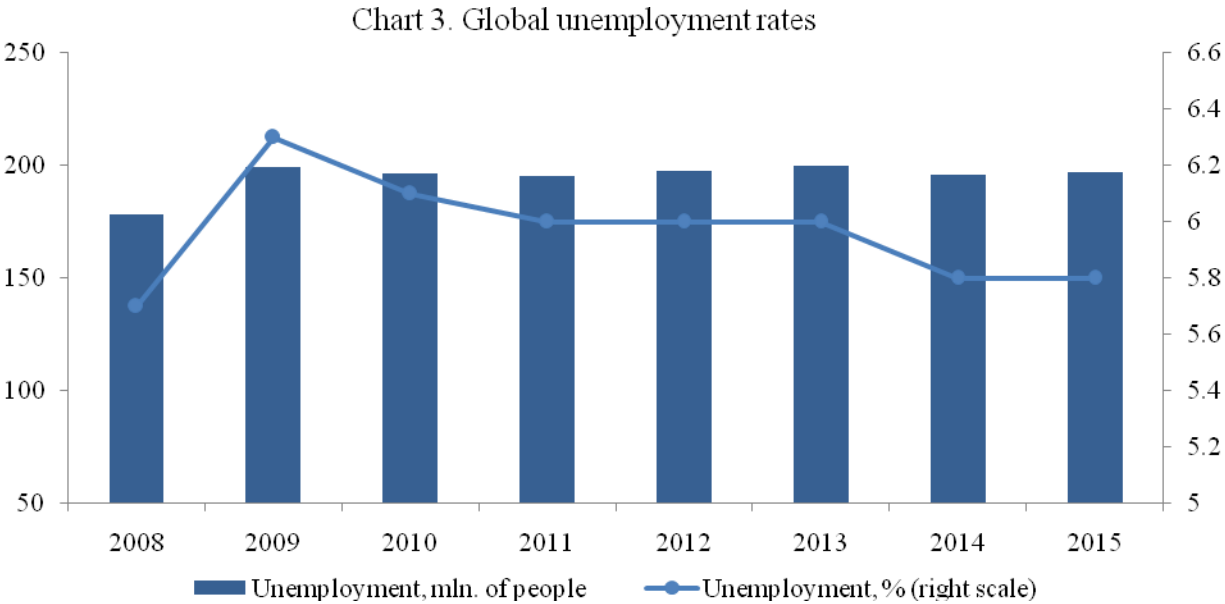
Source: IMF

The economic growth pace continued to slow down in major DGCs over the reported year, mainly due to sharp drops in commodity prices, tighter financing conditions and higher geopolitical tensions. Slack economic growth in emerging DGCs spills over to other countries through various channels. The WB estimations

suggest that, 1 p.p. drop in economic growth of the BRICS¹ countries has a 0.8 p.p. negative effect on economic growth of other DGCs over next two years.

Chinese economic growth plunged to historical lows of recent 25 years. The rebalancing in China led to downturn in industry, and upturn in trade and services, which in turn restricted the devalued Chinese yuan to stimulate export. Slack economic activity in China was in part neutralized at the expense of monetary and fiscal stimuli.

Existing trends in the global economy affected **global unemployment**. While the employment rate improved in DDCs, unemployment was accelerating in leading DGCs, particularly in Latin America, China and most oil exporters. In 2015 global unemployment was 5.8%, including 6.7% in DDCs, and 5.5% and 5.6% in middle developed countries and DGCs respectively.



Source: International Labor Organization (ILO)

According to the ILO, the number of the unemployed across the world increased by 1 to 197 million, which is 27 million higher than the pre-crisis level.

¹Brazil, Russia, India, China and South Africa

The global youth unemployment rate remained high over the year. The ILO predicts that the number of people unemployed will increase by 2.3 million in 2016 and 1.1 million in 2017 primarily due to DGCs amid ongoing slack global economic growth.

As a result of decline in imports in DGCs global trade growth remained weak in 2015. The global trade growth rate year on year decreased by 0.7% to 2.5%. Volume of imports increased by 3.6% for DDCs, however it dropped by 0.9% for DGCs. Exports rose by 2.1% in DDCs and 4.6% in DGCs. Resource rich countries are losing their share in trade. In 2015 the global economy was negatively affected by a slowdown in Brazil and Russia, the rebalancing process in China and devaluation of currencies in major countries.

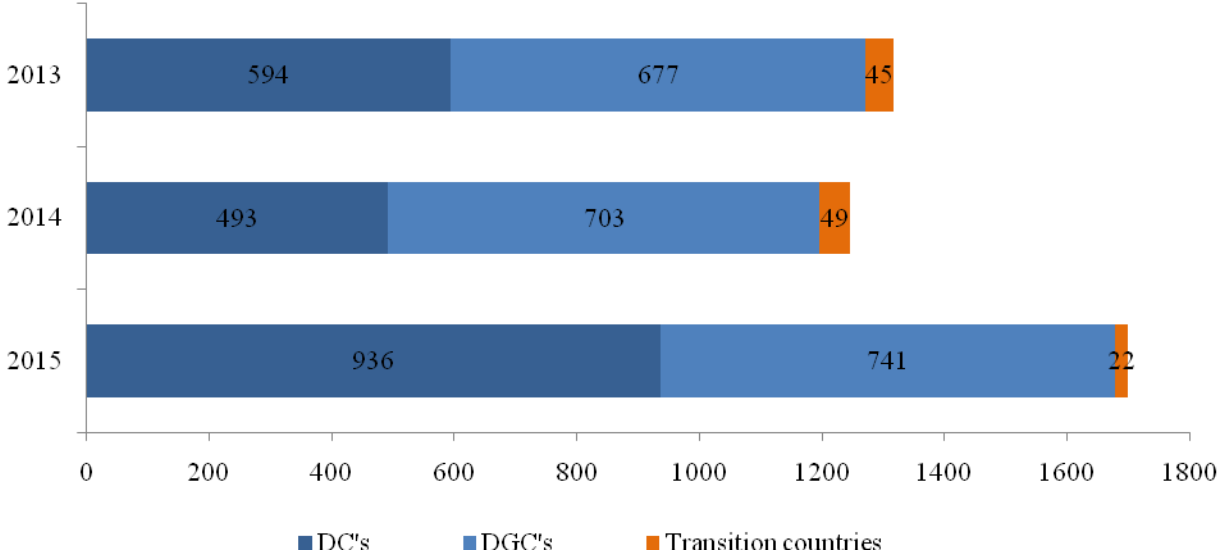


Source: *The Economic Policy Analysis Bureau of Netherlands*

The recent global conditions changed the geography of FDI. The share of DDCs in FDI increased by 15 p.p. to 55%, which exceeds the share of DGCs by 11 p.p. According to primary estimations, global FDI reached the post-crisis peaks having increased by 36.5% (USD 1.7 T). However, FDI lag behind the pre-crisis level (USD 2 T). FDI are expected to increase by 89.9% for DDCs and

5.3% for DGCs over the reported year. Among the top 5 FDI recipients, 3 are DDCs. FDIs to the USA amounted to USD 384 billion over the year, the world's highest indicator. FDIs changed their routes from DGCs to DDCs due to increase in federal funds rate, tighter global financing conditions and higher geopolitical tensions over the year.

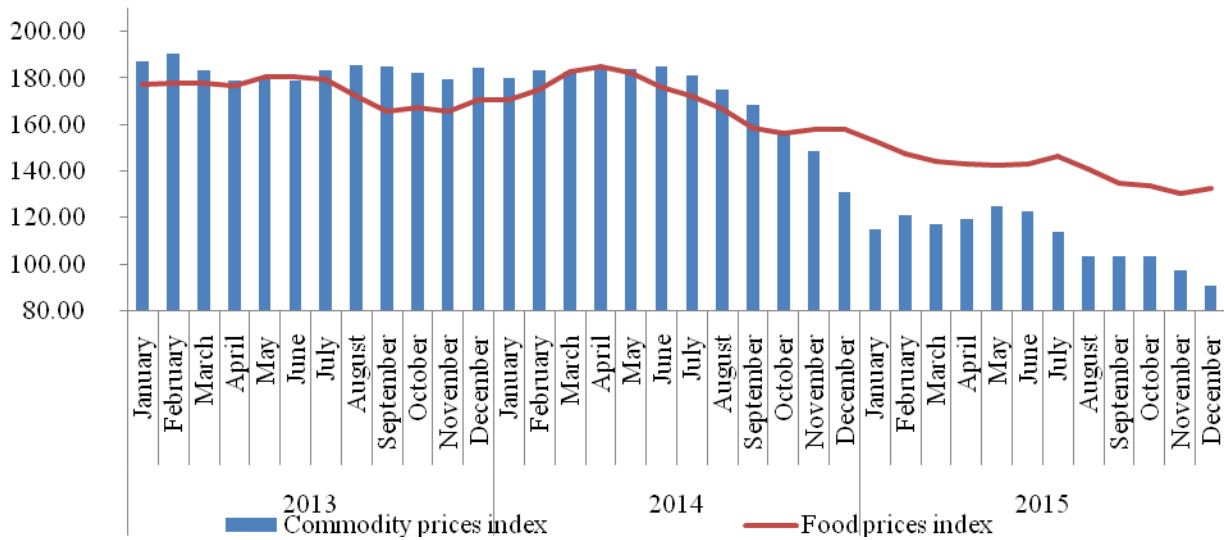
Chart 5. Global FDI flows, USD billion



Source: UNCTAD

In 2015 global **commodity prices** kept a declining pace started in 2014. Global commodity prices decreased by 30.7%, and the food price index dropped by 16.3%. Wheat prices declined by 29.7%, while the agricultural raw materials price index dropped by 16.2%. Global commodity prices declined in the wake of lower than expected global economic activity, excess supply over demand and the stronger US dollar.

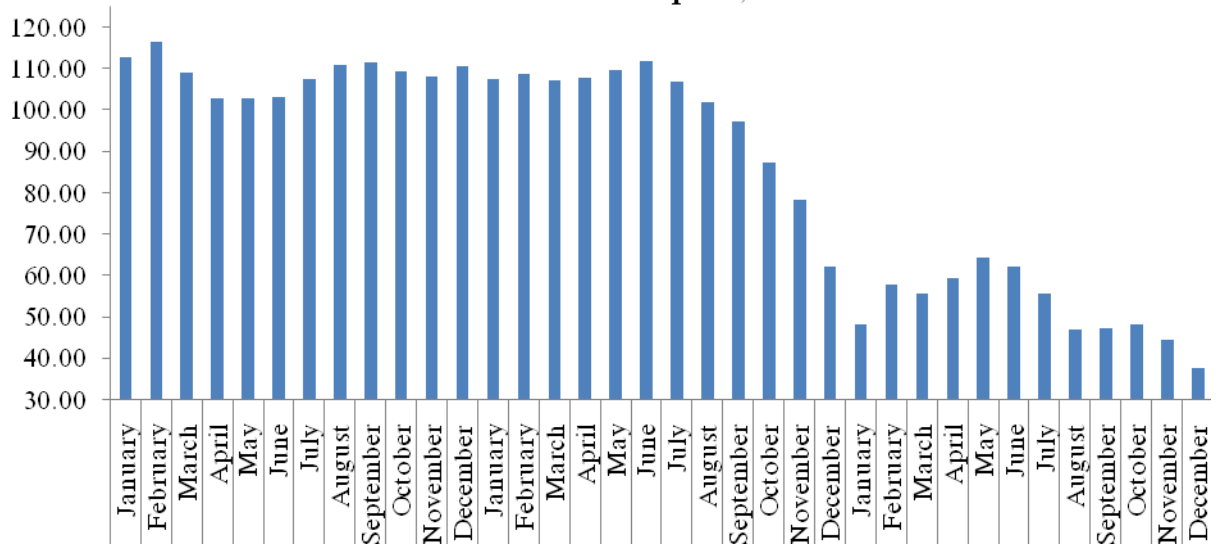
Chart 6. Commodity and food prices index, 2005=100



Source: IMF

Oil prices kept declining over the year. As of the end-reported year the price for Brent oil plunging to historical lows of the recent decade decreased by 39.3% relative the early year. In 2015 the average annual price was 47% lower compared to 2014.

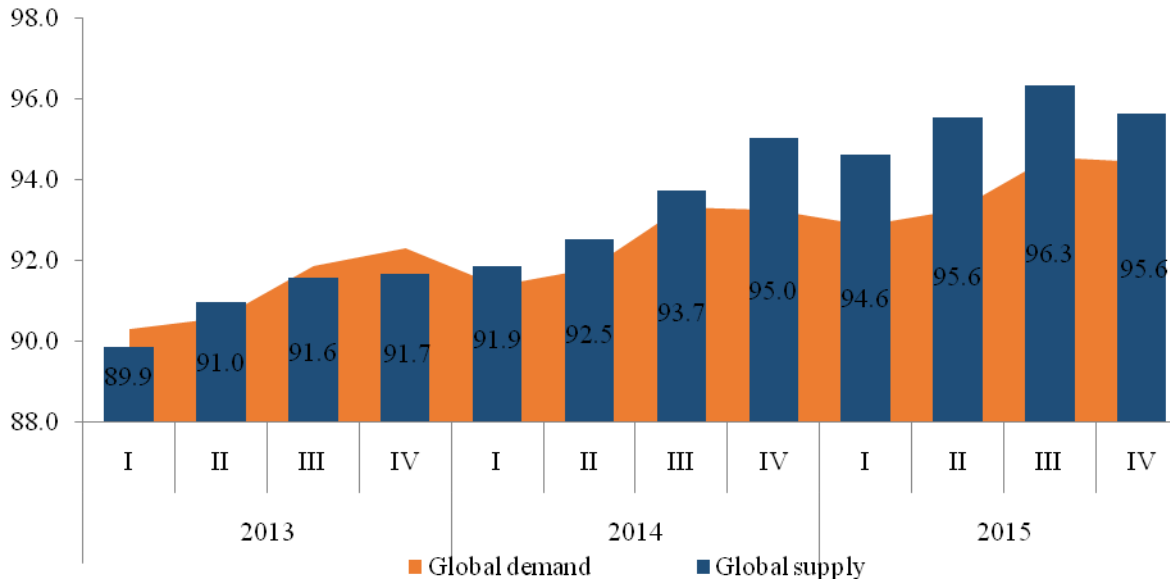
Chart 7. Brent crude oil price, USD/barrel



Source: IMF

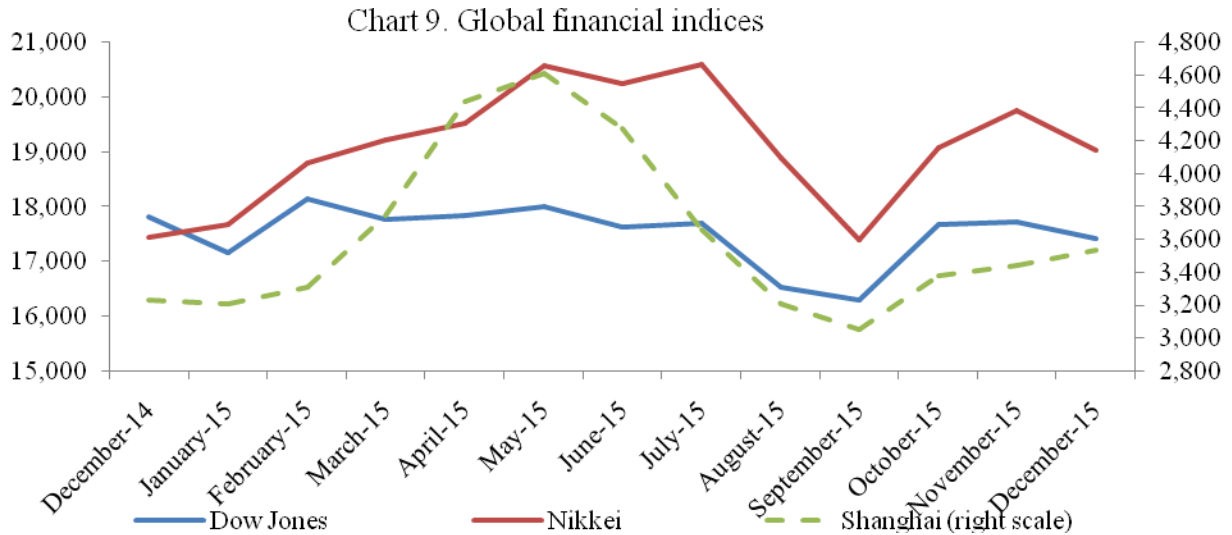
Oil prices slumped due to the economic distress in DGCs, high production by the OPEC, the stronger USD and removal of sanctions against Iran.

Chart 8. Oil demand and supply in world markets, thousands of barrels/day



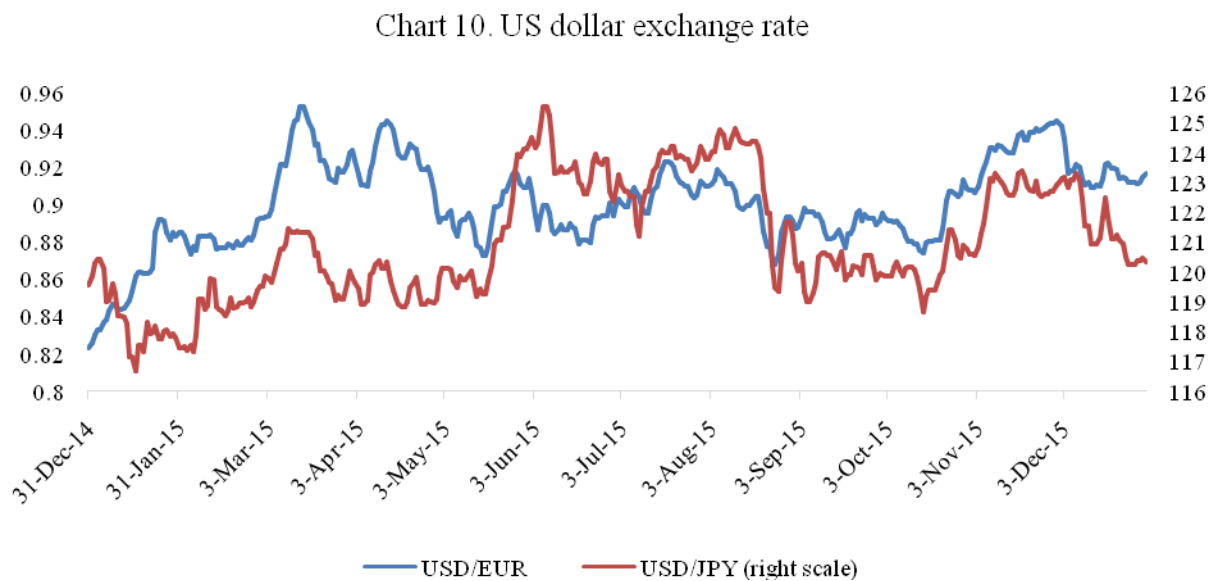
Source: BEA

The processes in the global economy affected the financial indices too. While the Nikkei and Shanghai indexes gained 9.1% and 9.4% increase over the year, the Dow Jones index dropped by 2.2%. Investors remained cautious in the aftermath of August-October sharp drops in financial indices. Continuing slides in oil prices heighten uncertainties in financial markets and the risk of its spillover to other sectors. Depreciation of national currencies in major DGCs, a rise in federal funds rate and low capital flows urged investors to be more conservative and make safer investments over the year.



Source: Bloomberg

The US dollar kept strengthening against other currencies in global FX markets in 2015. Over the year the USD strengthened by 11.1% against the euro, 0.43% against the Japanese yen, 22.4% against the Russian Ruble and 25.4% against the Turkish Lira. The monetary policy by the Fed, uneven economic growth in trade partners, changes in the geography of capital flows and geopolitical tensions were major factors strengthening the US dollar.



Source: Bloomberg

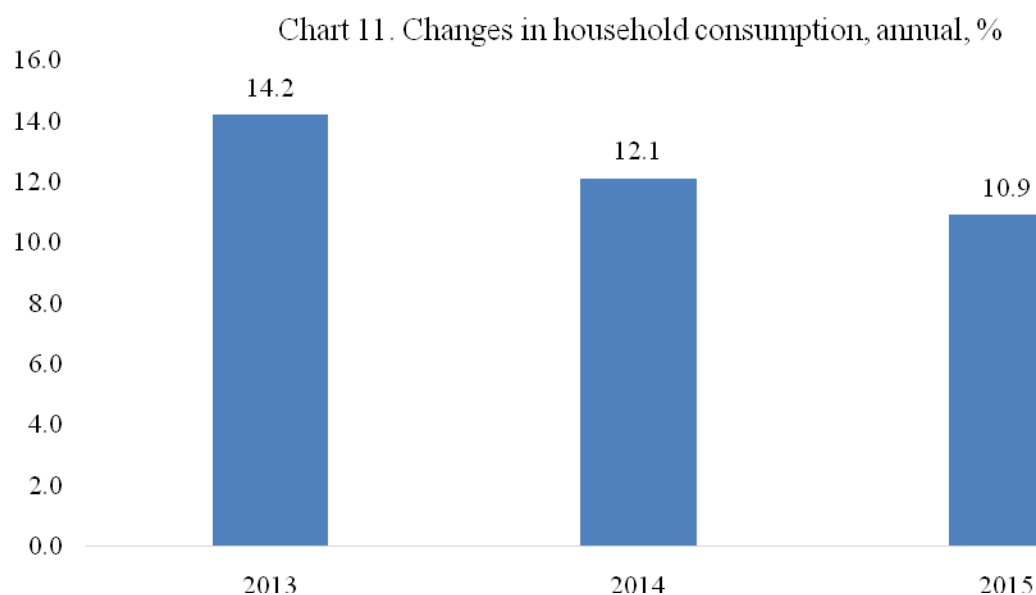
The IMF in its recent report revised global growth forecast for 2016 downward by 0.2 p.p. given the existing environment. Global growth has been recently projected to be 3.4%; 2.1% in DDCs and 4.3% in DGCs.

II. THE AZERBAIJANI ECONOMY IN 2015

2.1. Aggregate demand

Internal demand made critical contribution to economic growth in 2015.

Final consumption expenditures. In 2015 the growth rate of final consumption expenditures decreased year on year, the size of which was AZN 30.1 billion, accounting for 72.1% of household income. Over the reported period every consumer purchased on average AZN 300 worth of commodities or AZN 34.6 more commodities and services relative to the previous year.

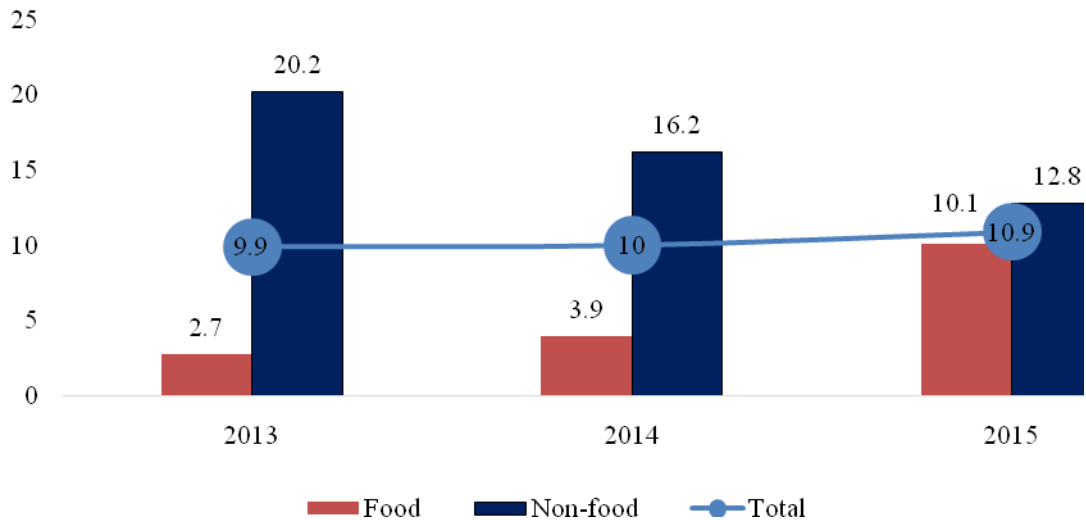


Source: SSC

Over the year the size of commodities and services sold in the consumer market to meet consumer demand rose by 9.7% to AZN 34.3 billion.

Retail trade turnover increased by 10.9% to AZN 25.7 billion.

Chart 12. Dynamics of retail turnover, %



Source: SSC

50% of consumers' expenditure in retail sector was spent mainly on food, beverage and tobacco over the reported year.

Table1. Share of spending items in trade facilities in 2015, %

Spending item	Share, %	
	2014	2015
<i>Food, beverage and tobacco</i>	50.1	50
<i>Knitwear, clothing and shoes</i>	18.7	17.8
<i>Electric appliances and furniture</i>	4.7	6
<i>Computers, telecommunication equipment and other devices</i>	0.6	0.8
<i>Pharmaceuticals and medicals</i>	1.4	1.2
<i>Fuel</i>	7.1	6.7
<i>Other non-food staff</i>	17.4	17.5

Source: SSC

Over the reported year every consumer monthly purchased on average AZN 112.5 worth of food, beverage and tobacco and AZN 112.4 worth of non-food products for private consumption in retail trade.

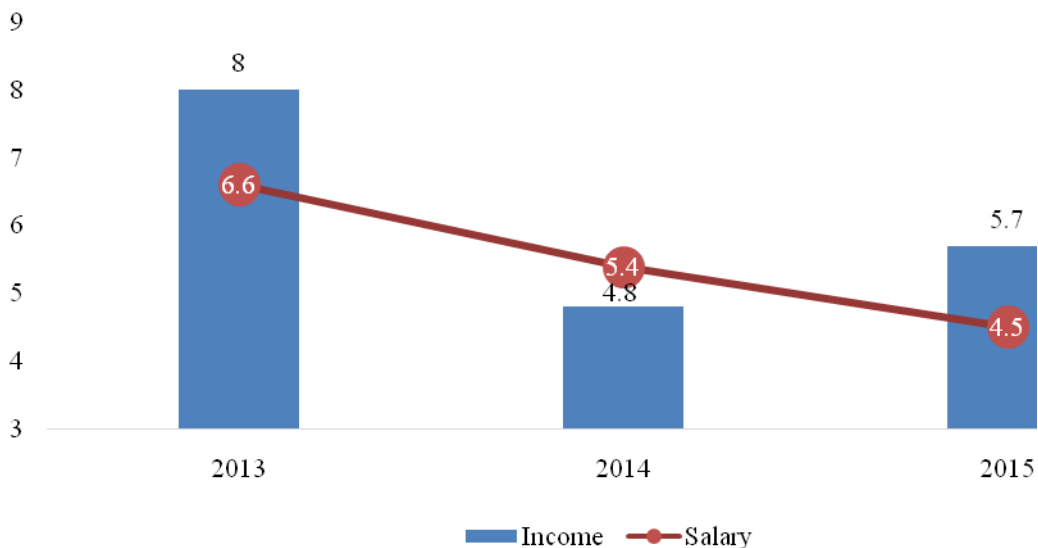
To note, a portion of non-food products was purchased via e-trade. Consumer purchases via e-trade network year on year increased 1.9 times in 2015.

In 2015 the catering turnover rose 14% and paid services to the population rose 5.1%.

High consumer demand firstly stemmed from the rise in population income. Over the year, income of households rose 5.7% in nominal and 1.7% in real terms. Per capita income having risen by 4.5% in nominal terms prevailed over price rise in the consumer market by 0.5 p.p. Disposable income of households rose 5.6% to AZN 37.9 billion.

Average monthly salary increased 5% to AZN 466.4 over the year, including 0.5% rise in the public and 8.1% rise in the private sector.

Chart 13. Salary and income of population, annual, %



Source: SSC

Over the year consumer demand was also supported by bank loans to households, the volume of which as of end-2015 approximated to AZN 7.9 billion.

The population channeled AZN 6.6 billion worth of income (15.9%) to savings.

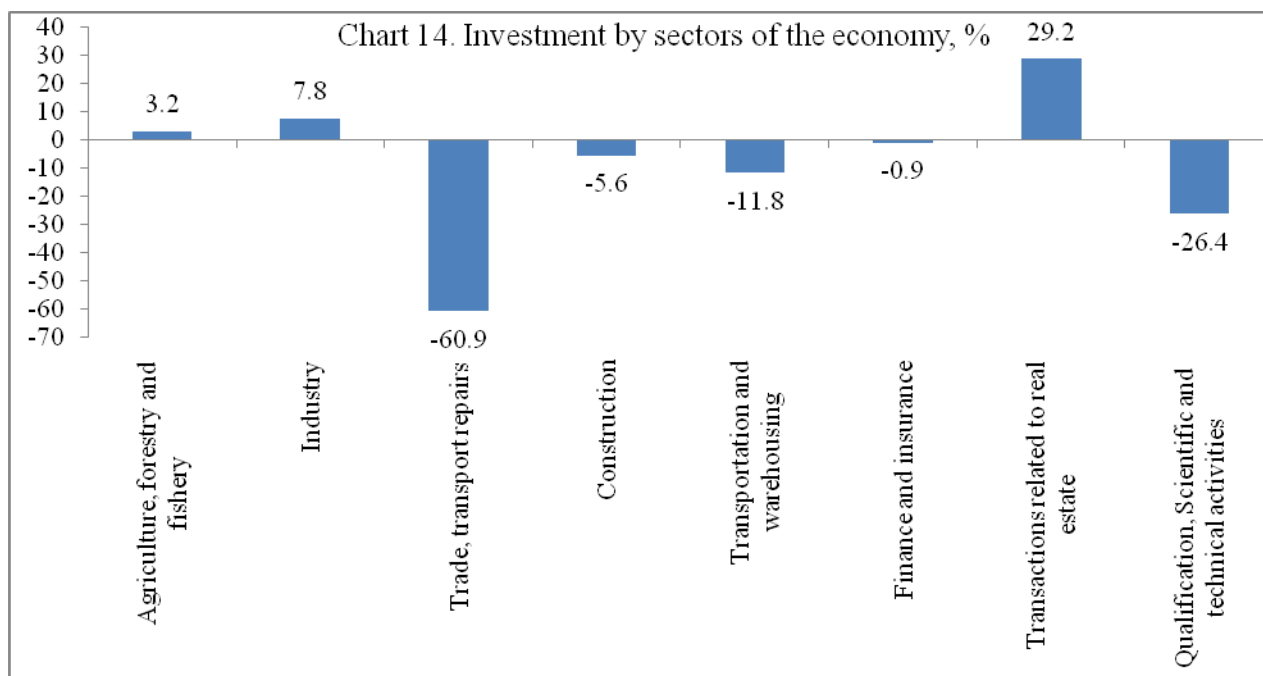
Government spending. Public expenditures were one of the main factors of internal demand in 2015. According to the Ministry of Finance of the Republic of Azerbaijan, state budget expenditures constituted AZN 17.8 billion in 2015. *(Source: www.maliyye.gov.az)*

AZN 10.4 billion (58.2 %) of state budget expenditures were channeled to current expenditures, AZN 6.7 billion. (37.8 %) to capital expenses, AZN 0.7 billion (4%) to expenses on sovereign debt service and liabilities over the year.

31.9% (AZN 5.7 billion) worth of state budget expenditures were channeled to financing of social expenses (the wage, pension and social allowances, expenses on drugs and food), with 3.4% year on year rise.

Investments to the country's economy year on year reached to AZN 16 billion in 2015. Over the period investments to the oil sector constituted AZN 7.2 billion, while investments to the non-oil sector made up AZN 8.8 billion.

The volume of investments increased by 7.8% in the industrial sector, 2.2 times in information and communication, 29.2% in real estate related operations, 3.8 times in tourism and catering, and decreased 11.8% in transportation and depot, 60.9% in trade and 5.6% in construction. 7.7% of total non-oil investments were used for the non-oil industry development.



Source: SSC

56% of funds channeled to capital stock stemmed from domestic, while 44% are from foreign sources.

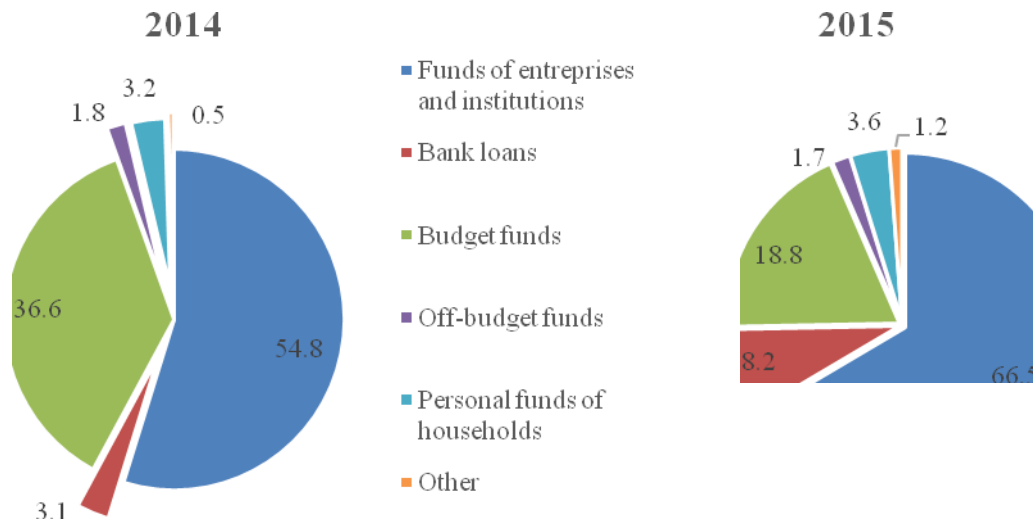
Table 2. Investment sources

	2014	2015
<i>Funds of entities and organizations</i>	9654	10615.5
<i>Bank loans</i>	540.9	1299
<i>Budget funds</i>	6452.2	3005
<i>Off-budget funds</i>	324.6	272.3
<i>Population's own funds</i>	566.9	573
<i>Other funds</i>	77.2	192.2

Source: SSC

Funds of entities and organizations (66.5%) prevailed in total investments over the reported year.

Chart 15. Sources of investment, %

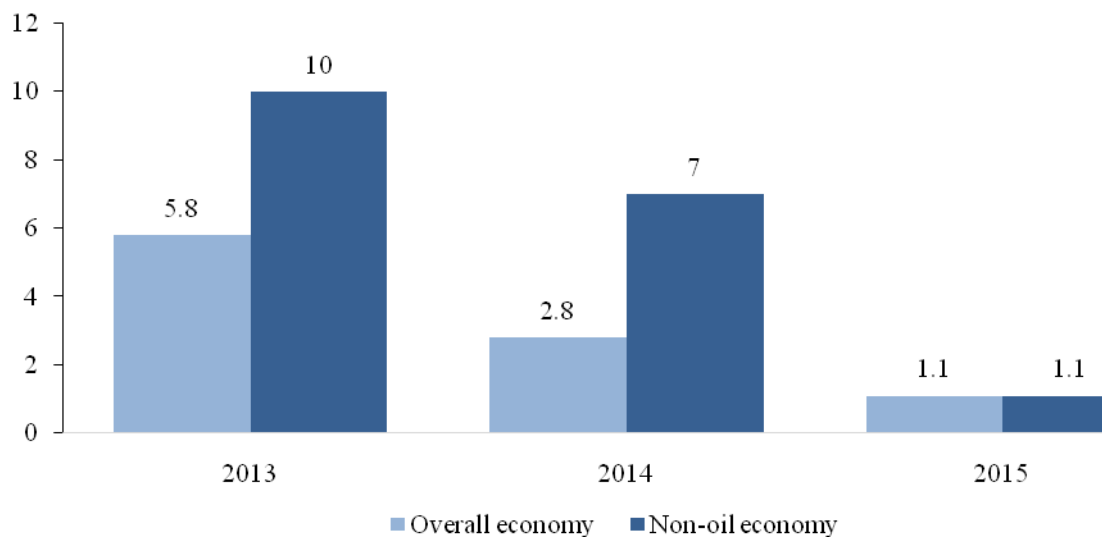


Source: SSC

2.2. Aggregate supply and employment

Aggregate supply. *Economic growth, though at a lower rate, was maintained in 2015.* Real GDP growth was reported to be 1.1% and in nominal terms it reached AZN 54.4 billion in 2015. The industry accounts for 33.9%, construction 12.1%, trade 10%, agriculture 6.2% and other sectors 37.8% of the value added over the year.

Chart 16. Economic growth, to corresponding period of previous year, %

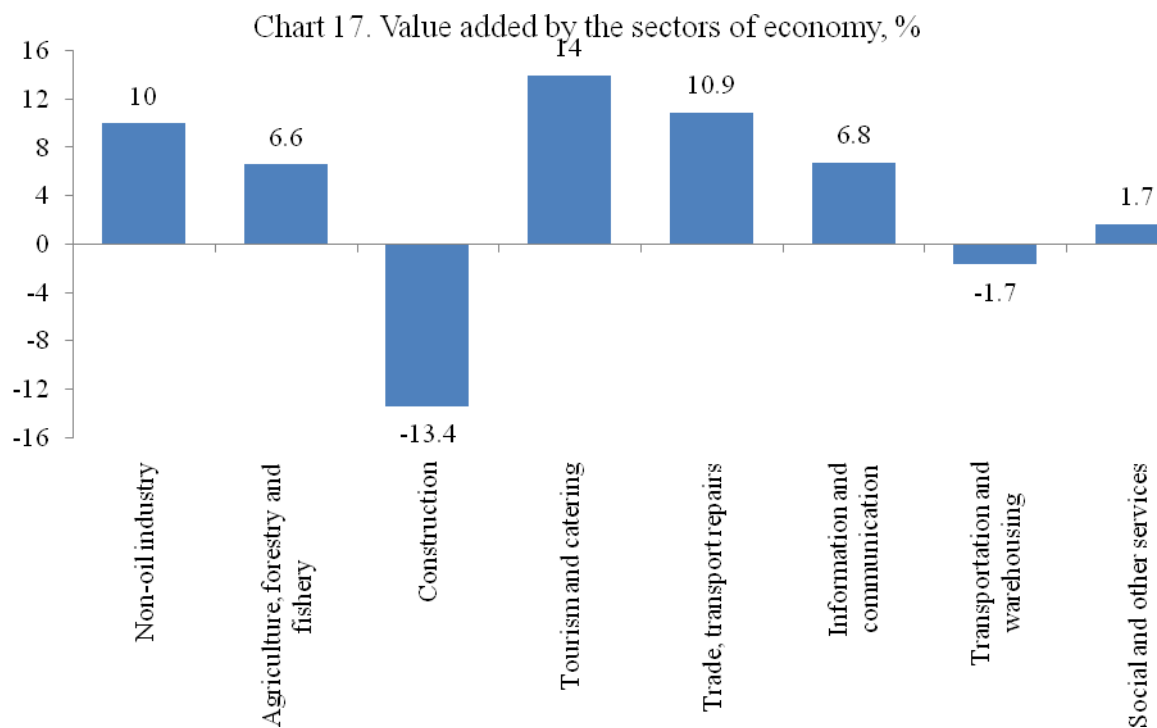


Source: SSC

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The value added in the non-oil sector was worth of AZN 37.7 billion, the share of which year on year increased by 8.3 p.p. to 69,3% of GDP in 2015.

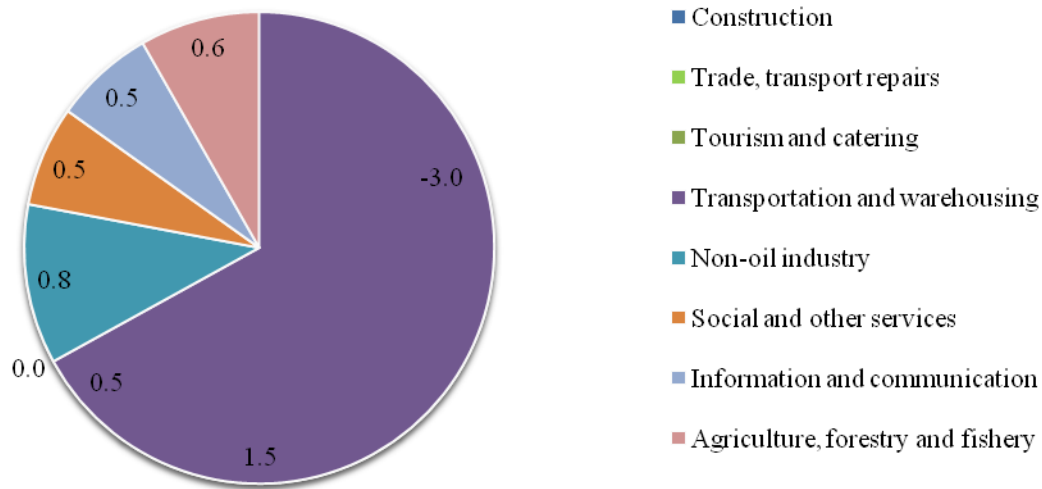
Most sectors of the non-oil sector exhibited growth over the year. In 2015 among non-oil sectors, tourism and catering, information and communication, as well as trade, agriculture, forestry and fishery registered the highest growth.



Source: SSC

The highest growth rate among sectors was in tourism and catering, as well as trade. Trade and repairs of vehicles made 1.5 p.p. contribution to growth of the non-oil economy.

Chart 18. Sectoral contribution to non-oil GDP, %



Source: CBA calculations based on SSC data

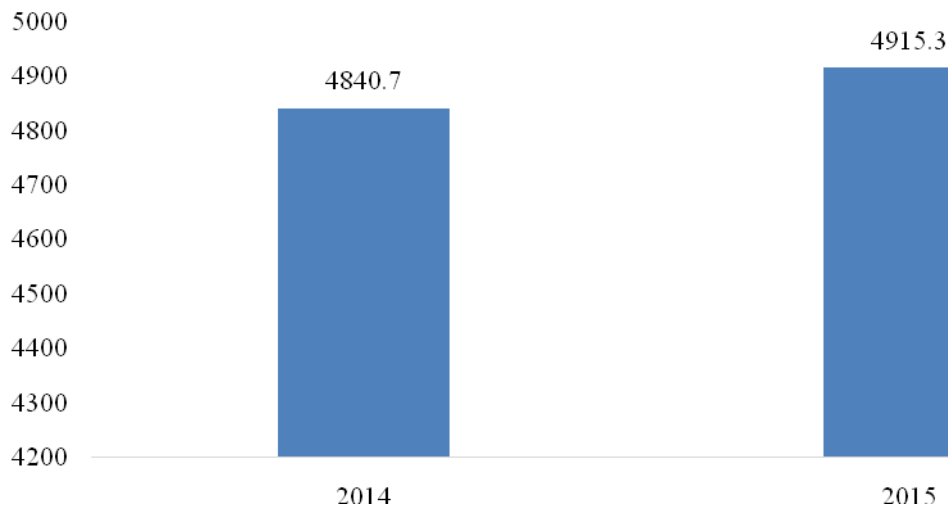
Efforts put in previous years yielded ongoing positive trends in the non-oil industry in the reported year; the growth rate in the value added in the non-oil industry was 10% during 2015. The highest growth rate in the non-oil industry was in the production of printing products, wood processing excluding furniture, production of wood ware, finished metal products, chemicals and furniture.

According to the estimations and surveys conducted by the Central Bank, the Business Activity Index² for the non-oil industry was remained in a positive zone in 2015. To note, the survey covers about 400 entities with 70 thousand employees.

According to the SSC, the economically active population was registered 4915.3 thousand people, of which 95% was engaged in various sectors of the economy.

²Business activity index in the industry = (production – stocks + production expectations)/3

Chart 19. Employment, end of period, thousands of persons



Source: SSC

The number of hired labor engaged in the non-oil sector was 1461.4 thousand people in 2015.

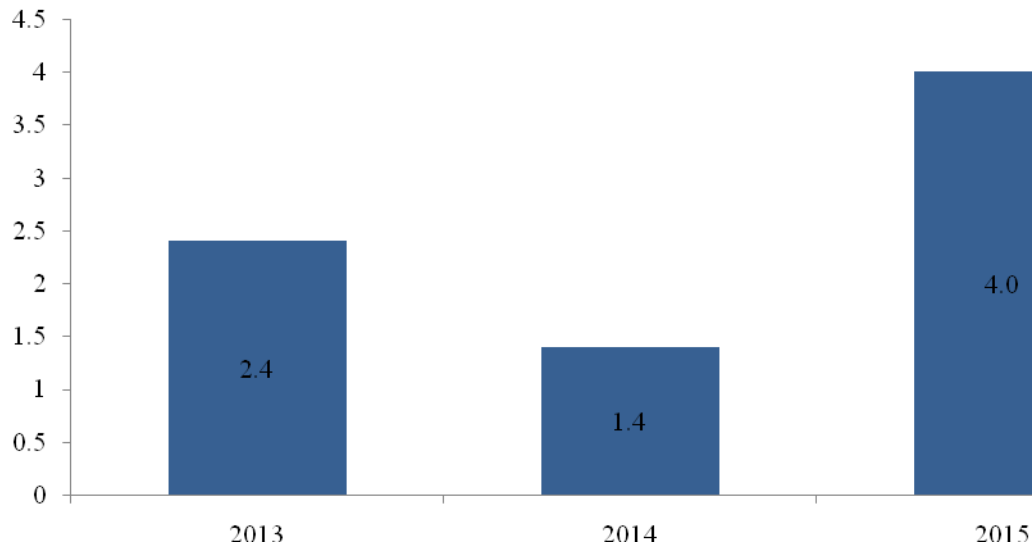
Newly created jobs numbered 115.9 thousand over the reported year, 78.6% of which is permanent workplaces. 77.7% of permanent jobs were created by individuals, 10.4% were established in existing firms and 11.3% in newly founded or resumed entities and organizations. Jobs created in regions account for 66% of total created jobs. New jobs were primarily created in processing, construction, trade and transportation sectors, as well as in public entities and organizations.

2.3. Inflation

Despite slight increase compared to previous years, inflation was overall maintained on an acceptable level in 2015.

Average annual inflation was 4% in the reported year, which is 3.5 p.p. lower than the average annual inflation rate of recent 10 years.

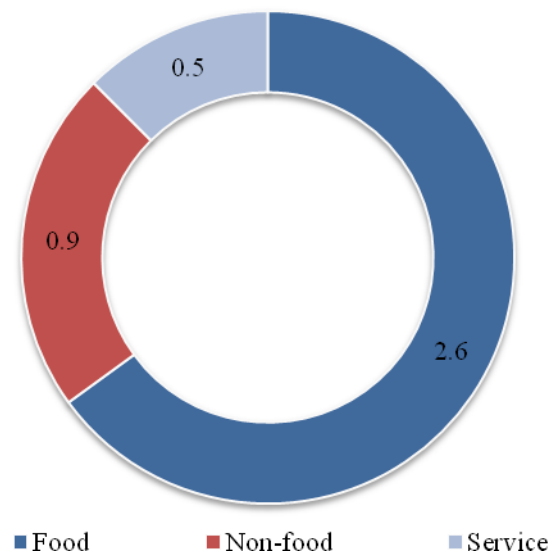
Chart 20. Inflation rate, annual average, %



Source: SSC

Average annual prices on food items hiked to 6.1%, for non-food items 3.8%, and for services 1.2%.

Chart 21. Components of inflation, percentage point

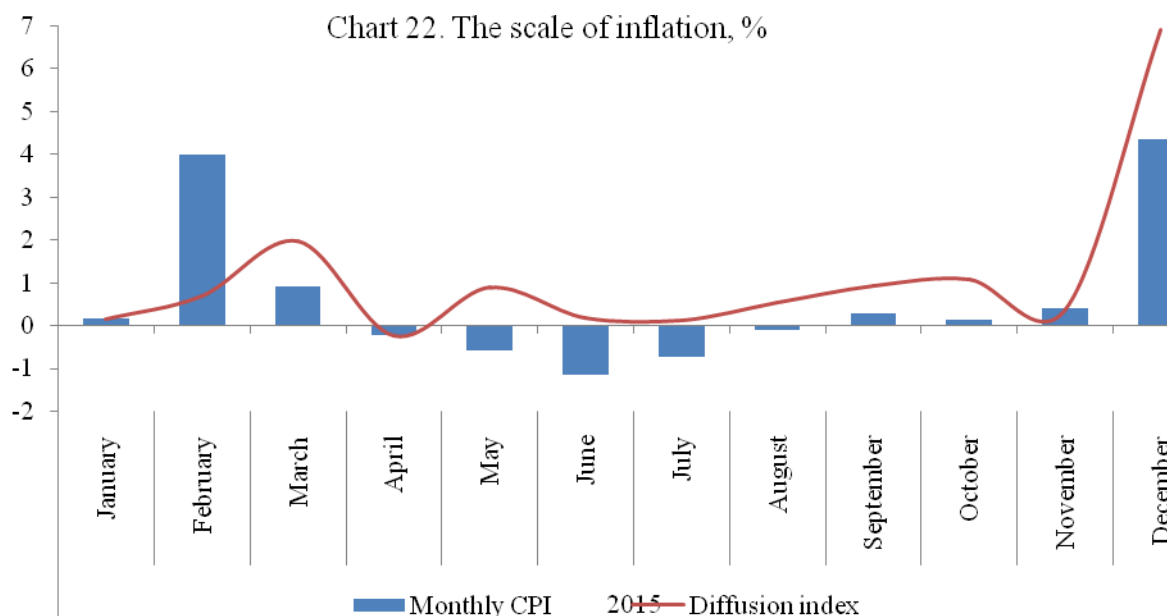


Source: CBA calculations based on SSC data

Apparently, food prices made higher contribution to average annual inflation over the reported year. The prices for breadstuffs and cereals rose by 10.7%,

prices for oils and fats by 14.3%, for fruits by 6.7%, and for coffee, tea and cocoa by 12.1%. On the contrary, prices for vegetables declined.

The diffusion index, that reflects price changes, varied across months over the period.

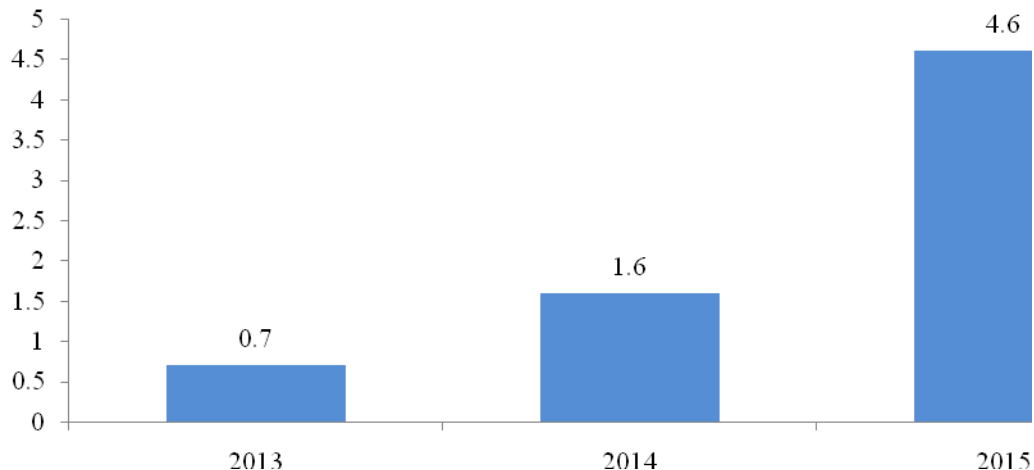


Source: SSC, CBA calculations based on SSC data

In total, average prices for 50 goods and services decreased, while prices for 38 goods and services remained unchanged.

Average annual core inflation, which is seasonally adjusted inflation excluding the prices of commodities regulated by the Government was 4.6%.

Chart 23. Core-Inflation, annual average, %



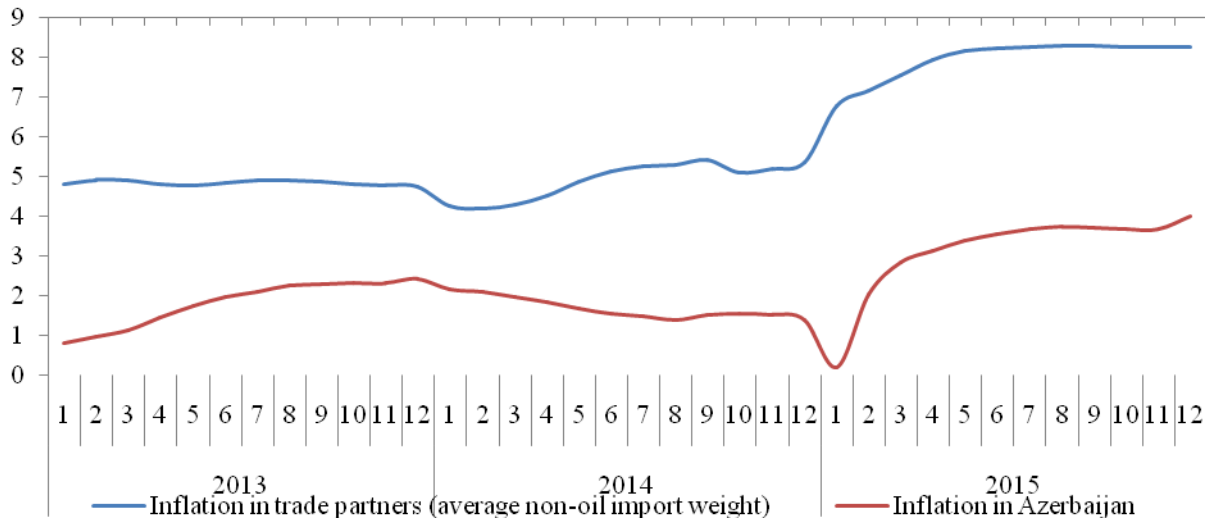
Source: SSC

The Government regulated retail and wholesale prices for medicines, which resulted in price decline for pharmaceuticals in 2015. After the recent decision by the Tariff Council, the price on 21% of medications decreased by more than twofold, while the prices on 9% of drugs dropped by more than threefold. Overall prices for 60% of drugs were reduced, while prices for 40% rose on average by 30% due to exchange rate swings. Regulation of prices of 5,050 drugs over the reported year prevented price hikes likely to occur upon the adjustment to the new exchange rate of Manat.

In 2015 the NEER, inflation expectations and high inflation in trade partners had an upward effect on prices, with a downward effect by seasonal factors, money base and global food prices.

Average annual inflation in trade partners was 4.3 p.p. higher than that of Azerbaijan and totaled 8.3%. In general, over the recent 3 years domestic inflation has been lower than that of foreign trade partners.

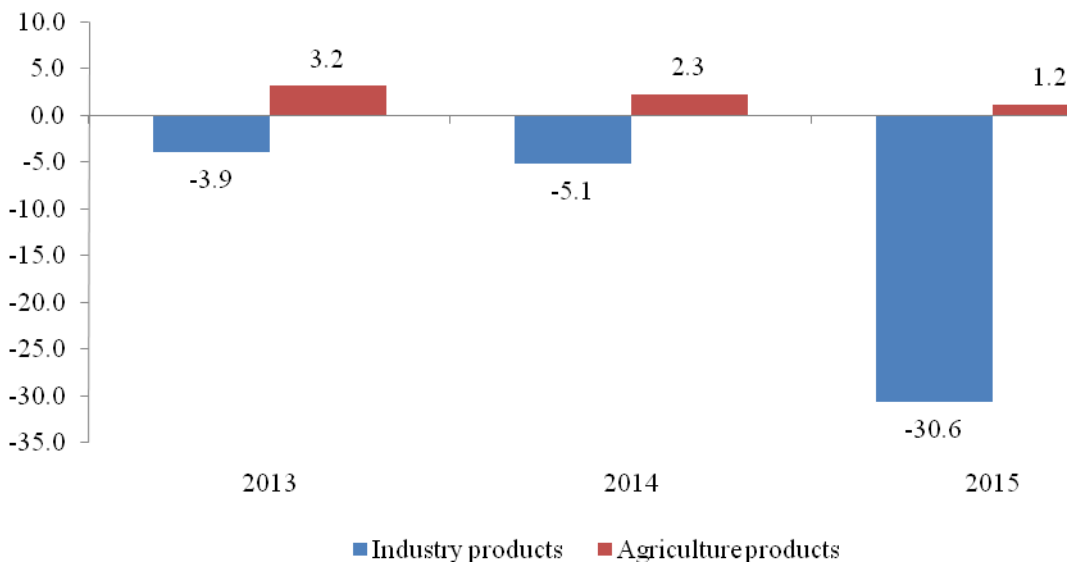
Chart 24. Domestic and foreign inflation, annual average, %



Source: SSC, CBA calculations based upon data from relevant central banks and statistics committees

During the reported year, average annual prices declined by 34.5% in mining, mostly due to slump in oil prices and 8.1% in processing sectors. In total, average annual IPPI dropped by 30.6%.

Chart 25. Change in producer prices indices, annual average, %



Source: SSC

In 2015 the agricultural products producers index (APPI) on average rose by 1.2%. Price hike was 1% on animal products, 0.8% on vegetable products, and 2.9% on fish and fishery products. Slight price fluctuations in agricultural products contributed to overall price stability.

2.4. Balance of payments³

The balance of payments of Azerbaijan was affected by the ongoing processes in the global economy, including in partner countries. Slump in global energy prices impacted country's foreign exchange revenues.

Over the year, the oil and gas sector played an important role in external economic operations. Total proceeds of the oil-and-gas sector chiefly stem from oil-and-gas exports and foreign capital inflows to the sector.

Table 3. Key indicators of the balance of payments

	2014(Mln. \$)	2015(Mln. \$)
<i>Current operations and capital account</i>	10423.6	-266.4
Foreign trade balance	18927.6	5812.4
Services balance	-6089.6	-4228.8
Primary income balance	-2581.7	-2027.8
-Investment income repatriation	-2599.4	-1781.6
Secondary income balance	174.2	221.7
Capital account	-6.9	-43.9
<i>Financial account</i>	-3419.1	-9025.2
<i>Net financial assets</i>	11692.2	13720.8
- direct investments abroad	2208.8	3259.7

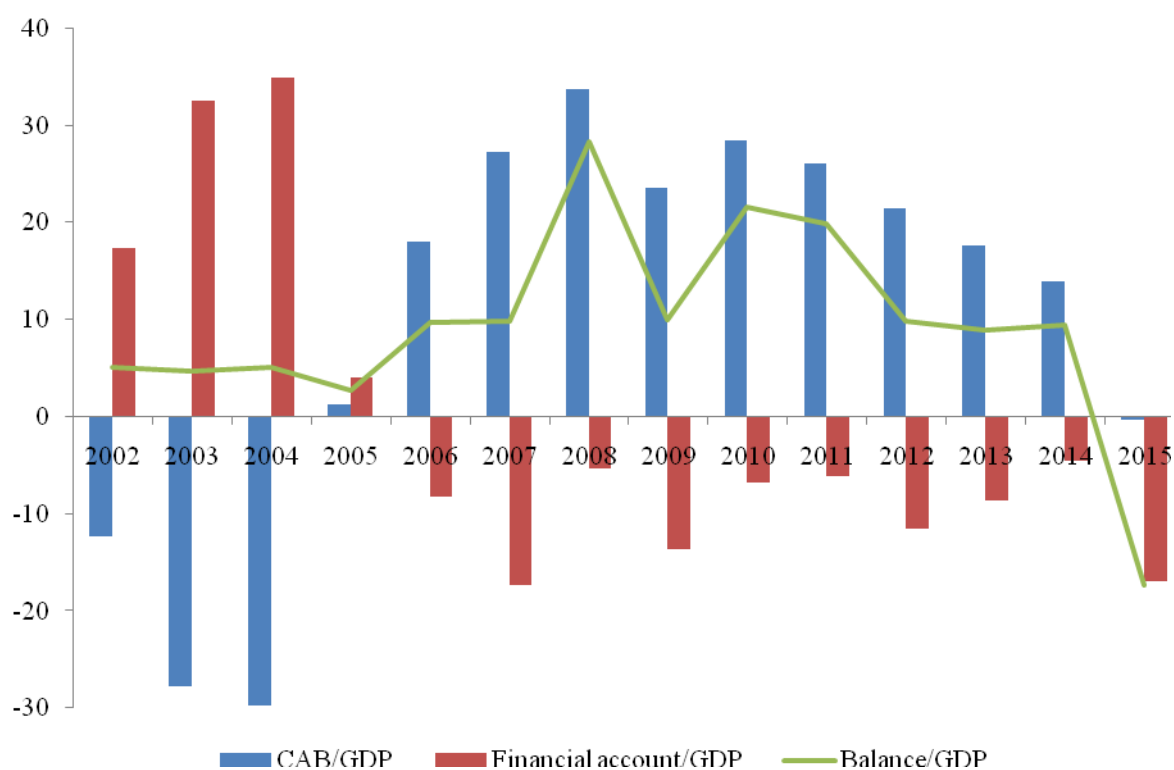
³The Balance of Payments has been compiled under the IMF's Balance of Payments Manual (6th edition) since 2013. The new changes mainly cover structural components of the balance of payments. The capital and financial account is recommended to be classified as 'net financial assets' and 'net financial liabilities' rather than previously used the credit/debit format. The new Manual also includes a number of other changes. For methodological guidelines on compiling the balance of payments please go to http://cbar.az/assets/1186/final_metod.pdf.

- portfolio investments	429.5	380.3
- other investments	9053.9	10080.8
<i>Net financial liabilities</i>	<i>8273.1</i>	<i>4695.6</i>
- direct investments attracted to Azerbaijan	8049.2	7483.1
- attracted investment repatriation	-3635.7	-3437.4
- oil bonus	17.0	2.0
-portfolio investments	1750.9	772.6
- other investments	2091.7	-124.7
<i>Net errors and omissions</i>	<i>-2810.3</i>	<i>-2037.4</i>
Total surplus of the BOP (change in country's reserve assets)	4194.2	-11329.0

Source: CBA

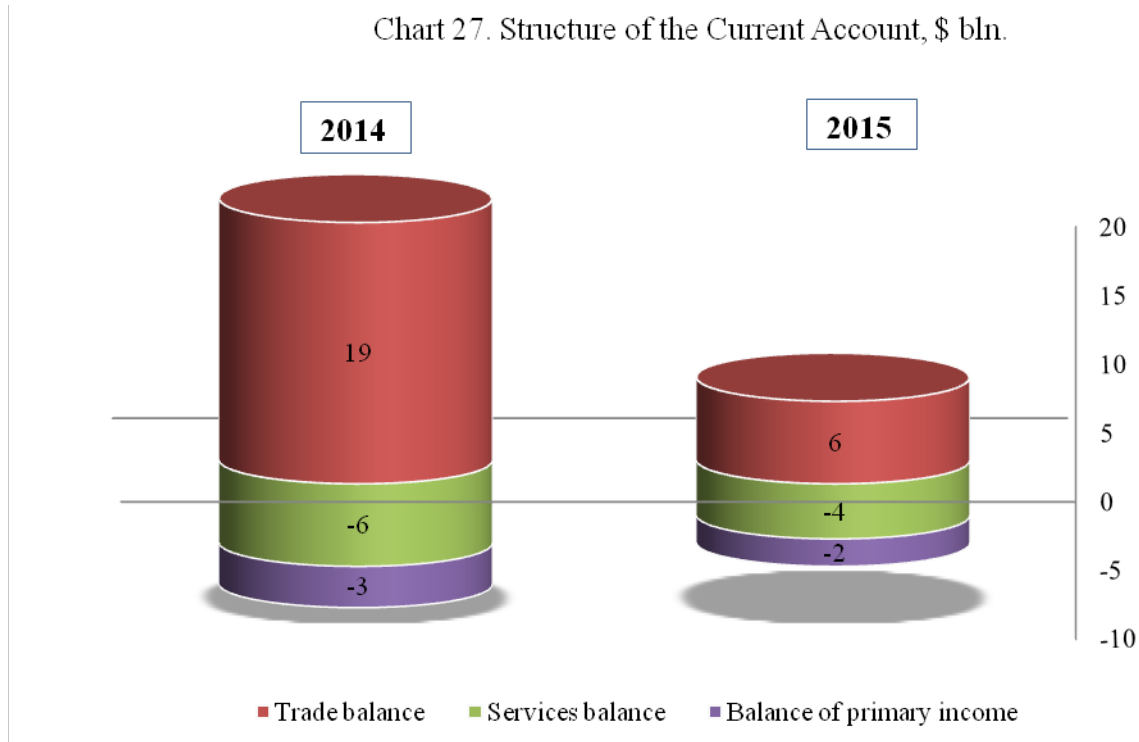
Outflows from this sector reflect repatriation of profit and investments, and import of equipment and services. Total positive surplus on the oil-and-gas sector amounted to USD10.1 billion in 2015.

Chart 26. Share of BOP parameters in GDP, %



Source: CBA

In 2015 current account deficit amounted to USD 222.5 million (0.4% of GDP), including USD 6.5 billion of current account surplus on the oil-and-gas sector. Surplus of the oil-and-gas sector covered 97% of the non-oil sector deficit worth of USD 6.8 billion.



Source: CBA

External trade turnover accounted for USD 25.4 billion, while external trade surplus amounted to USD 5.8 billion. Over the year, total exports prevailed over imports by 1.6 times

In 2015 Azerbaijan traded with up to 172 countries across the world. 10.5% of external trade was with the CIS countries and 89.5% with the rest countries. The country had close trade relations with Turkey, Italy, Russia, the UK, Germany, the USA, France, Japan, Israel and China. (The share of these countries in total trade was 67.1%).

Over the reported period, total exports amounted to USD 15.6 billion. Oil-and-gas products account for 90.4% of export.

Oil product exports to foreign countries were accounted to USD 12.8 billion, out of which USD 1 billion was oil processing products, the remaining USD 11.8 billion was crude oil.

Out of total exported crude oil, USD 11.1 billion fell to the share of the oil produced by the Azerbaijan International Operating Company (AIOC). Remaining USD 708.9 million was delivered abroad by other entities, of which USD 133.2 million falls to the share of Shahdeniz condensate and USD 575.7 million to the SOCAR.

In 2015 non-oil and gas export of the country year on year decreased by 8.2% to 1,498 million. Goods export accounted for 28%, while services export accounted for 72% in total non-oil exports value.

Table 4. Export structure

	2014		2015	
	Amount, mln. \$	Share, %	Amount, mln. \$	Share, %
Export - total	28259.6	100.0	15586.1	100.0
including:				
1.Fuel – raw materials	27073.0	95.8	14474.8	92.9
- oil and gas products	26627.3	94.2	14087.8	90.4
- other raw materials	445.7	1.6	387.0	2.5
2.Machinery and equipment	269.6	1.0	290.1	1.9
3.Consumer goods	885.0	3.1	804.1	5.1
4.Other goods	32.0	0.1	17.1	0.1

Source: CBA

Over the reported period, total imports constituted USD 9.8 billion. Total value of imported consumer goods reached USD 3,850.8 million, out of which USD 1,151.9 million consists of food products.

Table 5. Import structure

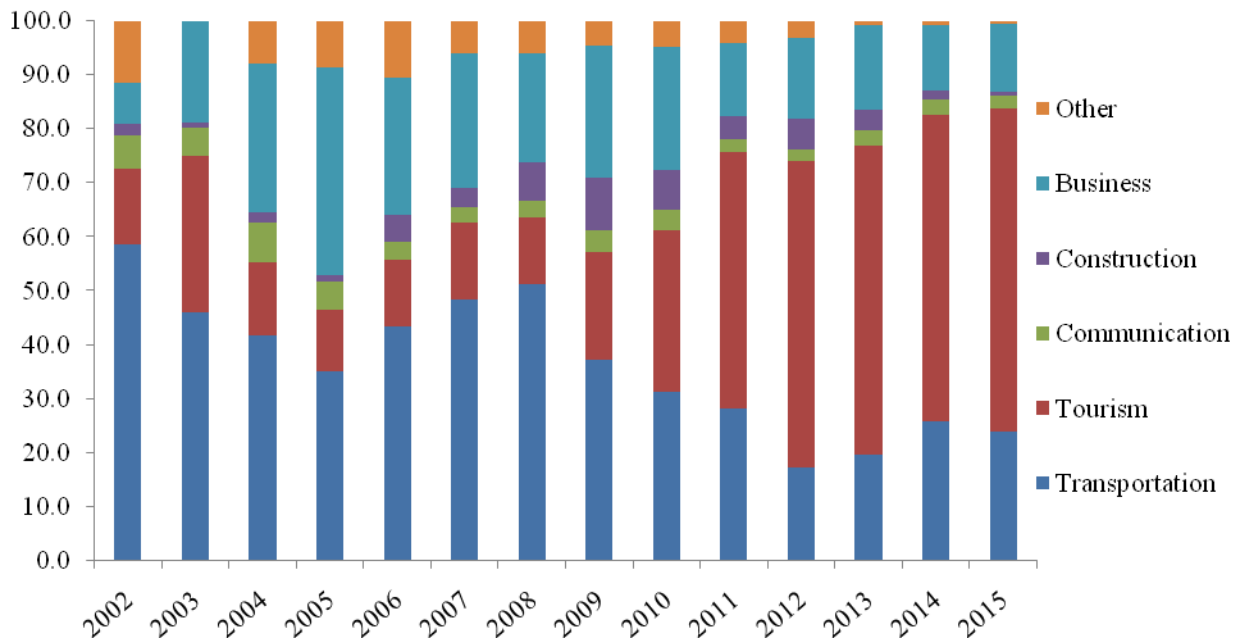
	2014-cü il		2015-ci il	
	Amount, mln. \$	Share, %	Amount, mln. \$	Share, %
Import-total	9332.0	100.0	9773.6	100.0
including:				
1.Consumer goods	4168.7	44.7	3850.8	39.4
- food products	1220.1	13.1	1151.9	11.8
- other	2948.6	31.6	2698.9	27.6
2.Investment oriented goods	1127.9	12.1	2208.0	22.6
- int'l oil and gas consortiums	1114.4	12.0	2202.8	22.5
- others	13.5	0.1	5.2	0.1
3. Other goods	4035.4	43.2	3714.8	38.0

Source: CBA

The share of imported vehicles, equipment and goods for investment purposes comprised 22.6% of total imports and equaled to USD 2,208 million. 99.8% of such capital goods were imported for the oil gas sector. Also, vehicles, equipment, chemicals, ferrous and non-ferrous metal products and other goods worth of USD 3,714.8 million were imported for production purposes.

In 2015 services was one of the major items in economic relations of Azerbaijan with other countries, the volume of which was USD 13.1 billion, out of which USD 8.7 billion was rendered by non-residents for Azerbaijani residents, and USD 4.4 billion by Azerbaijani residents for the residents of foreign countries.

Chart 28. The structure of the export of non-oil services, %



Source: CBA

The share of transportation in total services turnover was 19.3%. Total value of transportation services was USD 2,527.9 million, 60.1% of which related to the utilization of foreign transportation systems by Azerbaijani residents. Total volume of transportation services provided by Azerbaijani residents to non-residents made up USD 1,518.3 million.

The share of travelling services in services export is increasing. Over the reporting period, the value of travelling services provided for non-residents was estimated USD 2,309.5 million, 24.1% of which emerges from business travels of non-residents. In its turn, the value of travelling services provided by foreign countries for Azerbaijani residents decreased by 13.5% on an annual basis to USD 2.6 billion. 71.3% of this amount consists of private expenditures of Azerbaijani citizens in foreign countries (funds for shuttle import excluding).

In 2015 import of services in the non-oil sector decreased by 20.9% to USD 5 billion. In total, services account for 34.1% of the total goods and services export – import turnover with foreign countries.

Over the reported period, total turnover of primary income receipts and payments exceeded USD 4.5 billion, 72.3% (USD 3.3 billion) of which were payments from Azerbaijan. Key components of these payments (USD 2.0 billion) were the income repatriation of foreign investors in oil-and-gas consortiums (mainly in terms of crude oil), salaries paid to non-residents (USD 350.2 million) and interest payments paid on foreign debts (USD 501.7 million).

Total value of secondary income operations with foreign countries was estimated to reach USD 2.2 billion, 55% of which was income receipts.

96.4% of total receipts of secondary income are comprised of remittances of individuals from foreign countries, 2.2% – was humanitarian goods, and 1.4% was registered as other receipts. Overall, surplus of secondary income was USD 221.7 million.

Net acquisition of financial assets made up USD 13.7 billion, primarily comprised of FDIs (USD 3,259.7 million), portfolio investments (USD 380.3 million) and other investments (USD 10,080.8 million) over the year.

Total amount of FDIs was USD 7.5 billion, the oil-and-gas sector accounting for 88.5% of them. Attracted investments were channeled into the domestic economy to finance huge oil-and-gas projects, primarily the BP Exploration (Shahdeniz) Ltd. project and works provided by the AIOC in Azeri-Chiragh-Guneshli.

Total amount of FDIs to the non-oil sector is estimated to be equal to USD 860.4 million.

Table 7. Net financial assets and liabilities

	Assets (Mln. \$)	Liabilities (Mln. \$)
Direct investments	3259.7	4045.7
- oil and gas sector	1806.0	3227.5
- other sectors	1453.7	818.2
Portfolio investments	380.3	772.6
Other investments	10080.8	-124.7
- trade credits and advances	3699.6	118.0
- credits and loans	146.8	1346.8
- deposits and cash currency	6234.4	-1589.5
Oil bonus		2.0
TOTAL	13720.8	4695.6

Source: CBA

Over the reported period net financial assets on credits and loans increased by USD 146.8 million, while net financial liabilities increased by USD 1,346.8 million. Net financial liabilities rose as a result of direct government and government guaranteed loans (USD 489.5 million), and other entities and companies (USD 1,350.5 million), while decreased as a result of banks (USD 493.2 million).

Net financial assets on deposits and cash increased by USD 6.2 billion, while net financial liabilities decreased by USD 1.6 billion.

For the first time in recent years, the deficit in the balance of payments on the backdrop of the deteriorated external economic environment resulted in a reduction of country's foreign exchange reserves. Over the reported period country's foreign reserves decreased USD 11,329 million. However, the adequacy of foreign reserves exceeds international norms. The strategic foreign exchange reserves to GDP ratio was 68.8%, sufficient to cover 28 months of imports.

III. THE MONETARY AND EXCHANGE RATE POLICY, MONETARY CONDITION

3.1. The exchange rate policy and international competitiveness

The Central Bank moved to a managed float regime amid limited supply and higher demand for foreign currency in 2015.

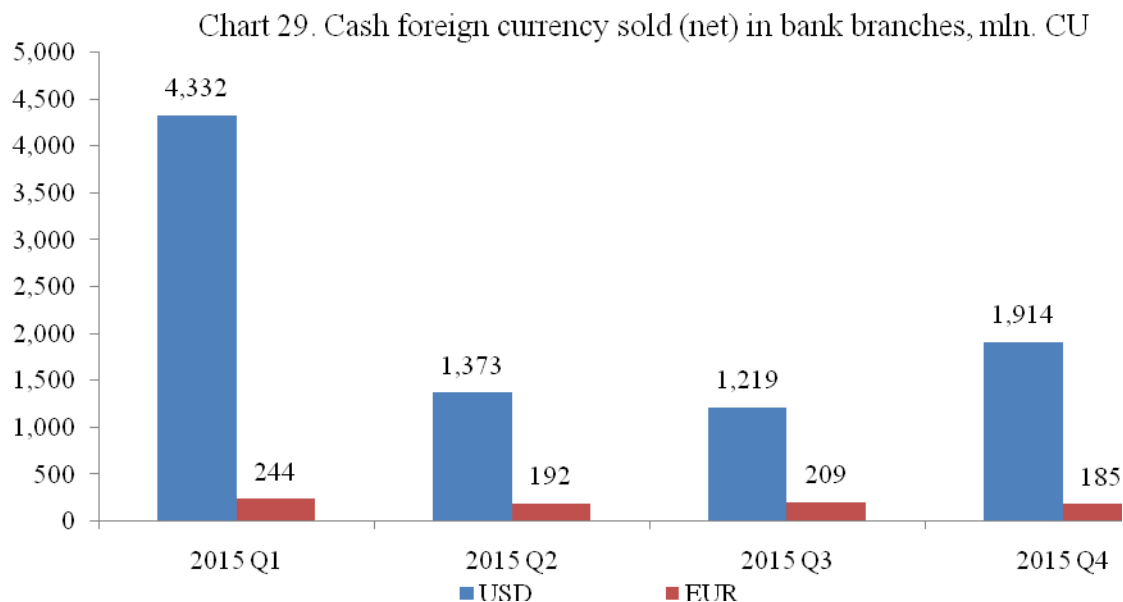
A sharp decline in supply and rise in demand for foreign currency was observed in the FX market in 2015.

Low foreign exchange supply is above all attributable to reduced foreign exchange receipts due to slump in oil prices and the deteriorated economic conditions in partner countries. Oil transfers – the vital source of public expenditures – were significantly low amid reduced foreign exchange receipts.

A sharp rise in foreign exchange demand is explained by high dollarization. Slump in oil prices in global commodity markets, and the waves of devaluation in main trade partners heightened the expectations of the devaluation of the national currency in the country triggering high dollarization.

A sharp rise in foreign exchange demand was observed both on cash and non cash segments of the FX market alike.

Foreign currency in cash sold by banks to the population in US dollar year on year increased by 47.4% to USD 8.8 billion. In 2015 50% of net sale of USD and 29% of net sale of EUR were recorded in the first quarter.



Source: CBA

The Management Board of the Central Bank decided to set the exchange rate of USD against AZN at AZN 1.05 as of 21 February 2015 in light of serious pressures on the FX market and the exchange rate of AZN. The Central Bank also moved towards pegging the national currency to a dual currency basket, comprised of USD and EUR.

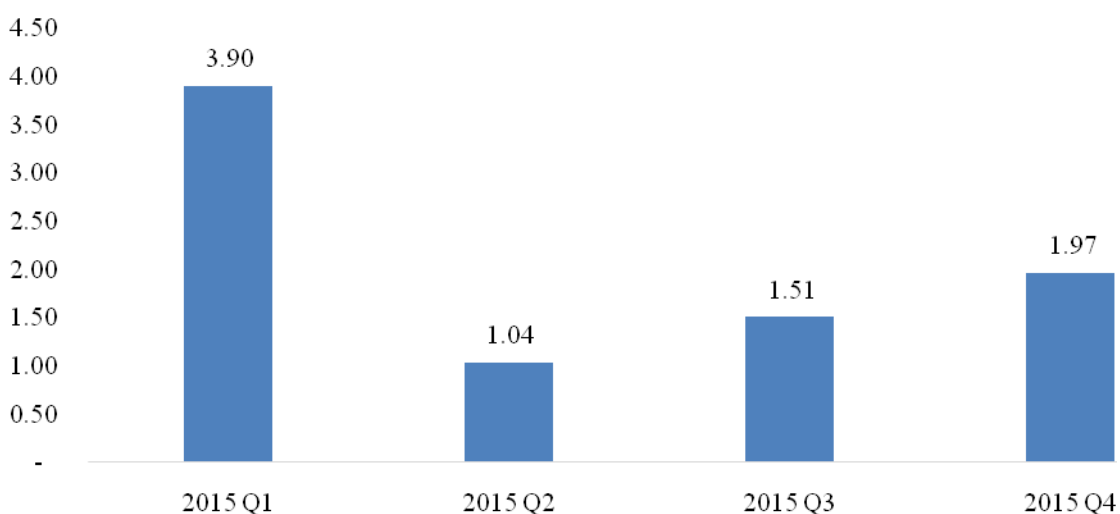
The FX market and the exchange rate of Manat started adapting to the oil price of USD 50-55 in the aftermath of the February devaluation and transition to a new operational framework. The Central Bank acquired certain amount of foreign currency in May – July 2015.

However, starting from end-July, slump in oil prices refreshed the pressure on the FX market elevating the expectations on changes of the exchange rate of Manat. In the meantime, ongoing devaluations in trade partners amplified negative impact on the international competitiveness of the national economy. National currencies of a number of trade partner countries had depreciated over 100% since the beginning of 2014.

The new environment necessitated adjusting the FX market and the exchange rate of Manat to new oil prices and, ultimately the Management Board of the Central Bank decided to move to managed float on 21 December 2015, which induced alignment of the new exchange rate of Manat to the conjuncture in the FX market. To note, transition to the new exchange rate regime put an end to the dual-currency basket of USD and EUR as an operational framework.

Under the new regime the Central Bank substantially diminished its interventions in the FX market.

Chart 30. Foreign currency sold (net) by Central Bank, \$ bln.



Source: CBA

In total, the Central Bank sold USD 8.4 billion worth of net foreign currency in 2015.

The size of Central Bank's foreign exchange reserves constituted USD 5 billion as of end-2015. Central Bank's foreign exchange reserves amounted to 90.3% of broad money supply in Manat (M2) (the international norm is min 10-20%).

The operational framework of the Central Bank's exchange rate policy was adjusted to the new regime late in 2015. Currently, the Central Bank sells foreign

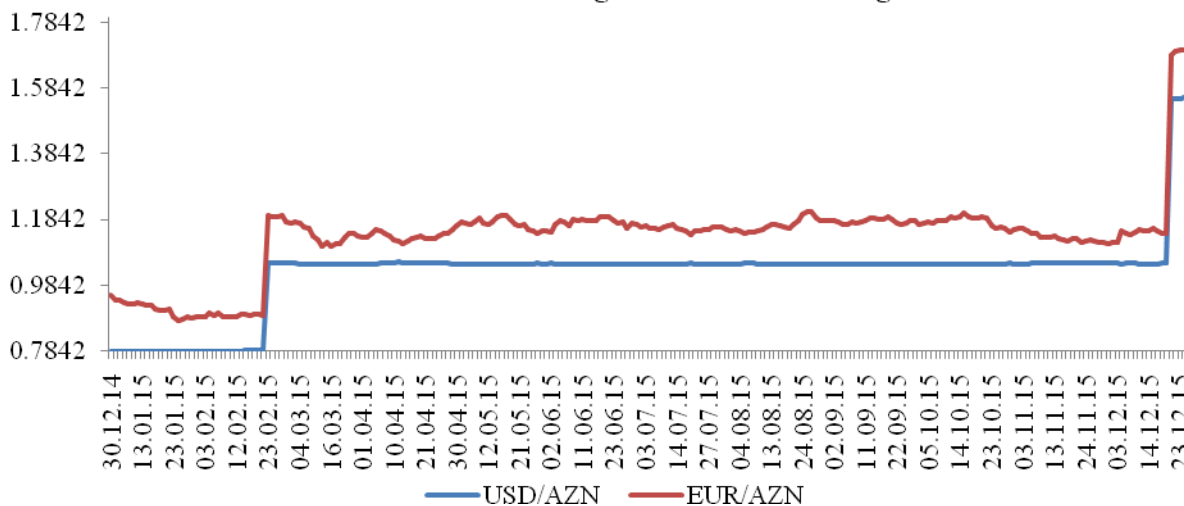
currency at auctions to smooth sharp exchange rate fluctuations. Average weighted exchange rate on interbank operations is set as an official exchange rate.

The main advantage of the floating exchange rate regime is that it allows absorb spillover effects of global shocks to the economy through the exchange rate. In the meantime, it helps promote development of the domestic financial market, and encourage the use of a number of new financial tools. The transition to the floating exchange rate also makes it possible to achieve an equilibrium level of the exchange rate.

AZN depreciated against major currencies over the reported year on the backdrop of changes in the exchange rate policy and regime.

In 2015 USD appreciated 98.8%, while EUR appreciated 79% against AZN.

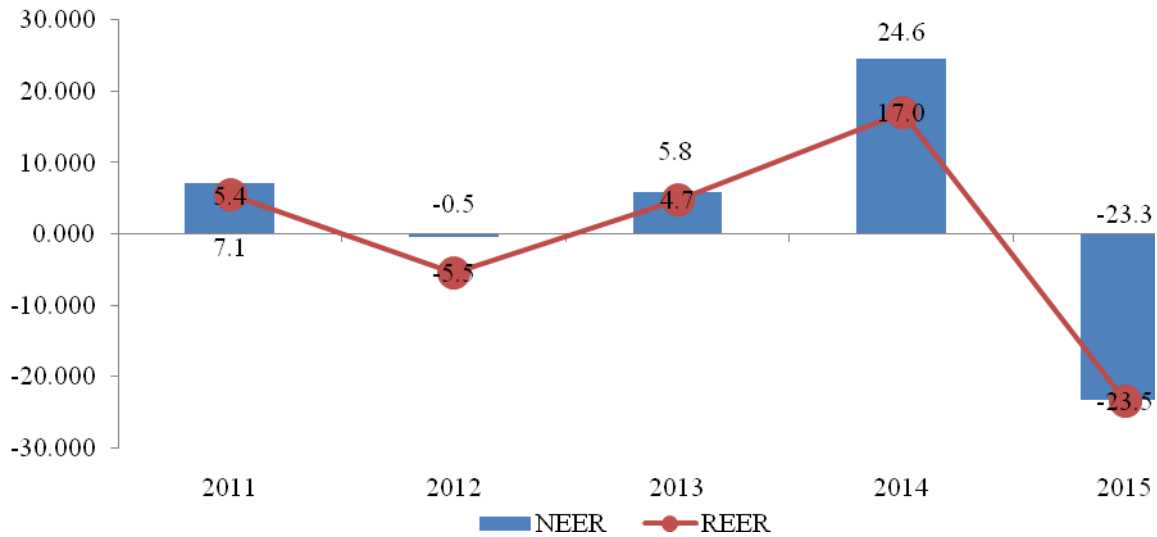
Chart 31. Exchange rate of currencies against AZN



Source: CBA

Movements in bilateral exchange rates translated into the behavior of multilateral exchange rates. The NEER of Manat on the non-oil sector dropped by 23.3%.

Chart 32. Dynamics of the NEER and REER (non-oil), %



Source: CBA

The non-oil trade weighted REER dropped by 23.5%. Price differences had a 0.2% downward effect on REER.

To note, a low REER encourage non-oil export and import substitution.

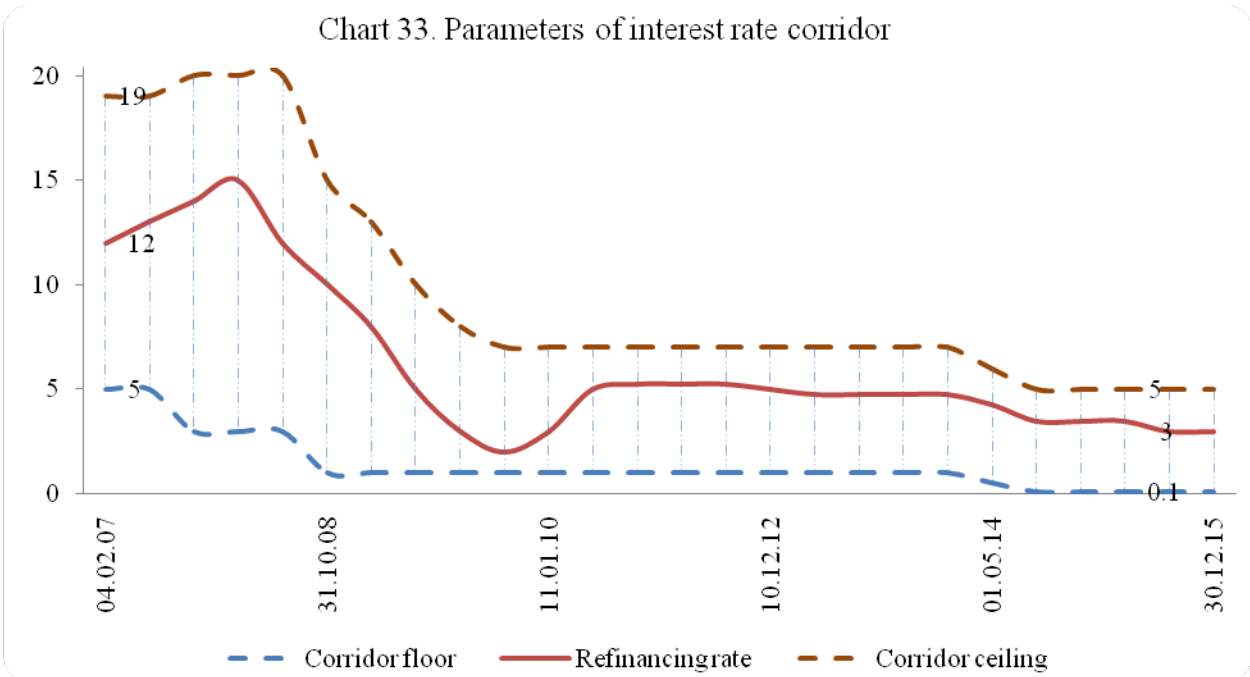
3.2. Monetary policy

Monetary policy decisions were taken in light of the environment in which the monetary policy was implemented and the possibility of attaining price stability.

Over the year the Central Bank pursued the monetary policy in view of the trends in the economic cycle, dynamics of money supply, as well as price and financial stability targets.

The Central Bank shifted the refinancing rate from 3.5% to 3% on 13 July 2015 to support economic growth in the non-oil sector, stimulate investments by reducing lending rates and establish the monetary stimulus for the optimization of SME financing and mortgage lending of the population given the acceptable

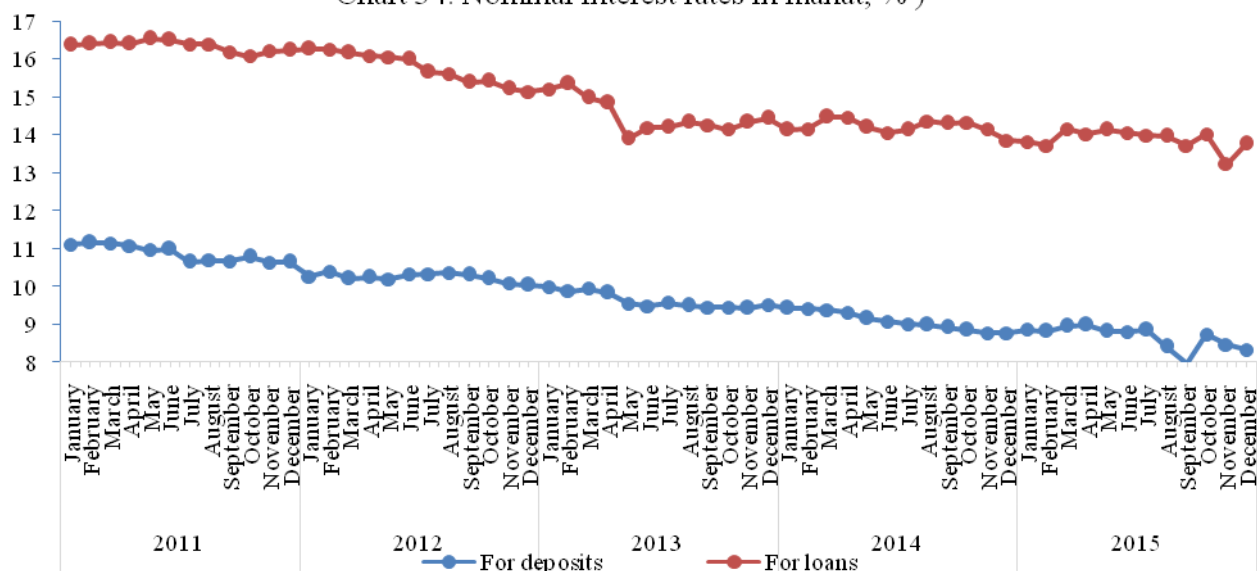
inflation rate. The corridor ceiling remained unchanged at 5%, and the floor rate was kept at 0.1%.



Source: CBA

Central Bank’s monetary policy decisions were one of the main factors affecting interest rates changes in the banking sector. Over the year, interest rates on total loans in Manat dropped by 0.1 p.p., while interest rates on loans to legal entities dropped by 1.6 p.p.

Chart 34. Nominal interest rates in manat, %)

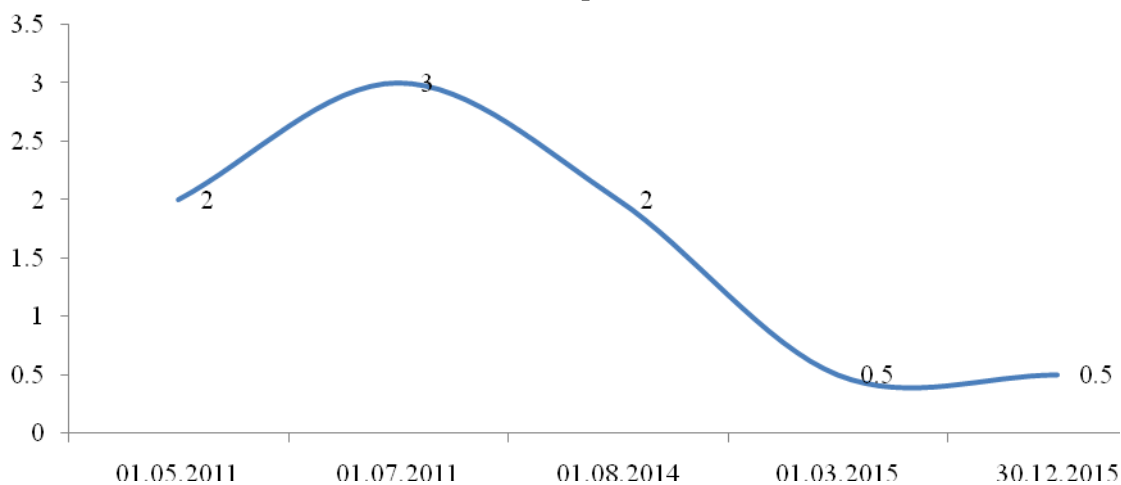


Source: CBA

Interest rates on deposits dropped by 0.5 p.p. over the year.

The Central Bank used reserve requirements to control the money supply and the banking system’s liquidity. In view of recent trends in money supply and in an effort to support economic growth through lower interest rates, the Management Board of the Central Bank decided to shift the reserve requirement from 2% to 0.5% on 26 February, 2015.

Chart 35. Reserve requirement rate, %



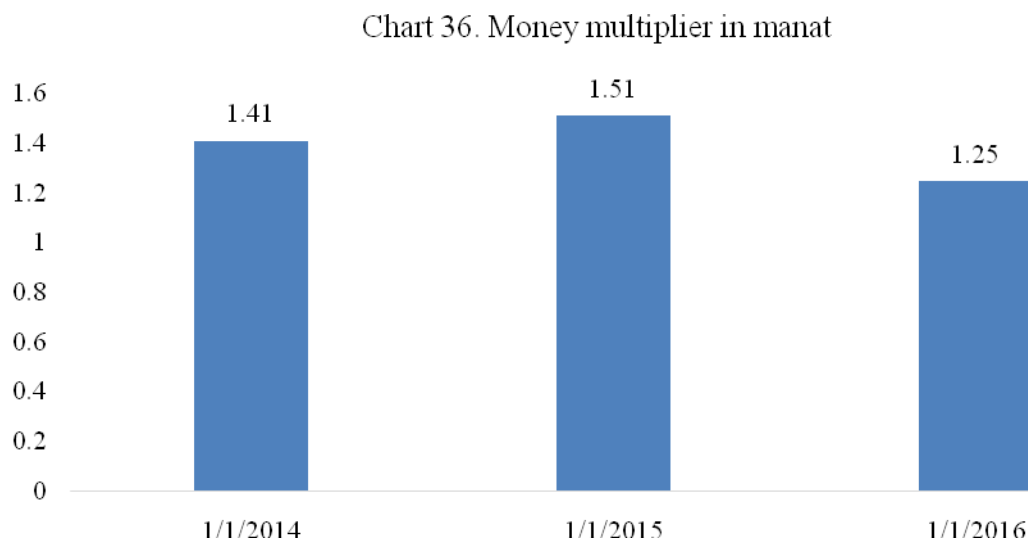
Source: CBA

3.3. Money supply

In 2015 developments in the FX market were the main factors to affect the money supply in Manat.

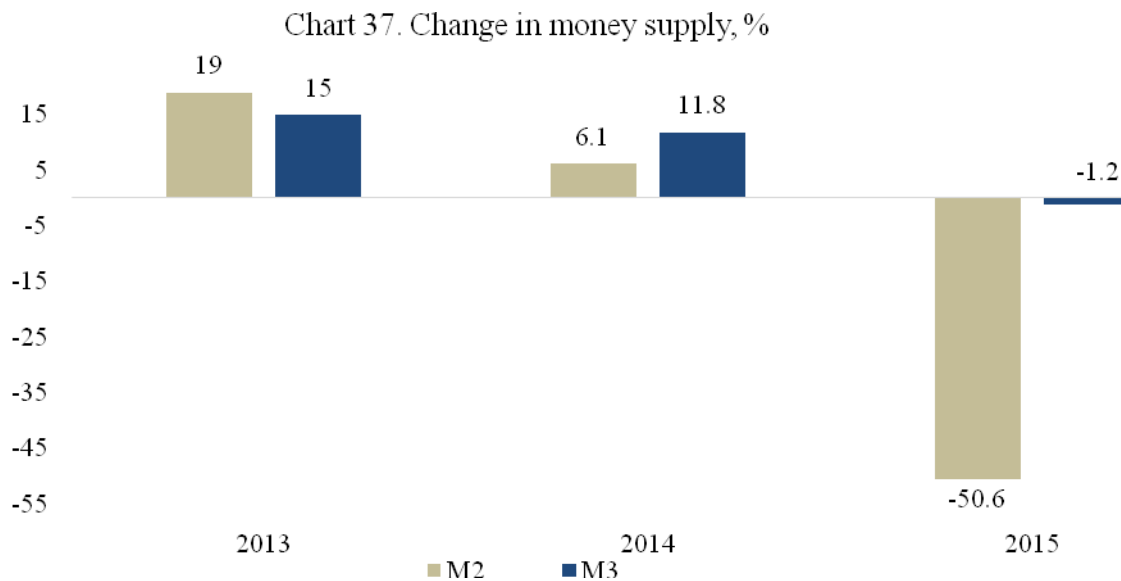
Over the reported year, the base money in Manat decreased by 40.2% to AZN 6,901.8 million. Dollarization and Government accounts had a contractionary effect, while other factors (Central Bank's liquidity operations) had an expansionary effect on changes in base money.

The banking system money multiplier (ability to create money) reduced. In this respect, the rate of decline in money supply was higher than that of base money.



Source: CBA

Over the year broad money supply in Manat (M2) decreased by 50.6% to AZN 8,613.1 million as of the end of period, primarily due to cash in circulation. However, the encashment indicator (M0/M2) dropped by 2.78 p.p. in 2015.



Source: CBA

In the reported year broad money (M3) decreased by 1.2% to AZN 21,318.6 million. Although the ratio of M3 to GDP was 36.5% in 2014, it increased to 39.2% in 2015.

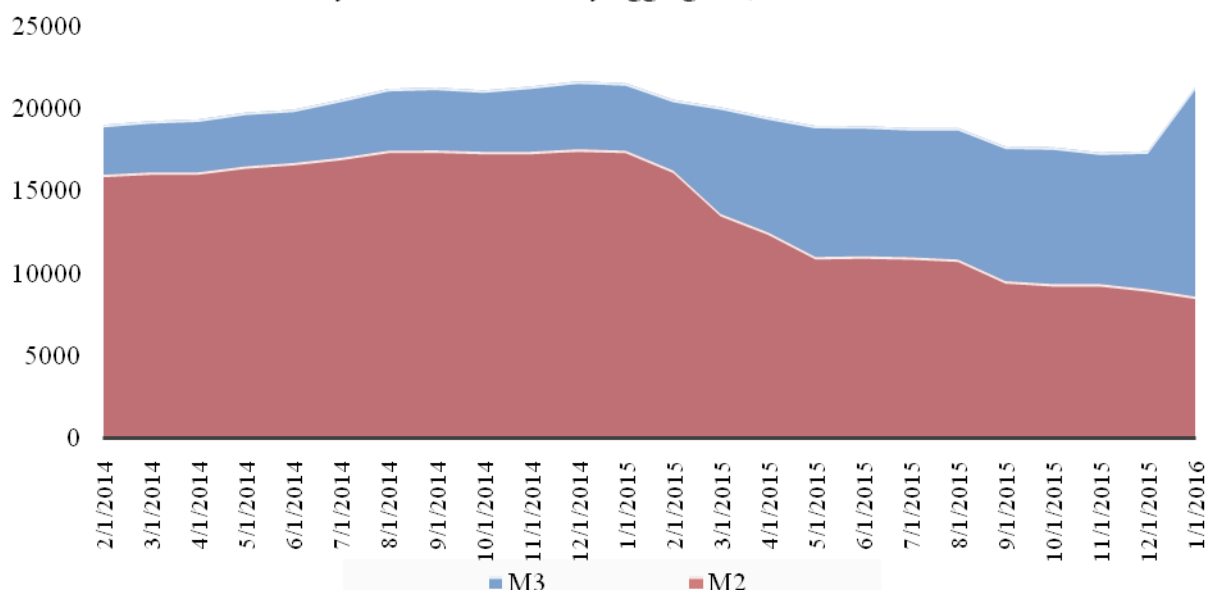
Table 8: Money aggregates, million AZN

	01.01.2014	01.01.2015	01.01.2016
M0	10459	10153	4776
M1	12737	12830	6897
M2	16435	17436	8613
M3	19289	21566	21319

Source: CBA

In 2015 M3 money aggregate primarily declined due to the drop in net domestic assets, while net foreign assets increased in terms of Manat upon revaluation and exerted an upward pressure on money supply.

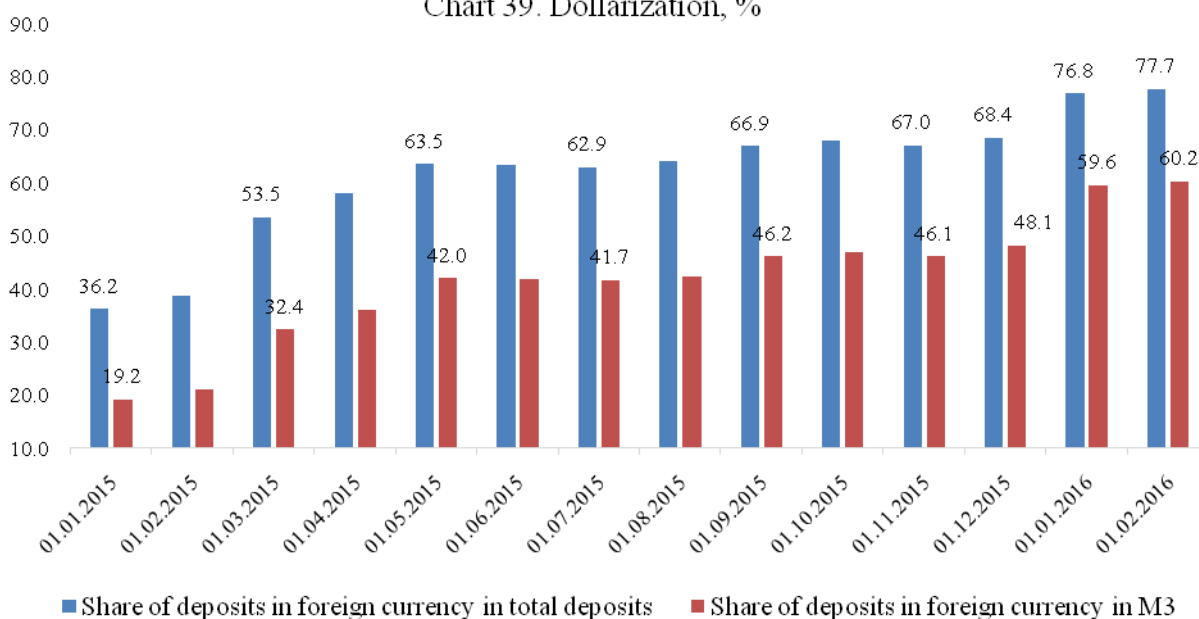
Chart 38. Dynamics of monetary aggregates, mln. AZN



Source: CBA

The level of dollarization increased in 2015. The share of foreign currency denominated deposits in total savings and deposits made up 76.8% as of the end of year.

Chart 39. Dollarization, %



Source: CBA

The share of foreign currency denominated savings and deposits in M3 money supply constituted 59.6% as of the end of the period.

The surge in the share of foreign currency denominated deposits in total deposits partially stems from the rise in their value in manat terms.

3.4. Analytical framework and financial literacy

In 2015 the Central Bank conducted researches in accordance with its mandate and functions improving available forecasting and modeling capacity with parallel focus on development of statistics and improvement of public communication.

Demand for macroeconomic diagnosis and short and medium term forecasting was significantly higher and also macroeconomic simulations on various scenarios turned to be more crucial in the reported year. With such need in mind key macro indicators were regularly estimated; simultaneously the macroeconomic diagnosis was carried out using alternative activity indicators. Short and medium term macroeconomic indicators were forecasted under different scenarios employing all available model arsenal, specifically financial programming. Also the Bank assessed the structure of the FX market, the balance of payments and the real sector under various scenarios of oil prices, the exchange rate and budget expenses.

Another critical direction of analytical efforts of the Central Bank was to come up with the optimal exchange rate regime. The staff attached greater importance to the assessment of factors affecting the FX market, the study of international practice on exchange rate regimes, and the preparation of country specific proposals. Policy decisions were built upon findings delivered to the senior management.

The methodological framework of econometric foundations of empirical economic and financial researches was improved and over 30 models in the process of forecasting were employed over the reported year. The built up models were based on classic and Bayesian econometrics. Newly constructed models allow structural breaks in the economy and conduct assessments in the context of various regimes.

The study on the role of the NBFIs in the banking sector development was conducted and the behavior of depositors was modeled within the research area on financial sector development.

The Bank estimated the effect of banking competition on financial stability within the research area on financial stability. The Central Bank also studied the effectiveness and further improvement of the deposit insurance scheme in Azerbaijan. Macro-stress tests in banking and payment systems were regularly conducted to assess the resilience of the financial system to economic shocks.

In terms of microeconomic issues, the Bank studied the effect of exchange rate swings on the export capacity of companies to estimate the pass-through of the exchange rate policy to the real sector.

There was an increase in the number of entities and organizations covered in the real sector monitoring survey conducted by the Central Bank in 2015. The economic activity index was regularly estimated through the survey of 400 entities with 70 thousand employees. 4,250 households were surveyed to assess regularly the consumer confidence index.

The Bank launched its Financial Literacy portal within the financial awareness program and engaged in various events covering around 10 thousand people from diverse target groups. The major focus was on secondary schools. The Bank representatives visited 5 schools and held various Republic wide contests within the Global Money Week framework. Financial literacy events involving

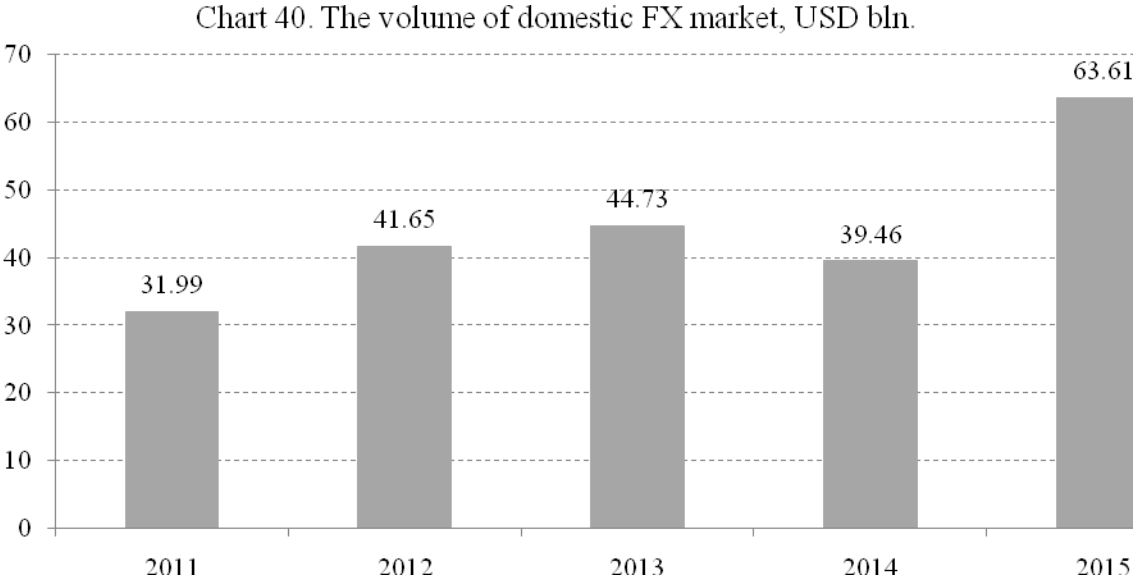
teachers and media representatives were held to improve financial awareness. The book of Macroeconomics was successfully translated from English into Azerbaijani and published in 1,000 copies, which have currently been distributed for free to educational and research institutions, public and private organizations and as well as to prominent scientists. Staff of commercial banks and students also participated at 5 various workshops to share the knowledge among themselves.

IV. FINANCIAL MARKETS

4.1. Foreign exchange market

In 2015 Central Bank's operations in the FX market supported the newly adopted exchange rate regime.

Due to high demand for foreign currency over the reported year, trading in the domestic FX market amounted to USD 63.6 billion increasing significantly year on year basis (61% or USD 24.2 billion).

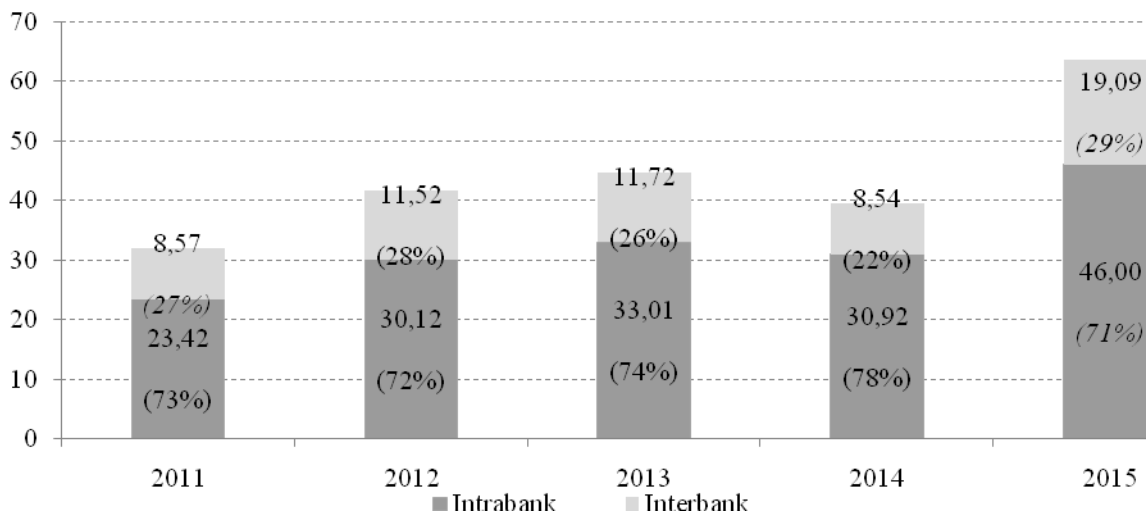


Source: CBA

Interbank currency transactions accounted for 28% (USD 17.6 billion), while intrabank currency transactions accounted for 72% (USD 46 billion) of FX market operations.

Both segments of the FX market posted growth – trading in the interbank FX market increased by 2 times as much (USD 9 billion), while the trading in the intrabank FX market increased by 1.5 times (USD 15 billion).

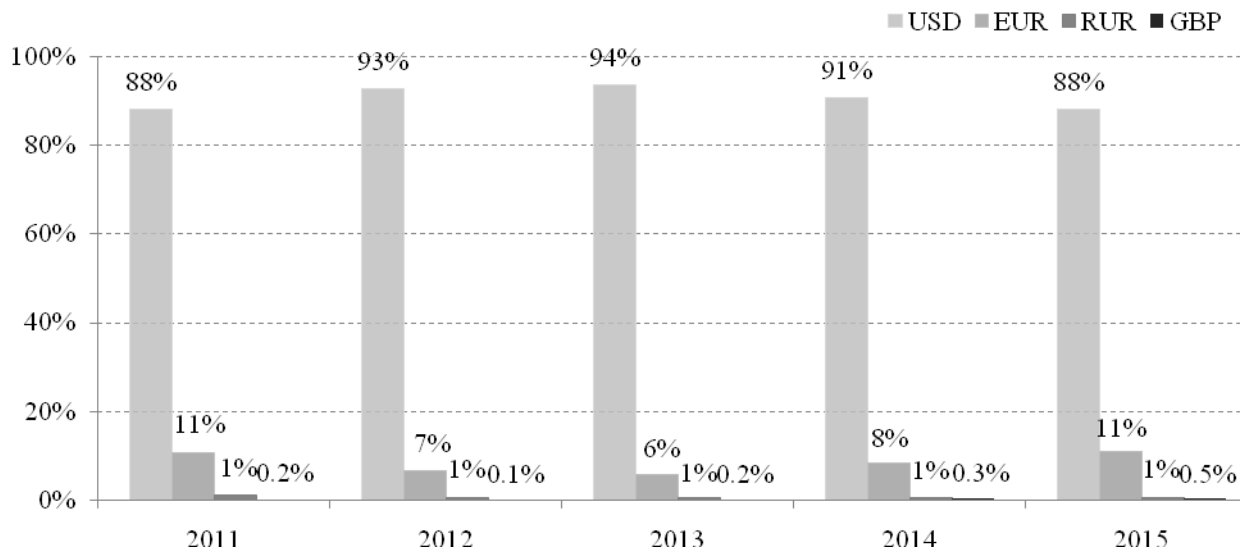
Chart 41. The structure of domestic FX market, USD bln.



Source: CBA

The Bloomberg trade platform hosted over 92% (72% in 2014) of interbank FX market transactions over the reported year. The number of local commercial banks participating in the Bloomberg system increased to 32.

Chart 42. The structure of domestic FX market by currencies

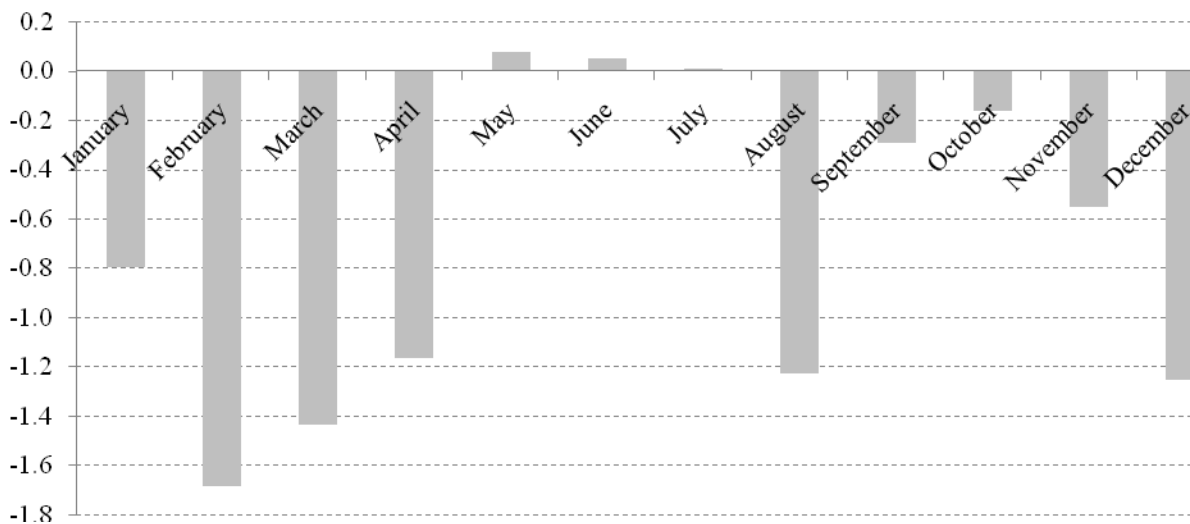


Source: CBA

Same as before, USD denominated interbank transactions in the FX market dominated (88%) in the reported year as well.

The Central Bank intervened in the FX market with USD 8.4 billion worth of net annual sell operations to support the exchange rate regime.

Chart 43. FX intervention of the Central Bank, USD bln.

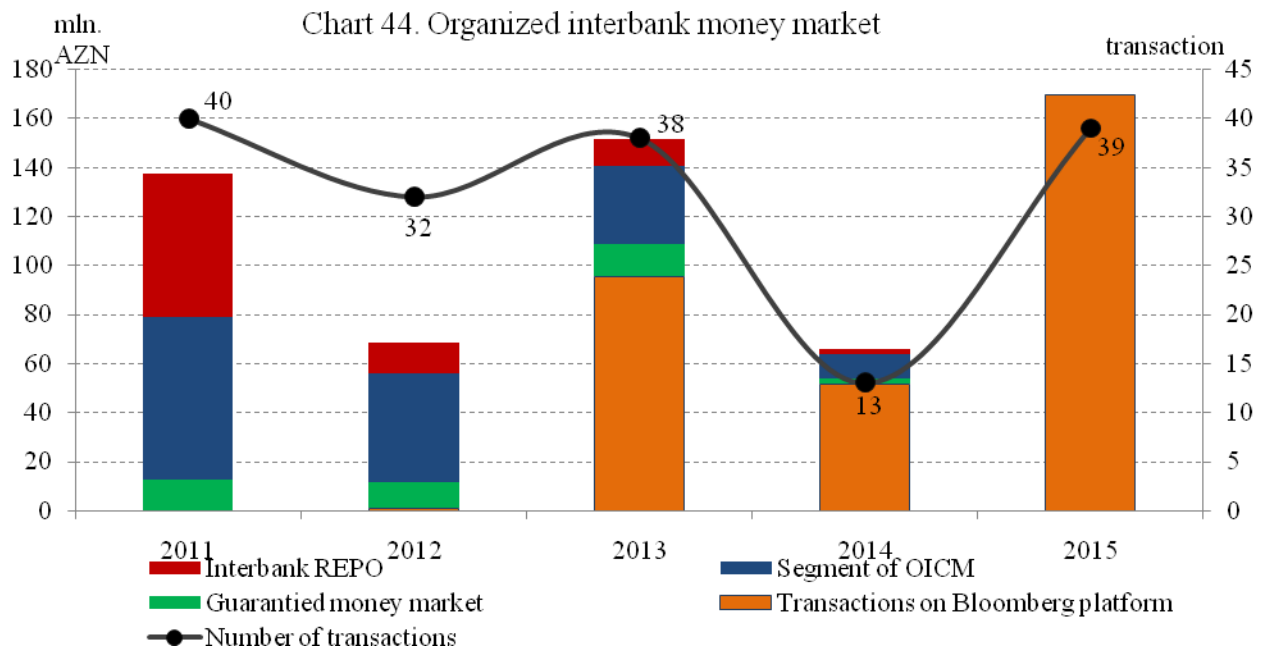


Source: CBA

4.2. Money market

Over the reported year the money market was affected by the developments in the FX market. There was a significant change in the infrastructure of the money market.

Interbank money market. The volume of the organized interbank money market transactions increased about 3 times reaching AZN 170 million (39 transactions), all of which were executed over the Bloomberg trade platform⁴.

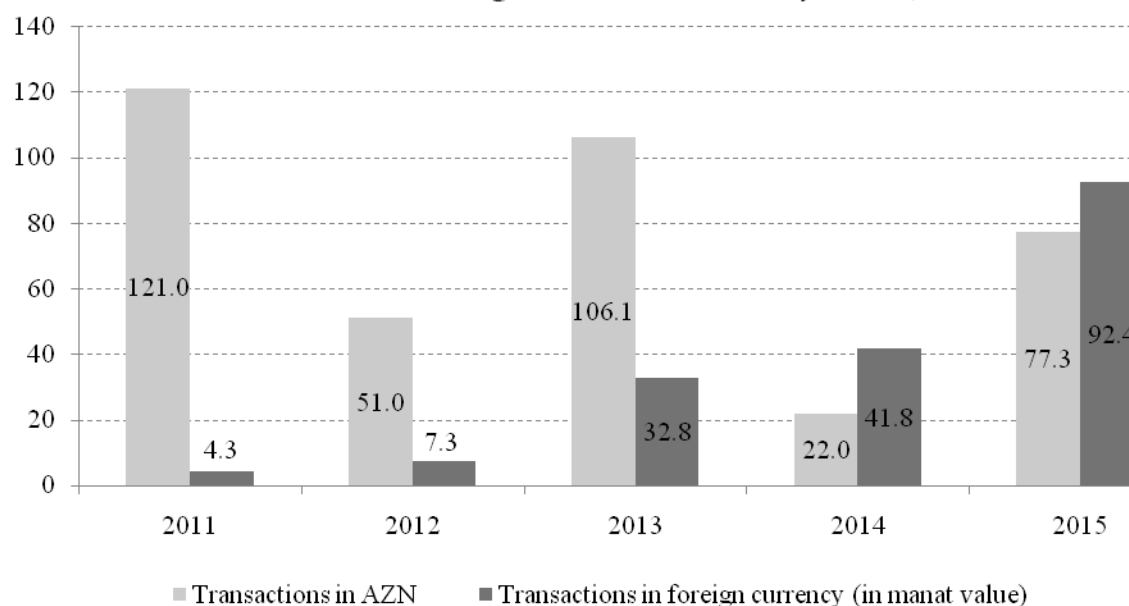


Source: CBA

While 54% (AZN 92.4 million equivalent) of money market transactions were made in foreign currency, 46% (AZN 77.3 million) was made in the national currency.

⁴The Organized Interbank Credit Market was liquidated due to termination of trade operations of the Baku Interbank Currency Exchange in January 2015.

Chart 45. Transactions in organized interbank money market, AZN mln.



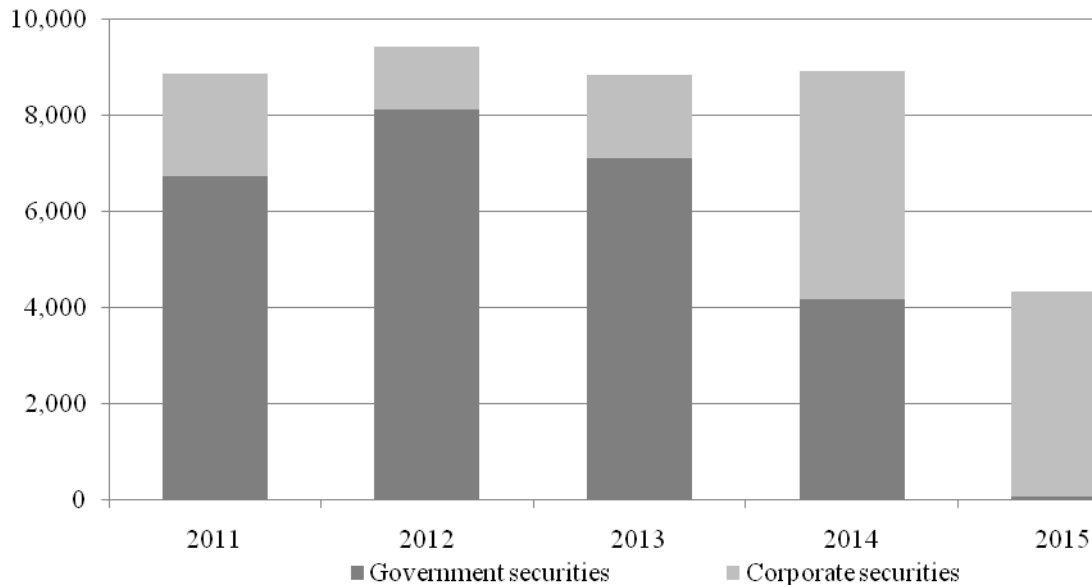
Source: CBA

Transactions in money market instruments were conducted with a maturity between 1 and 450 days. The average maturity on Manat and foreign currency denominated transactions were 120 and 300 days respectively.

Securities market. The volume of transactions in the securities market year on year decreased 2 times to AZN 4.3 billion. With no initial placement at the state treasury bills market⁵, the secondary market witnessed only AZN 0.05 billion worth of transactions. As a result, the share of the transaction in treasury bills accounted for only 1% (47% in 2014) of the overall transactions in the securities market.

⁵Government securities include the Central Bank's short-term notes and government bonds.

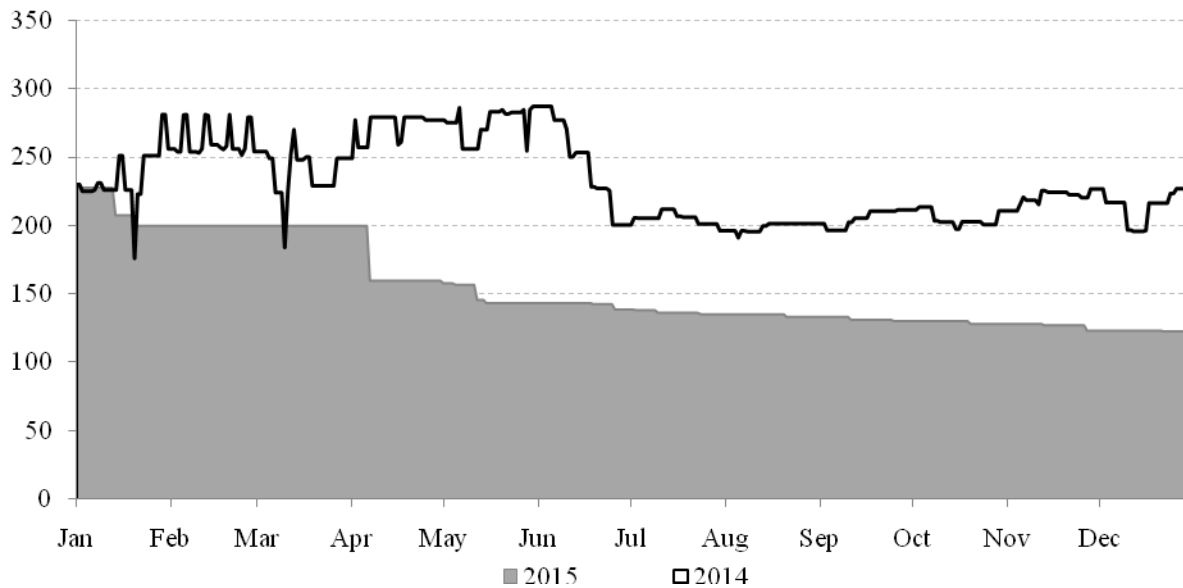
Chart 46. Transactions in security market, AZN mln.



Source: BSE

The size of government securities in circulation year on year decreased by 46% (AZN 227.3 million) to AZN 122.7 million as of the end year. Treasury bills accounted for all government securities in circulation.

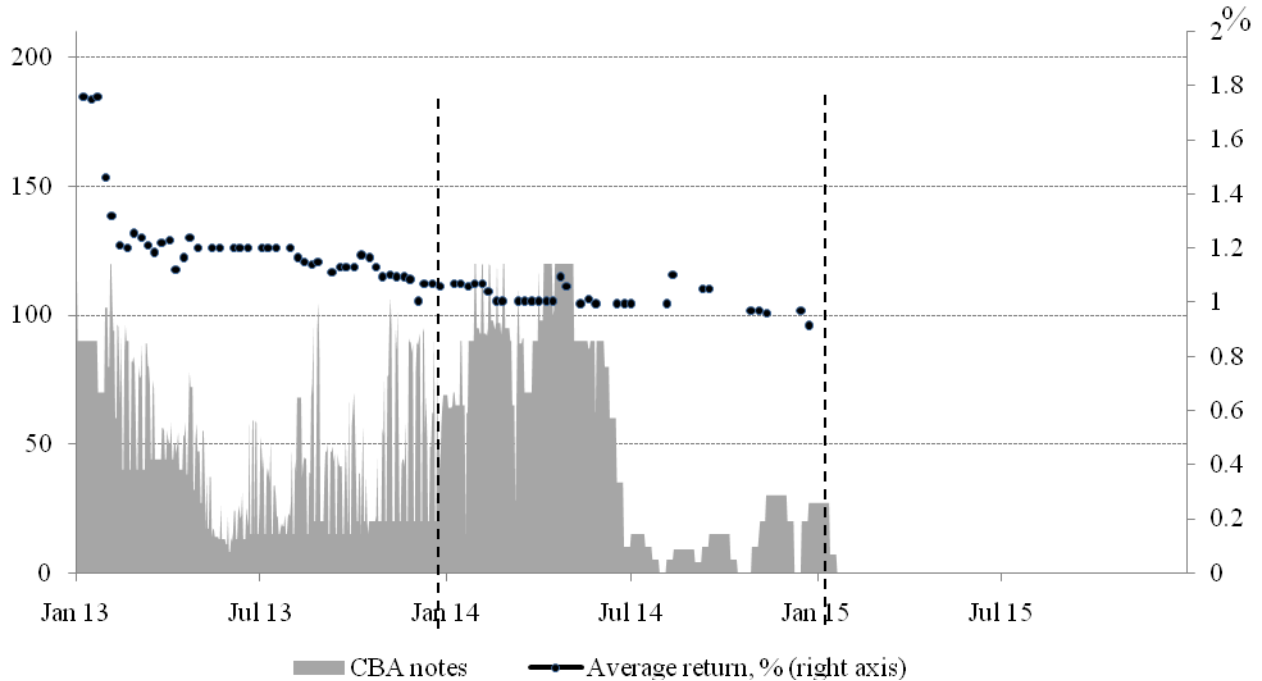
Chart 47. Government securities in circulation, AZN mln.



Source: BSE

Although the Central Bank issued AZN 420 million worth of short-term notes, there was no placement due to the shifts in the liquidity position of the banking system. As a result, outstanding amounts of the notes in circulation were zero over the year.

Chart 48. CB notes in circulation, AZN mln.



Source: CBA

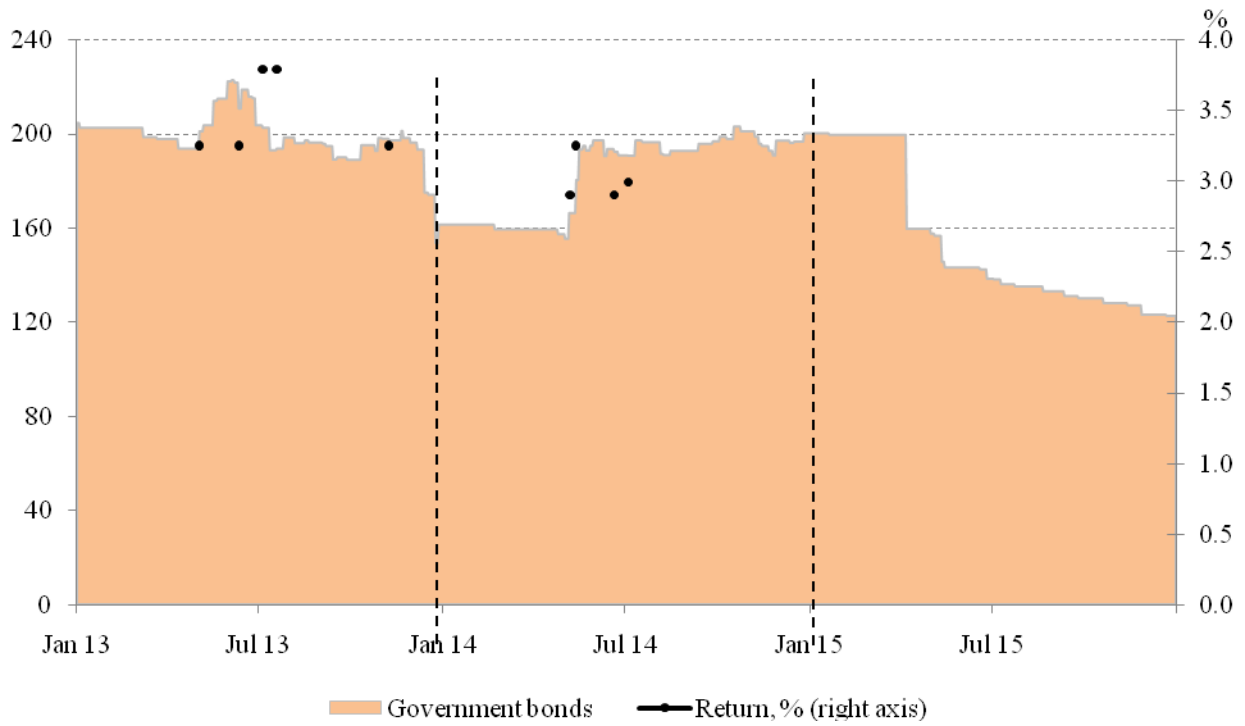
Under the Central Bank’s standing facility the size of money market transactions⁶ constituted AZN 31.8 million, all of which were reverse-repo transactions. The interest rate on standing facilities was set to be 0.1% for overnight repo transactions, and 5%⁷ for overnight reverse-repo transactions.

The volume of outstanding treasury bills decreased by 39% (AZN 105 million) over the reported year to AZN 122.7 million as of the end year. Average yield of treasury bills with one year maturity was 3.25%.

⁶Overnight repo and overnight reverse-repo transactions are initiated by commercial banks

⁷From 30.07.2014 onward

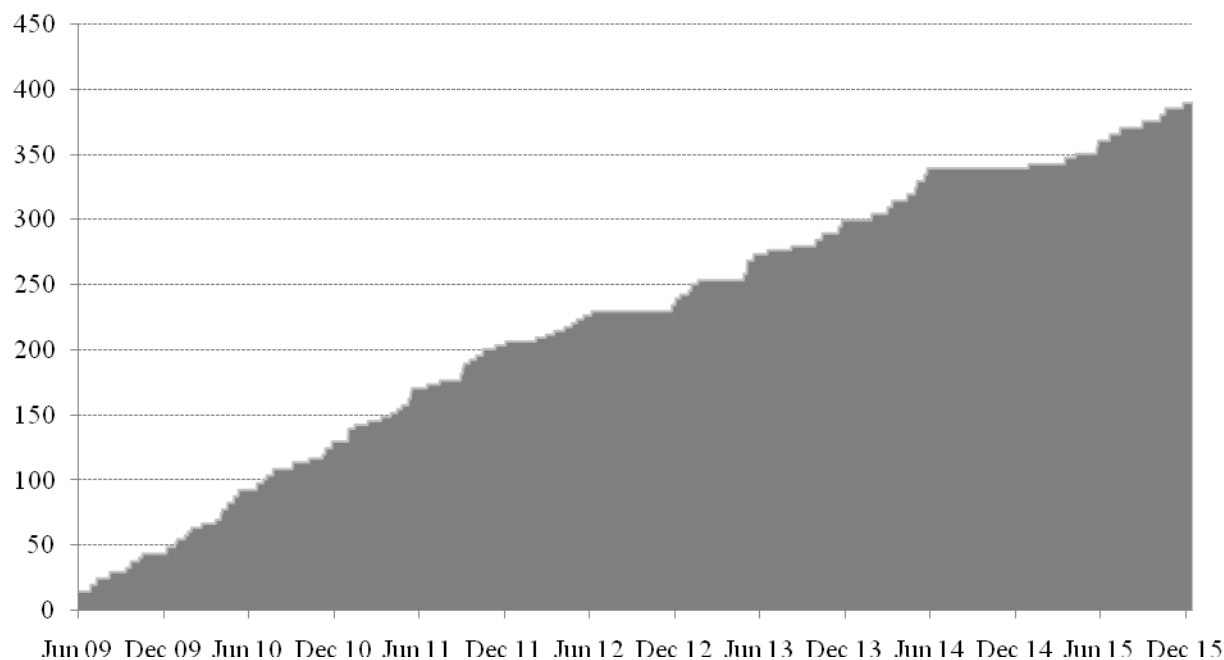
Chart 49. Government bonds in circulation, AZN mln.



Source: BSE

Over the reported year the Azerbaijan Mortgage Fund registered the 9th issuance of 10 year maturity unsecured bonds for an amount of AZN 50 million and sold them fully through 11 auctions. Outstanding bonds at the yearend totaled to AZN 390 million.

Chart 50. Mortgage securities in circulation, AZN mln.



Source: AMF

Secondary market transactions for mortgage backed securities totaled up to AZN 1.5 billion (188 transactions), which covered 36% of the corporate securities market.

V. FOREIGN EXCHANGE RESERVES MANAGEMENT

In 2015 the Central Bank managed foreign exchange reserves on the backdrop of slump in global commodity prices, additional stimuli for the economy in the euro zone and the expectations of an exit from accommodative monetary policy in the USA.

The Central Bank prioritized liquidity and safety in reserves management with an intention to support the currency regime amid ongoing uncertainties in financial markets and to manage high demand for the US dollar in the domestic FX market.

Over the reported year, to support current operations under the operational investment strategy, the Central Bank split the reserves into investment tranches that served as operational and saving instruments.

The operating tranche, maintained to support the existing currency regime and boost sustainability against possible currency crises, amounted to USD 4 billion, 100% of which was maintained in the US dollar, the dominant currency for foreign trade and the country's foreign liabilities. In order to preserve the absolute value of reserves, the investment tranche was maintained in currencies composing of a modified SDR basket, excluding the Japanese yen (51% in USD, 38% in Euro and 13% in GBP).

The Bank developed regulations of investment portfolio in Asia and, consequently, investment agreements were signed with selected foreign managers to expand the **currency and geographic diversification** of foreign exchange reserves. Also, a deal was negotiated with the People's Bank of China to invest funds in China interbank bond market which was followed by opening of relevant bank accounts.

Moreover, the Central Bank kept cooperating with external asset managers in managing its FX reserves.

For the end of the year, the value of foreign exchange reserves decreased by 63.54% to USD 5,016.7 million owing to currency sales. The return on reserve management amounted to 0.76%.

VI. BANKING SYSTEM AND FINANCIAL STABILITY

6.1. Institutional development of the banking system

In 2015 the behavior and sustainability of the Azerbaijan banking system was vastly affected by external shocks and exchange rate fluctuations of Manat.

As of 1 January 2016, 43 banks and 157 other financial institutions (credit unions, NBCIs and other similar financial organizations) rendering limited banking services were operating in the country (Table 1).

Most banks (41) are private (including 21 banks with foreign capital).

As of end of 2015 there were 750 bank branches and 164 bank departments, , 50.4 % of which were operating in regions.

157 NBCIs and 63 branches and 1,104 post offices of the Azerpost LLC rendered limited banking services to the population.

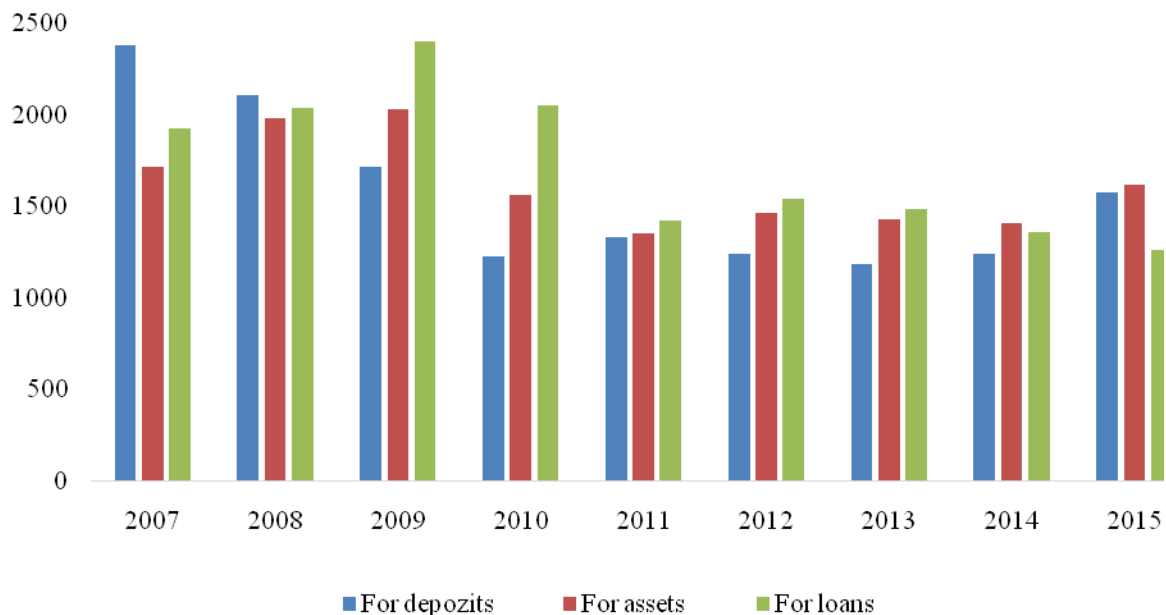
Table 9. Institutional structure of the banking system (as of 01.01.2016)

Banks, including:	43
<i>state owned</i>	2
<i>banks with foreign capital, including:</i>	21
<i>with over 50% of paid-in capital</i>	8
NBCIs, including:	157
<i>credit unions</i>	109
<i>credit institutions financed by international humanitarian organizations, including:</i>	47
<i>Branches</i>	228
<i>other non-bank credit institutions, including:</i>	1
<i>Branches</i>	12

Accordingly, in average 12.8 banks and NBCIs provide financial services to every 1000 km², and 11.6 banks to every 100,000 adults (26.3 and 23.7 respectively with the Azerpost LLC).

Over the reported year the share of assets of top 5 banks in total assets year on year increased by 3 p.p. to 58%. In terms of the volume of capital, the share of top 5 banks in total capital was 46%. However, the HHI, internationally accepted indicator of market concentration, shows a low concentration level in the Azerbaijani banking system. Accordingly, in terms of share in assets, credits and deposits, the HHI was 1613, 1263 and 1576 respectively⁸ in 2015.

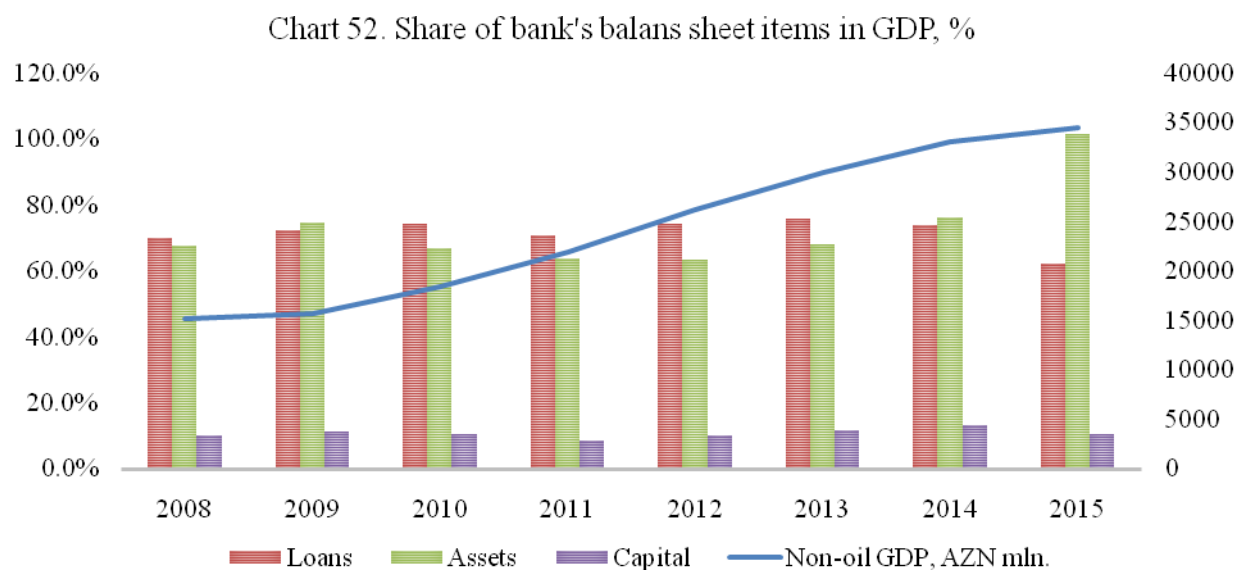
Chart 51. HHI concentration index



Source: CBA

⁸The US Department of Justice uses the HHI to divide markets into 3 parts: less concentrated ($HHI < 1500$), moderately concentrated ($1500 < HHI < 2500$) and highly concentrated ($2500 < HHI$) markets. The HHI may range from 0 to 10000.

The population and the corporate system are more widely covered with banking services. As of 1 January 2016 banks served 5,716 million customers, which increased 11.1% year over year basis. Accounts of individuals represented 98.1% (5.607 million) of all customers (83% of all adults).



Source: CBA

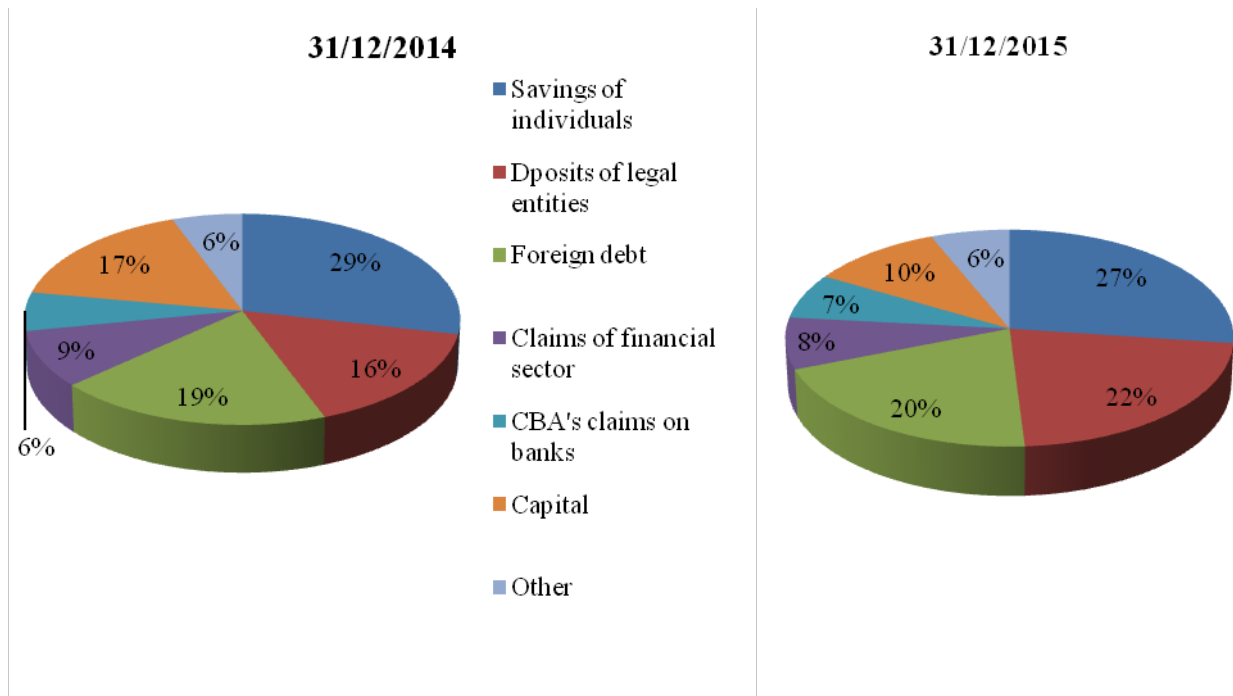
The ratio of bank assets to non-oil GDP was 101% in 2015 (76% in 2014). The ratio of total loans (loans to individuals and non-financial legal entities) to GDP was 62%. The ratio of bank capital to non-oil GDP was 10% in 2015 (13% in 2014).

6.2. The resource base of the banking system

The dynamics and structure of the banks' resource base was affected by the volatile external and internal conjuncture and new trends in depositors' behavior in 2015.

The increase in the resource base stem from customer savings (individuals and non financial legal entities) in 2015. Deposits of the population increased by 31.8% to AZN 9474 million, accounting for 27% of the banks' resource base. Long-term deposits accounted for 45% (AZN 3,544.9 million) of term deposits of individuals. Non-resident individuals accounted for 13% of deposits (to compare, 9.9% as of end of 2014).

Chart 53. The structure of bank resources



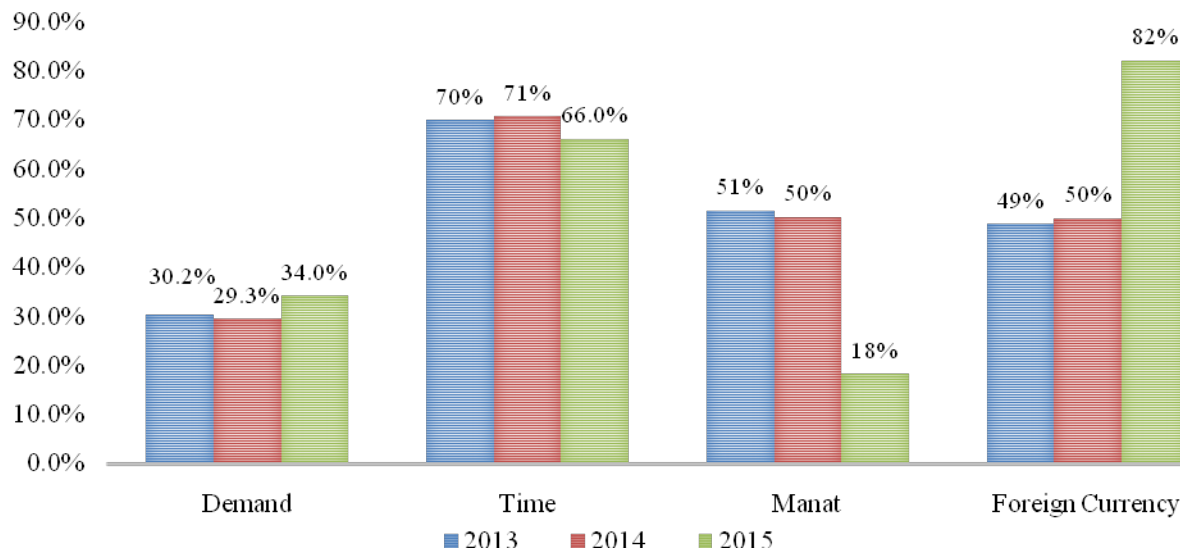
Source: CBA

Over the year, the share of deposits of non-financial legal entities in bank resources increased by 6 p.p. to 22%, the volume of which made up AZN 7,630 million as of the end-of period.

The share of foreign currency denominated savings in total funds attracted from population and non-financial corporate sector reached 82% as a result of

conversion of manat deposits to foreign currency. 66% of (AZN 15,482 million) attracted funds comprised of term savings and deposits.

Chart 54. The structure of the deposits, %

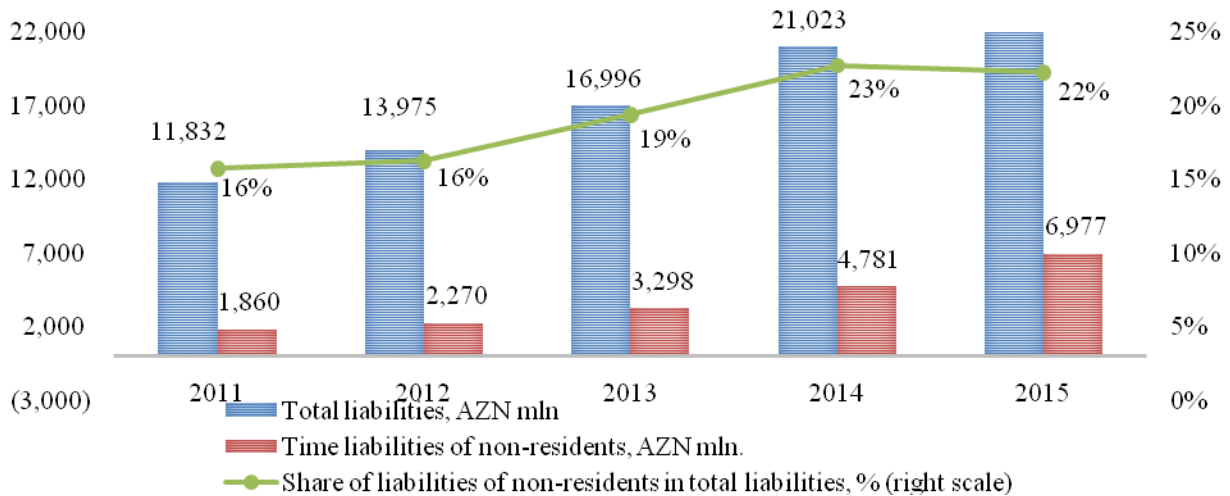


Source: CBA

The share of funds in bank liabilities obtained from the Central Bank was 7% (AZN 2,364 million.). The funds attracted from other resident financial institutions increased by 23% to 8% of bank liabilities over the year.

Funds attracted from non-resident banks and international financial institutions totaled up to AZN 6,977 million as of the end period. Funds attracted from abroad accounted for 20% of total assets.

Chart 55. Dynamics of foreign debt



Source: CBA

In total, liabilities of the banking system⁹ increased 48.8% over the year to AZN 31.2 billion of 01.01.2016.

6.3. Structure of assets of the banking system

Over the reported year, assets of the banking sector were dependent on shifts in the structure of liabilities and developments in the FX market and the real sector.

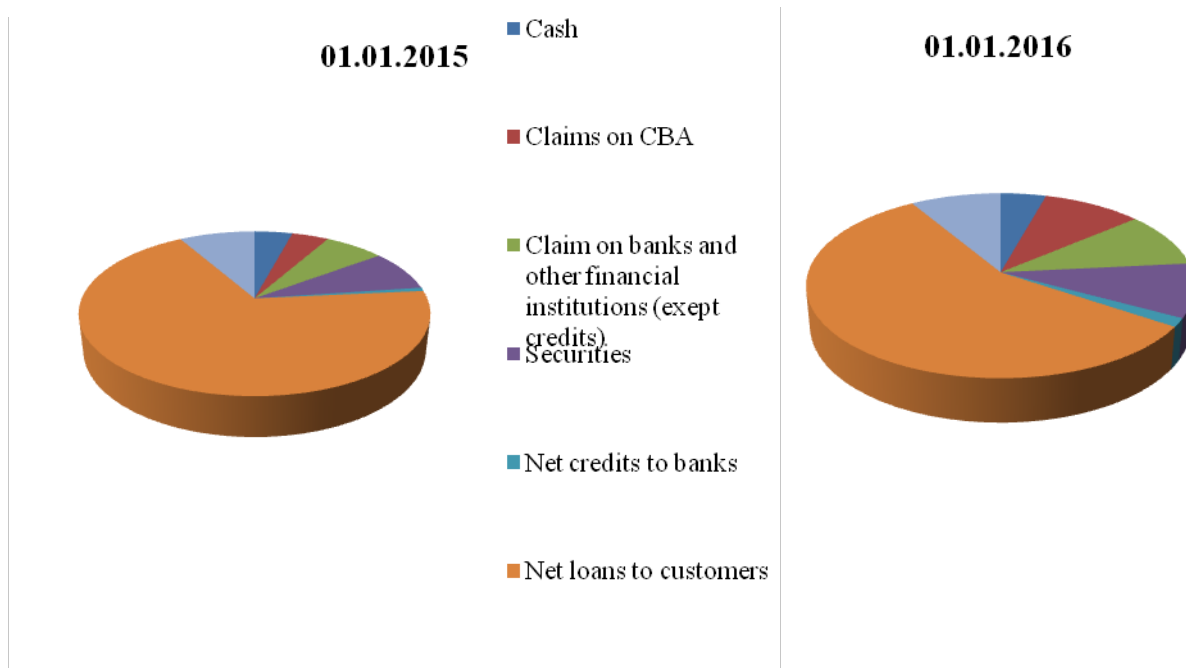
In 2015 assets of the banking system increased by AZN 9,723.7 million or 39% to AZN 34,906 million as of 01.01.2016.

The size of highly liquid assets (cash and amounts due from the Central Bank) doubled over the year, the share of which in banks assets reached 14%.

Bank loans increased by AZN 3,134.6 million or 17.4% to AZN 21,152 million. The share of loans in assets made up 61% as of the end period (68% in 2014).

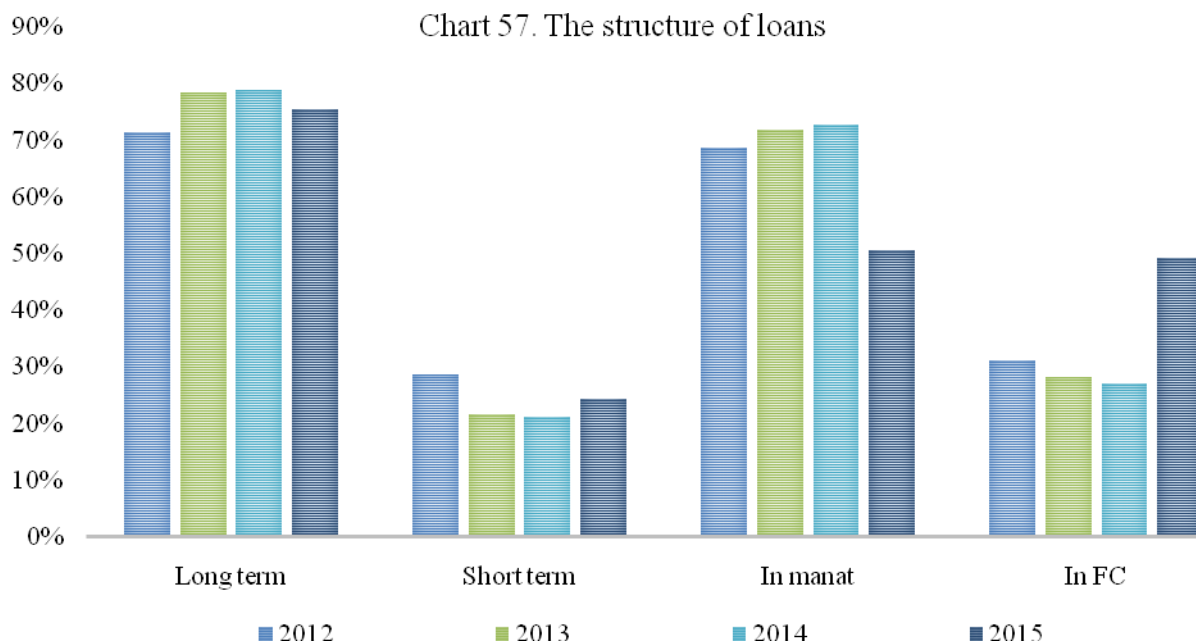
Graph 56. Structure of banking system assets

⁹Banking system liabilities – difference between bank assets and capital.



Source: CBA

The size of long-term loans increased by 12.4% to AZN 16,417 million as of the end period. The share of long term loans in the loan portfolio was 76%. The share of loans in Manat in the loan portfolio was 51% as of the yearend.



Source: CBA

Loans to business entities encompass 74% of the lending portfolio. Loans to households increased by 8.4% to AZN 8,383.6 million as of the yearend (38.6% of the lending portfolio). Loans for real estate construction and purchase (including mortgage loans) increased by 26.5% to 1,542.4 million, which accounted for 18.4% of loans to households (to compare, as of end of 2014 such loans accounted for 15.8% of loans to households). The share of such loans in the banks' aggregate lending portfolio was 7.1% as of 01.01.2016 (6.6% as of 01.01.2015).

Table 10. Sectoral structure of loans

	31.12.2014	2014	31.12.2015	2015	Change	Change
	M AZN	share	M AZN.	share	M AZN	in %
Trade and services	2680.7	14.5	3158.0	14.5	477.3	17.8
Households	7731.8	41.7	8383.6	38.6	651.8	8.4
Agriculture & processing	847.3	4.6	508.1	2.3	-339.2	-40.0
Construction & real estate	2555.1	13.8	3050.7	14.0	495.7	19.4
Industry & production	2027.8	10.9	1948.3	9.0	-79.5	-3.9
Transport & communication	736.0	4.0	1465.6	6.7	729.5	99.1
Other	1963.8	10.6	3203.6	14.8	1239.8	63.1

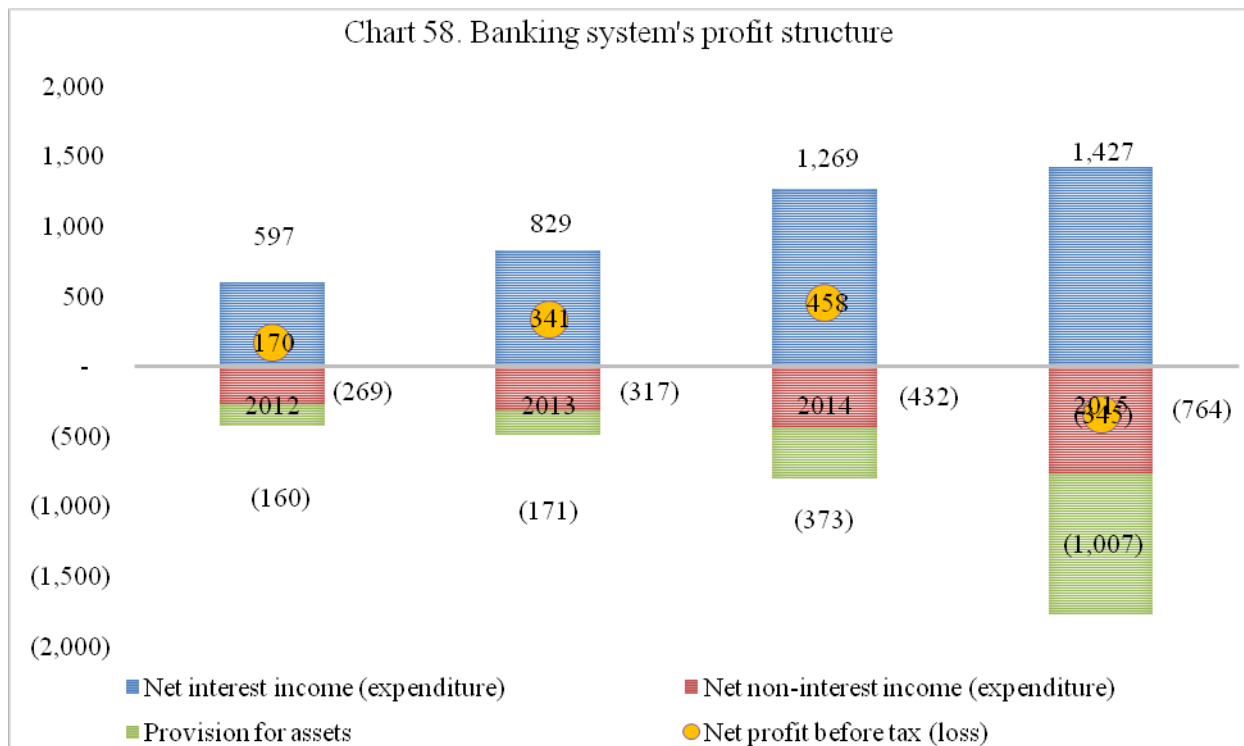
Source: CBA

As of 01.01.2016 the size of investments in securities reached AZN 3,285.6 million (63% or AZN 1,271.8 million increase year over year basis). The share of such securities made up 9.4% of average assets.

6.4. Financial output of the banking activity and capital

In 2015 banks' profit was primarily affected by increase in loan loss provisioning and exchange rate movements of Manat.

As a result, the banking system ended the year with a loss in 2015 (AZN - 345 million).



Net interest income increased by 12.5% to AZN 1,426 million. Interest income year on year increased by 14% to AZN 2,525 million. In 2015 the share of interest income in total income amounted to 88%. Interest expenses year on year increased by 16% to AZN 1,147 million. The ratio of interest expenses to average assets was 4%.

Over the year banks' net non-interest expenses increased by 77% to AZN 764 million relative to 2014. Non-interest income gained from services to customers and other operations amounted to AZN 238 million (down from 52% in

2014). However, non-interest expenses increased by 7% to AZN 1,002 million as of the end year.

In 2015 banks' aggregate regulatory capital amounted to AZN 3,598 million. The size of Tier I Capital was AZN 3,161 million, the share of which in aggregate capital was 87.8%.

Table 11. Structure and dynamics of banking system's aggregate capital (M AZN)

	31.12.2013	31.12.2014	31.12.2015
Tier I Capital	2716.9	3515.1	3,161
Change year-to-date, %	33%	29%	-10%
Paid-in capital	2587.7	3341	3,236
Share premium	21.8	21.8	22
Net retained earnings	229	376	(274)
Deductions from Tier I Capital	-58.8	92	103
Tier II Capital	872.9	1018.9	814
Current year profit	287.3	386.1	102
General reserves	234.3	247.9	251
Other capital funds	351.2	384.8	491
Deductions from total capital	-104.4	172.5	273
Total capital after deductions	3426.5	4269.1	3,598
Change year-to-date, %	33%	25%	-16%

Source: CBA

As of 01.01.2016 total capital adequacy of the banking system was 14.8%, while the Tier I Capital adequacy ratio was 12.9%. The capital adequacy ratios are well above the threshold level set by the Central Bank and the international standards.

VII. THE CENTRALIZED CREDIT REGISTRY

In 2015 the Centralized Credit Registry (CCR) collected information on individuals and legal entities with credit liabilities due to the banking system and supported information sharing on credit data in real mode.

The CCR kept expanding its coverage in 2015 integrating 2 newly licensed banks and 1 NBCI to the Registry. As of the end of period 43 banks, 46 NBCIs, up to 700 branches and over 1,500 user points were included to the network of the Registry.

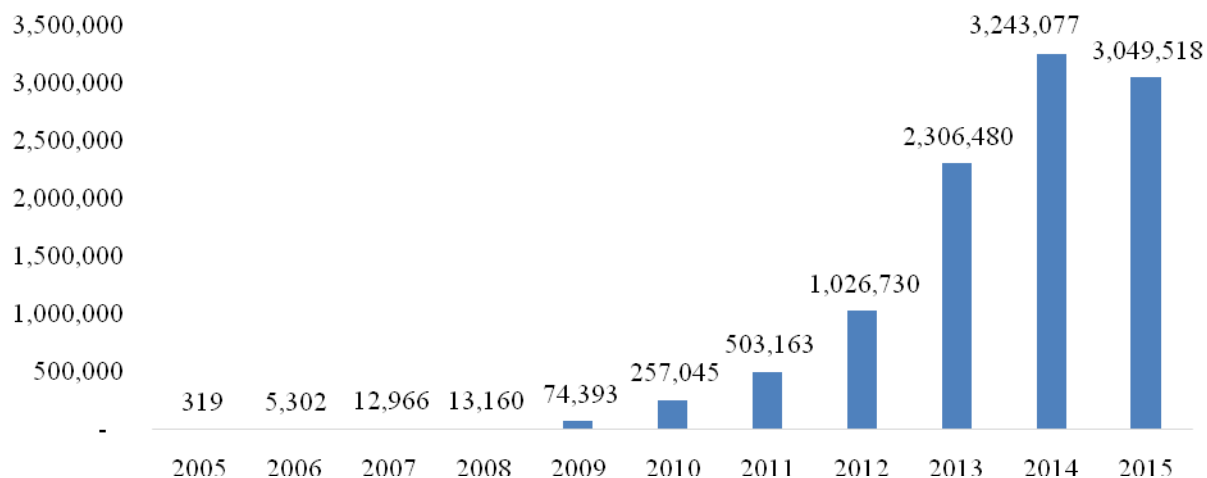
The process of setting up the Electronic Statistics and Analytical Reporting System (ESARS) was successfully completed allowing use of credit data properly to ensure Central Bank's prudential supervision and financial stability.

The CCR applied a Web Service platform that allows a fast flow of data between the Registry and its users over the reported year.

To verify taxpayers' identification data at the CCR more accurately, the interactive linkage between the Registry and Automated Tax Information System (AVIS) of the Ministry of Taxes was set up.

Moreover, in order to automate targeted state social assistance program according to the decree by the President, the network connection was set up between the CCR and the centralized information system of the Ministry of Labor and Social Protection of the Population (also between E-Government) and data sharing process among them was also successfully tested.

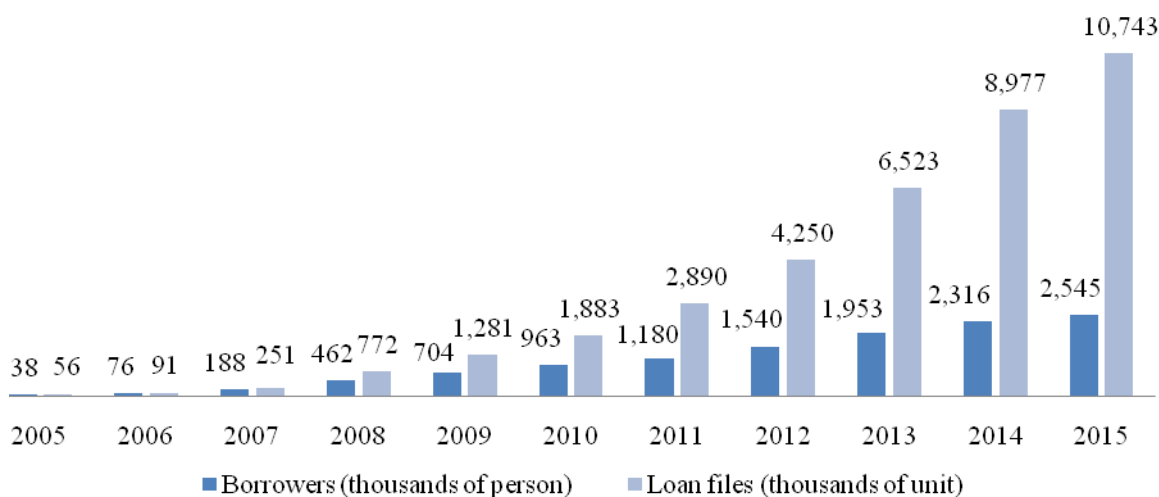
Chart 59. Number of inquiries



Source: CBA

In 2015, 43 banks and 41 NBCIs used the CCR database. As of the end year, the number of people about whom the information was gathered in the CCR reached 2.55 million, the number of credit files was around 10.74 million and the number of guarantors was 1.22 million.

Chart 60. Dynamics of surveys in CCR



Source: CBA

Over the year the CCR handled 3.05 million inquiries which are 6% lower in comparison with 2014 (3.24 million in 2014). 188.4 thousand people applied to the CCR for credit information (77.6 thousand in 2014).

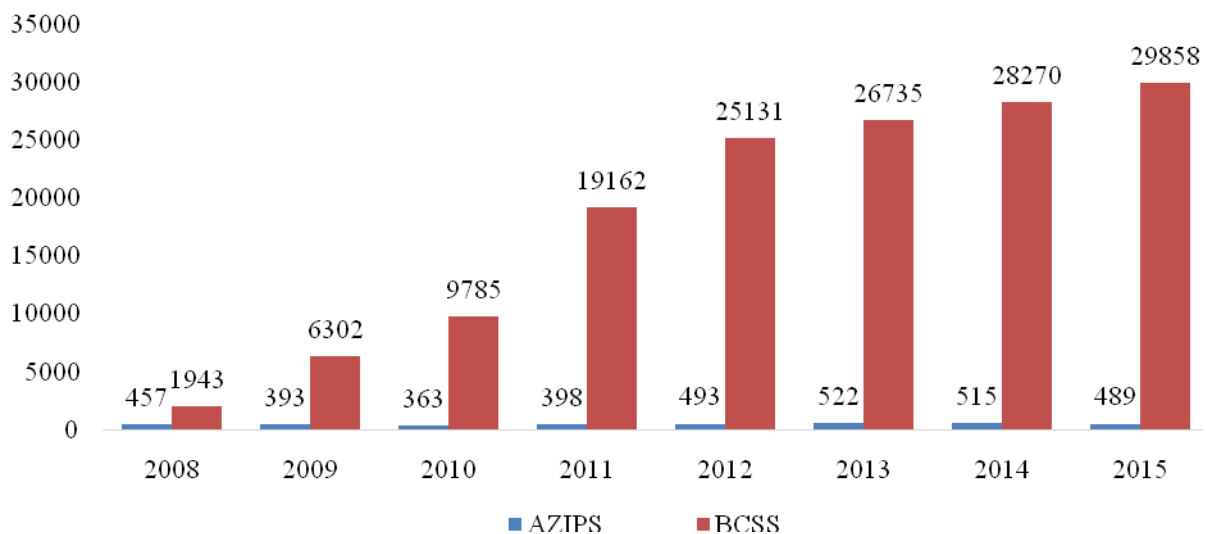
VIII. PAYMENT SYSTEMS

8.1. Maintenance of stable and reliable operation of payment systems

In 2015 the Central Bank also prioritized higher security and uninterrupted and reliable operation of payment systems, via lowering dependency on external factors, as well as improving electronic payment service infrastructure.

In 2015 the Real Time Interbank Settlement System (RTGS) handled total AZN 121.6 billion worth of 489 thousand payment documents. The volume of transactions year on year increased by 16.6% (AZN 17.3 billion), while the number of transactions year on year decreased by 5% (26 thousand transactions). The average amount of every payment order processed in the system made AZN 248.7 thousand.

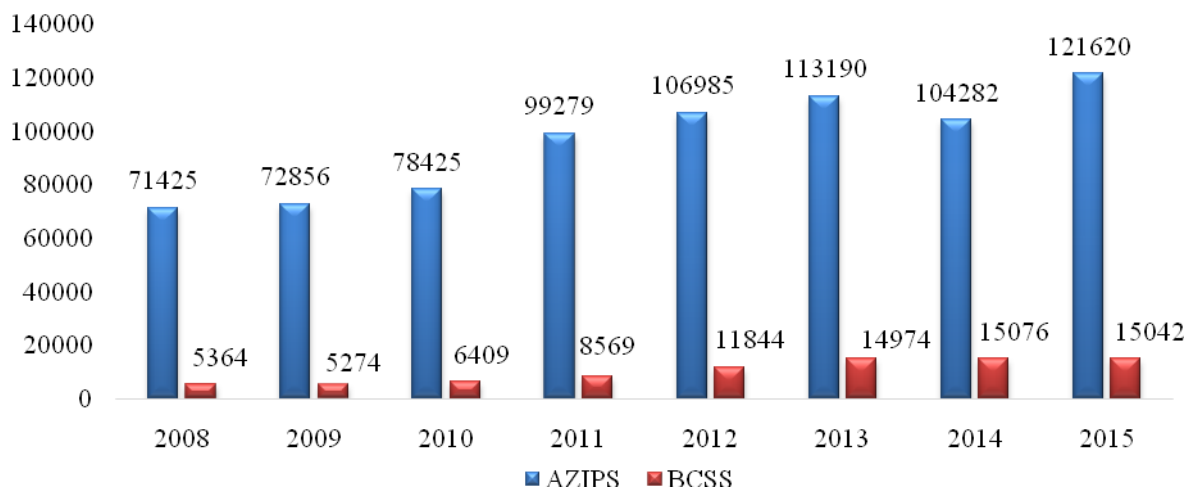
Chart 61. Number of payment documents (thousands of units)



Source: CBA

Another component of the National Payment System - the Retail Payment System (BCSS) processed in total AZN 15 billion worth of 29,858 thousand payment documents. The number of transactions year on year increased by 5.6% (1588 thousand), while the volume of transactions nearly remained unaltered. Average amount of every payment document handled in the system was equal to AZN 503.8.

Chart 62. Amount of payment documents (AZN million)



Source: CBA

The RTGS accounted for 2%, while the BCSS accounted for 98% of total payment documents processed in payment systems in 2015. The RTGS accounted for 89%, while the BCSS accounted for 11% of total value of payment documents processed.

The RTGS, one of the critical components of the National Payment System, now functions over the local telecommunication network (LTN) as part of the Central Bank's *National Payment System Upgrade* project implemented to eliminate dependency on international infrastructures and to maintain uninterrupted and effective operation of payment systems. The system participants

were capable to make transactions over the SWIFT and LTN alike. Consequently, e-certificates, introduced by the Bank Certificate Services Center of the Central Bank, were used for information security purposes at the RTGS.

8.2. Development of the infrastructure capacity and legal framework of the National Payment System

The Central Bank continued efforts to expand electronic payment systems scope and functions across the country over the reported year.

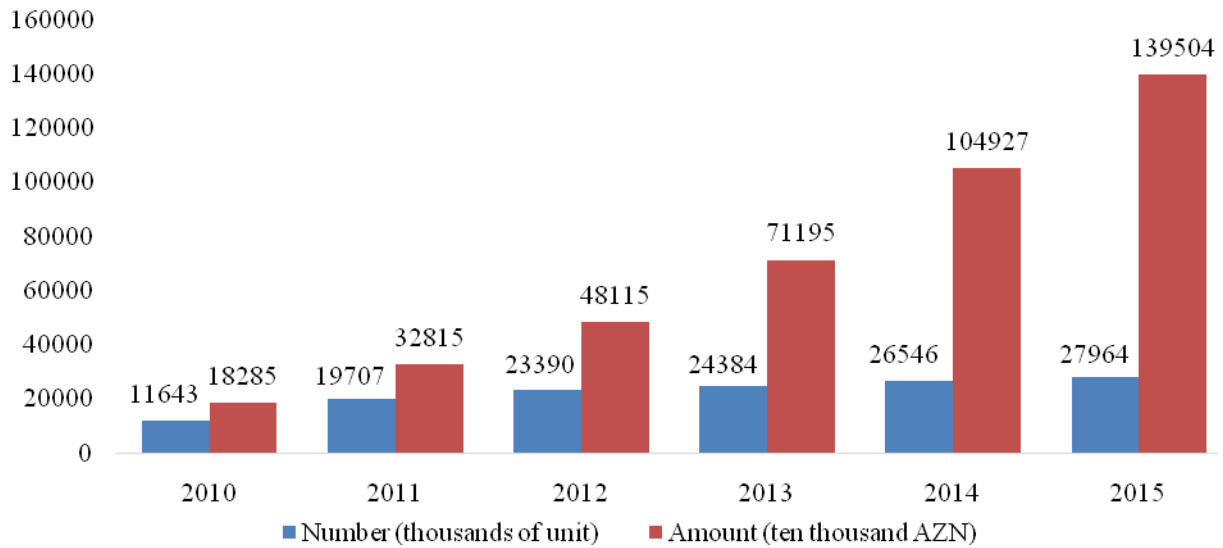
The coverage of the Government Payment Portal (GPP) which replaced the Centralized Information System for Mass Payments continued to expand.

Currently the Ministries of Finance, Taxes, Economy, Internal Affairs, Emergency Situations, Education and Energy, the State Customs Committee, the State Committee on Property Issues, the State Migration Service, the State Social Protection Fund, the Azerbaijan Mortgage Fund, 4 utility companies, 3 mobile operators, as well as BTRIB, Azercell Telekom LLC and TransEuroCom are integrated to the newly created infrastructure.

The Central Bank operates jointly with the State Agency for Public Service and Social Innovations under the President of the Republic of Azerbaijan to effectively and promptly implement the functions assigned to the State Agency. Currently, payments via the multifunctional ASAN payment system, as well as payments on public services rendered at ASAN service centers are carried out over the GPP.

The above mentioned institutions accept cash payments via 2,000 payment points of 35 banks and the Azerpost LLC which integrated to the GPP's infrastructure and via more than 200 payment terminals. Also non-cash payments could be made by cards using the system's web-based functions (www.gpp.az).

Chart 63. Payments via GPP

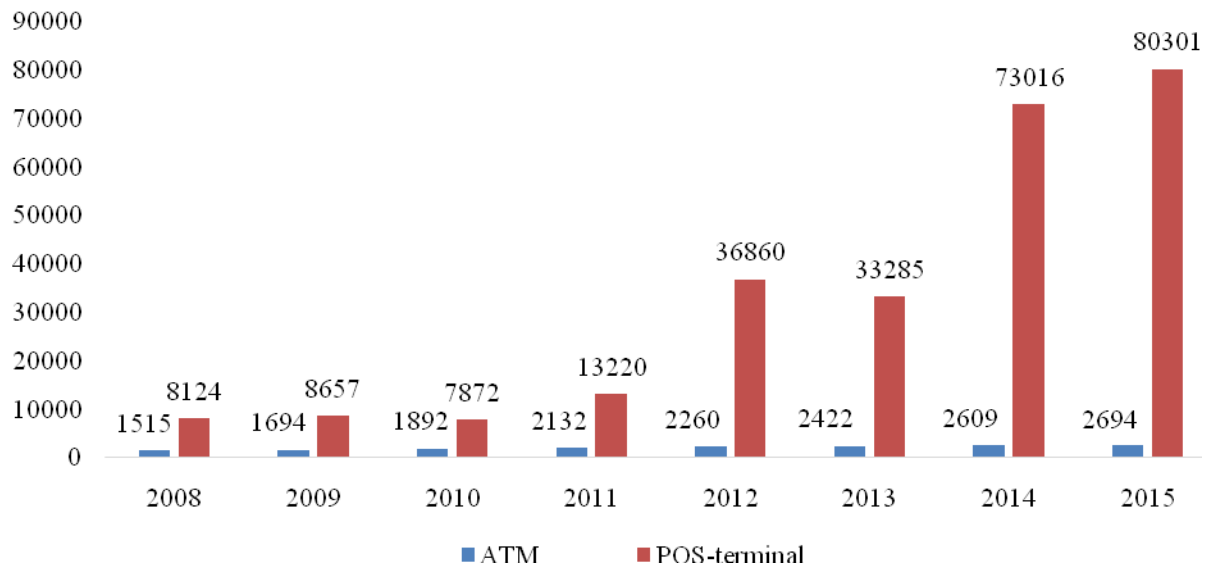


Source: CBA

The system processed in total AZN 1,395 million worth of 28 million payment transactions in 2015. The volume of transactions processed in the system year on year increased by 33% (AZN 346 million), while their number over the same period increased by 5.7% (AZN 1.5 million).

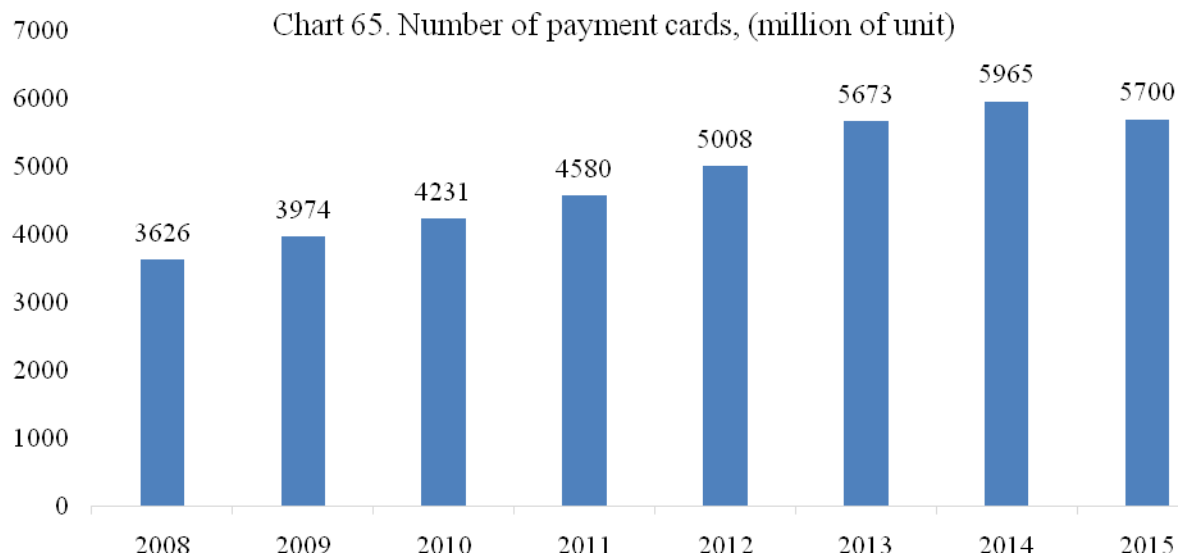
The payment card infrastructure broadened in 2015. POS-terminals installed by banks increased by 10% (7,285) reaching 80,301 pcs, and across regions it increased by 36.6% (8394) to 31,357. The number of ATMs installed across the country increased by 3.3% (85) to 2,694 pcs across the country.

Chart 64. Number of ATMs and POS-Terminals across country, units



Source: CBA

39 banks issued payment cards over the year, while the number of cardholders summed up to 5.3 million. The number of payment cards reached 5.7 million, out of which 4.7 million are debit and 1 million credit cards.



Source: CBA

In total, the value of transactions with payment cards issued by domestic banks totaled AZN 11.6 billion and the number of such transactions was 78.6 million, out of which non-cash payments accounted for 8.72% and 27.9% respectively. The value and number of the domestic card transactions increased by 4.5% and 7.3% year on year basis respectively.

The Bank continued efforts to launch the Interbank Card Center to boost the effectiveness and security of transactions by supporting development of domestic processing of data on domestic card transactions.

The Bank focused on developing the legal framework for electronic payment services and developed the draft Law on Payment Services to determine legal and economic foundation for activities of non-bank payment service providers, and heighten protection of rights of payment service users.

8.3. Payment systems oversight

In 2015 the Central Bank's payment systems oversight rested upon the Oversight Conception on Payment Systems of the Central Bank of the Republic of Azerbaijan and the BIS and IOSCO Principles for Financial Markets Infrastructure to ensure stable and effective operation of payments, as well as of settlement and clearing (processing) systems.

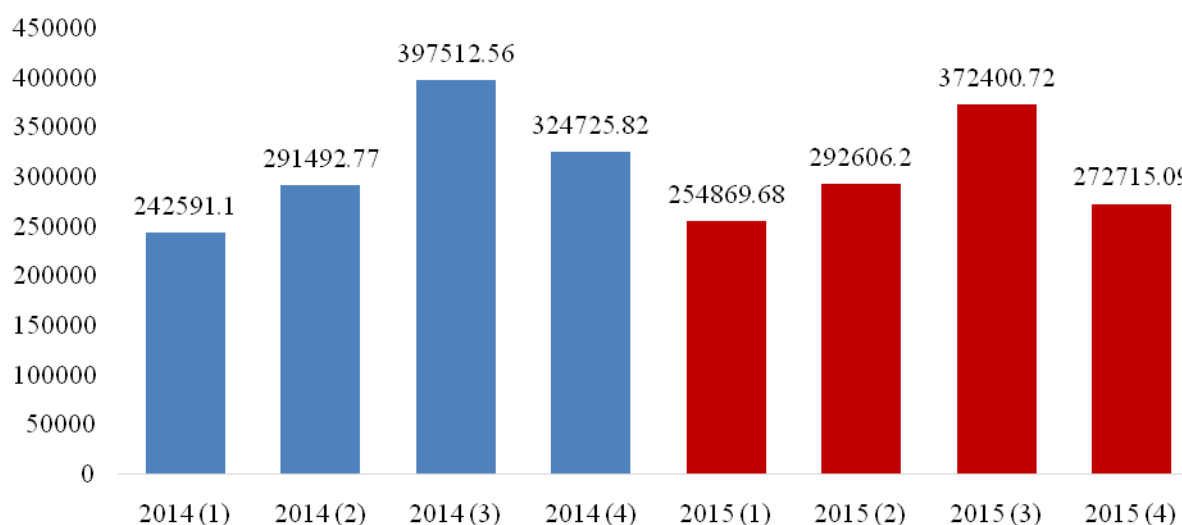
The Bank assessed compliance of systems of card processing organizations, considered to be country's prominently important retail payment systems over the reported year.

The Central Bank reduced service fees on the RTGS – the key component of the National Payment System - about two times to increase the effectiveness of the payment systems and recommended banks to reduce customer service fees.

The Central Bank always attaches great importance to the fight with fraudulent card transactions. Accordingly, the Bank collected and analyzed quarterly statistic data on payment card fraudulences, setting a series of standards to heighten security in the issue and usage of payment cards and in the retail payment infrastructure. With the implementation of such requirements, the country takes one of the leading places in terms of security of retail payment infrastructure.

In total 9.7 thousand (year on year decline by 26.5%) fraudulent payment card transactions worth of AZN 1.2 million (year on year decrease by 5%) were conducted in 2015.

Chart 66. Amount of fraud operations, quarterly (AZN)



IX. CASH CIRCULATION

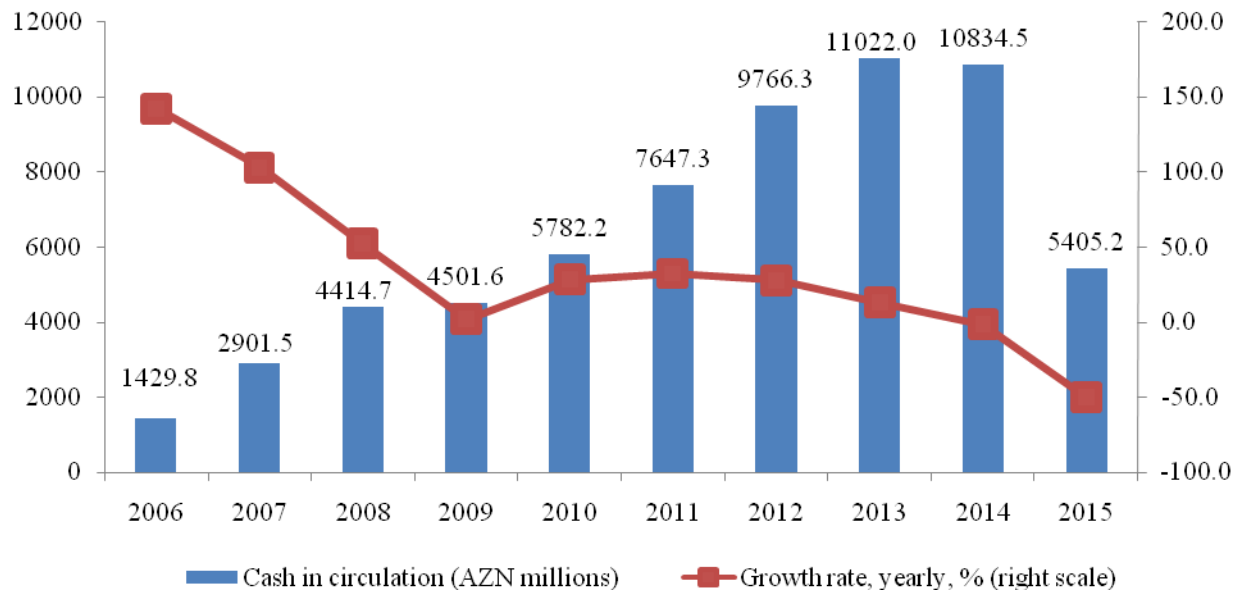
9.1. Meeting the economy's demand for cash

Over the reported year the Central Bank met the cash demand of the national economy fully and in a timely and structured manner, meantime forming up critical reserves of banknotes and coins.

As of 1 January 2016 cash in circulation (including cash outside the banking system and in bank vaults) decreased by 50.1% to AZN 5.4 billion relative to early 2015.

The Central Bank withdrew AZN 11.8 billion (427.4 million units) monetary units and introduced AZN 6.4 billion (351.3 million units) monetary units into circulation. In general, the Central Bank allocated AZN 5.4 billion to the reserve fund (including gepiks) in 2015. To compare, the Bank allocated AZN 187.5 million to the reserve fund in 2014.

Chart 67. Development path of cash in circulation within 2006-2015, (end of period)



Source: CBA

The breakdown of the cash in circulation for 2015 was as follows: in terms of value, 99.1% went to banknotes (AZN 5,359.1 million), 0.9% to metal coins (AZN 46.1 million) and in terms of quantity, 36.4% was (158.8 million units) banknotes, 63.6% (277.1 million units) was metal coins.

Table 12. Structure of cash in circulation as of 01.01.2016

Denomination	Amount, AZN million	Units, million
1 AZN	51.5	51.5
5 AZN	95	19
10 AZN	102.4	10.2
20 AZN	332.5	16.6
50 AZN	1,364.4	27.3
100 AZN	3,413.3	34.1
Total:	5 359.1	158.7
Metal pulnişanları:	46.1	277.1
Yekun:	5 405.2	435.8

Source: CBA

In terms of the value, the 100 Manat banknotes showed the biggest share among paper money (63.1% or AZN 3,413.3 million), while among metal coins 50 gepik had the highest weight (AZN 20.7 million). In terms of the number of units, 20 gepik denoted coins prevailed over others (76.6 million units).

Over the period low denominated metal coins (1, 3, 5 gepik) increased by 11.7% to AZN 2.8 million, presumably due to their usage in retail trade.

Over the year the Bank continued withdrawing old designed banknotes (AZM) from circulation. The Bank destructed AZM 13.9 million (AZN 2.8 thousand equivalent) worth of old designed banknotes. In general, 99% of old AZM was withdrawn and destroyed by the end of 2015.

The Central Bank carried on with the Clean Money in Circulation Policy in 2015 to maintain high quality money in circulation.

The Central Bank's Headquarters and Regional Centers continued to replace bank notes received from the public via Exchange Cashiers. Central Bank-based cash offices replaced AZN 5 million worth of monetary units in 2015.

In 2015 to use coins in circulation more widely, the Mobile Cash-Offices organized by the Central Bank injected coins for a total worth of AZN 1.4 million (7 million units).

The Central Bank discovered only 362 units (AZN 5,868) of counterfeit money in 2015.

9.2. Cash management

The Central Bank took critical actions to optimize treasury infrastructure, maintain security in cash related business processes and minimize risks.

Cash management entered a new quality era aided by the launch of the *Cash Management System (CMS)* that covers the entire banking system and integrates other Central Bank based systems, meanwhile providing the banking system with flexible operations, automated access to data and secured information flow.

In bulk, the Central Bank completed the upgrade of the treasury infrastructure and aligned the vault capacity and security systems with international standards.

In 2015 the Central Bank issued 5 type of golden, silver and cupronickel commemorative coins dedicated to Baku 2015 European Games and golden jubilee coins dedicated to the 90 year anniversary of the Nakhchivan Autonomous Republic, also organized the issuance and delivery of the silver commemorative coins dedicated to the Baku-Tbilisi-Kars railway.

X. HUMAN RESOURCES MANAGEMENT

In 2015 the Central Bank's human resources policy targeted formation of human capital with higher education and up-to-date competences. The Bank both

carried on with efforts to elevate requirements against human resources, which is the core of the performance, and boosted effectiveness of the HRM system.

Over the year the Central Bank investigated the demand of structural units for human resources and executed a planned recruitment strategy. The HRD made changes to the existing Recruitment section of the Central Bank's official web-site to make processes more effective and improve online application of candidates in parallel developing a new application form. In total, the Central Bank received 2020 applications, which resulted in the recruitment of 65 qualified individuals.

The Bank successfully applied an automated performance appraisal system for the year of 2014 resulting in various motivations for 81 employees, which covers about 23% of assessed staff.

The Central Bank made the staff education and development an ongoing priority, prioritizing target-oriented development of individual competences and widening the scope of intrabank trainings. The number of total employees involved in the education process was up to 350. 161 bank employees attended 128 workshops, certification courses and examinations, conferences, forums and other similar types of trainings. By attracting new funding sources, the number of participants in external trainings prevailed the target by 33%. In-house trainings involved 218 employees of the Central Bank and 44 employees of commercial banks.

35 students from both domestic and foreign universities were selected as interns for the highly reputable Internship Program, the aim of which is to train young specialists for the financial sector, broaden the Central Bank's staff capacity in 2015. The number of applicants per place year on year increased by 58%.

Optimization efforts resulted in wider automation of business processes. The Bank started to automate a number of HR related statistic reports, as well as adaptation and internship programs in September 2015 to deepen relevant analyses

and reporting. The Bank is planning to maintain the internship program over the system in online mode in 2016.

XI. CENTRAL BANK'S COMMUNICATION

The Central Bank's communication efforts over the reported year included delivery of full information on Central Bank's key policy and activity directions to the broad public, more active foreign communication on the backdrop of a volatile environment, and contribution to economic education.

The Central Bank's official web-site, the most important external communication channel, was regularly enriched over the reported year. The mobile application of the site attracted more visitors, whose number jumped over 5 times. New information and documents added to the web-site reached 1,200 (including 203 translated documents).

The Bank continued external reputation research as part of the external communication efforts by studying sociological opinions of all stakeholders via the dedicated survey platform on the Central Bank web-page.

63 press-releases placed on the web-site and publicized via the press over the year covered the Central Bank's activities, Governor's meetings, monthly statistics, Central Bank's critical decisions and other topics. Dissemination of qualitatively and stylistically improved press-releases resulted in over 1,200 information releases by mass media, including Central Bank related news, analyses, opinions, interviews, statements and so on.

73 journalist queries were responded to over the reported year.

The related staff organized interviews of spokespersons, including Governor of the Central Bank, to well-known foreign and domestic media outlets, including TV channels.

Journalists took part in another Open Door event at the Central Bank dedicated to the 140th anniversary of the National Press. Mass media representatives were informed on the key directions of the Central Bank performance, on financial literacy projects and the financial literacy portal as one of the most critical communicative target groups and a special role of mass media was emphasized for a more effective implementation and communication of the Bank mission.

The Bank continued its development efforts on internal communication in 2015.

The most important internal communication channel, the Unified Intranet portal, equipped with a variety of new modules and all functionalities of previous internal portals was further improved and its uninterrupted operation was achieved.

11.1. International relations of the Central Bank

International cooperation related efforts in 2015 mostly included broadening of Central Bank collaboration with international financial institutions, development agencies, and foreign central banks, and researching new cooperation modules and managing technical assistance projects.

The Bank expanded cooperation with international institutions, meantime continuing current projects and starting new ones. The Central Bank hosted a number of regional events in Baku, in parallel with high level meetings of the senior management and joint seminars with foreign central banks.

In 2015 the Central Bank held a seminar titled Legal Aspects of Reserve Management jointly with the World Bank aimed at managing foreign exchange reserves of central banks and sovereign funds within the framework of Reserves Advisory and Management Program of World Bank Treasury Department in Baku.

Moreover, in 2015 the Bank organized a seminar on ‘Global economic growth, the Turkish economy, the 2015 G-20 Antalya summit, G-20 related prospects of Azerbaijan and new cooperation opportunities’ in Baku jointly with the Central Bank of Turkey, the Azerbaijan State University of Economics and the Embassy of Turkey in Azerbaijan.

The Bank carried on successful cooperation with the World Bank on financial consumer protection, improvement of financial literacy of the population, and formation of framework for supervision of operational risks. The Bank in parallel continued its efforts on auditing, training the staff and shaping a new image of the Azerpost LLC for the management of the Azerpost component within the framework of the Financial Sector Modernization project.

IMF experts visited the Central Bank to consult Article IV and discussed macroeconomic and banking sector stability related issues. The technical assistance on improvement of the external sector statistics continued as part of the cooperation with the IMF. Furthermore, IMF and WB experts visited the Central Bank to conduct the next Financial Sector Assessment Program.

The Central Bank has always made cooperation with foreign central banks a priority. The Bank representatives visited the Central Banks of Spain, France, Turkey, Bundesbank, and the National Bank of Poland to share experience. Also, the Bank arranged a visit of the representatives of the National Bank of Poland and Bundesbank to provide advisory services for the Central Bank.

Cooperation with international development agencies successfully continued over the reported year. In 2015 the Central Bank continued cooperation with the Swiss State Secretariat for Economic Affairs (SECO), Luxembourg Financial Technology Transfer Agency (ATTF), and the Asian Development Bank benefiting from technical assistance as a part of this cooperation.

XII. INTERNAL AUDIT

In 2015 the Internal Audit service evaluated the risk management, internal control systems and corporate governance in an independent and unbiased manner and carried out advisory and assurance functions.

The Internal Audit Office reviewed high risk areas at the Central Bank's Headquarters and Regional Centers under the annual audit plan and issued recommendations to improve the internal control system and reduce risks. The recommendations covered procedures, boosting IT and physical security, control, improving performance, compliance, recording transactions and automation. Post-audit control effectively followed up the implementation of recommendations.

Over the reported period the auditors applied a unified methodology and risk map in line with best practices in evaluation of operational risks within the auditing at the Central Bank.

The Central Bank successfully continued tailoring the internal audit to international audit standards. Overall activity in auditing was reviewed 2 times a year on the basis of the methodology of the Quality Assurance and Development Program by the Internal Auditors Institute. An action plan was prepared according to the results of quality assessment. In the light of recent trends in audit service, audit was conducted on the basis of improved methodologies.

Computer assisted-audit techniques (CAAT) internationally used and applied by the Big Four audit firms were introduced to improve internal audit processes, which allowed the ACL (audit command language) software to monitor high risk operations in an online mode.

The evaluation and management of IT risks and efficiency of internal control system was assessed since combating cyber threats is the core area of information technologies.

IT risk assessment and analysis rested upon the Internal Auditors Institute, Information Systems Audit and Control Association (ISACA), as well as COBIT 4.1 and ISO 27002 standards.

The cooperation with the Internal Auditors Institute and the ISACA was continued in order to enhance internal resources.

The critical directions set for 2016 include: (i) covering the Central Bank's key business processes with audit control; (ii) coordination with the risk management department in the evaluation of risk management system; (iii) developing audit logics to widen introduction of automated audit instruments on business processes; (iv) carrying on with the evaluation of priority directions using COBIT standards; (v) continuing efforts to obtain certificates.

XIII. OPERATIONAL RISKS MANAGEMENT AT THE CENTRAL BANK

The Central Bank also completed the 'formation of the Operational Risks Management (ORM)' project in 2015.

The project came up with the establishment of the ORM policy, formation of the ORM system and development of related risk management tools and mechanisms, referring to the relevant principles of the Basel Committee, COSO's Enterprise Risk Management framework, and other available standards. The relevant staff applied practices of central banks of Italy, Germany, Spain, France, England and the SAR in the application of tools and processes.

Also, for the first time among the CIS, the Central Bank became an active member of the International Operational Risk Working Group (IORWG), which covers 60 central banks, regulatory authorities and specialized international institutions. The IORWG, which is a club of central banks' operational risk managers, is mandated to share ORM experience, innovate policies and

mechanisms and deliver messages to the financial sector on the real significance of the ORM.

To contribute to the ORM, the Central Bank launched a Risk Management Department, making risk management a current business process of the Bank. Accordingly, the Department analyzed operational risks across all structural units of the Central Bank, as well as across systems of high and medium critical importance and developed the Operational Risk Registry of over 30 operational risks. The response strategies were developed in order to lessen the probability and the level of impact of high risks which were followed by application of related actions and monitoring of its implementation.

The Management Board established a Risk Management Committee to oversee the effective application of the ORM system with the senior management represented therein. The Committee approved critical ORM procedures effectively communicating Management Board's related strategic views top down. The Committee held 9 meetings in 2015 making over 100 risk and incident related decisions.

Consequently, the Central Bank systemized a proactive approach to fight operational risks passing on management habits. This effective reporting channel and confidence tool keeps the Management Board informed on the operational risk profile.

XIV. INFORMATION TECHNOLOGIES OF THE CENTRAL BANK

The development in Information Communications Technologies (ICT) both internally and internationally originates new development targets for the Central Bank. The ICT related activities in 2015 focused on boosting the efficiency of intrabank support services, electronizing 'customer-bank' relations, upgrading the

software and hardware of the Central Bank's management processes, as well as ensuring safe, sound and sustainable operation of the information systems that are currently in use.

The Central Bank maintained secure and uninterrupted operation of the General Ledger, the Portfolio Management, Cash Management, the Electronic Statistical Database and Analytical Reporting, the Centralized Credit Registry, the Electronic Signature Certification, the Electronic Document Circulation, the IR Management, prudential reporting on credit institutions, the Archive, the Projects Management, internal correspondence, local and global networks, web-site, the Intranet, as well as other internal support systems along with realizing the IT related strategic objectives.

2015 was a year of full automation of a number of critical business processes, launch of an effective cash management infrastructure covering regions, upgrade of hardware and software of the electronic signature infrastructure which is the core element of the electronic government platform and its integration to the National Payment System.

The Central Bank made the digitalization of 'customer-bank' relations a priority due to wider use of the advance electronic signature in banking that was issued to conduct cashless settlements and payments. Accordingly, the focus was on the launch of a unified banking electronic signature infrastructure in the Republic of Azerbaijan, the minimization of risks of individuals and legal entities – customers of credit institutions in using electronic banking and 'customer-bank' services and the legal solution of disputable issues. The "Electronic Signature Certification System" was upgraded, in parallel with the establishment of the "Bank Certification Services Center" and creation of the critical logistic infrastructure and the staff to manage the system.

“The Portfolio Management system”, one of the critical projects, was completed with the introduction of a new technical platform in the reported year, with a back-ups linking to the Backup Center in an online mode for business continuity. To ensure business continuity in emergency cases, the newly created infrastructure regularly exports backups allowing business continuity. The assets management system in financial markets was integrated to local and international financial systems with a real time interface to the General Ledger and SWIFT, Bloomberg, Bank of New York Mellon. The newly established information system allows interactive monitoring of securities markets across the globe and real time intake of financial performance indicators identified by external managers.

The Central Bank’s Cash Management System, whose scope widened in the reported year, operated in a reliable, secure and uninterrupted mode to ensure safe and effective cash circulation and accounting in the banking system as a part of the Central Bank’s mandate. The treasury infrastructure in Central Bank’s Regional Centers are equipped with all necessary equipment and integrated to the General Ledger. Accordingly, cash operations related information flow is fully automated, orders by commercial banks are incorporated into a single network, cash flow can be tracked in a real time mode by means of the electronic order system and the electronic identification system that is launched in Regional Centers.

The State Program on Development of Official Statistics in the Republic of Azerbaijan in 2013 – 2017 approved at Decree # 2621 of President of the Republic of Azerbaijan dated 26 December 2012 stimulated further improvement of the Electronic Statistics and Analytical Reporting System implemented in the Central Bank, formation of the mobile statistics functionality, broader collection, processing and analytic reporting of statistic data from financial authorities of the Republic and Bank’s local information systems. The new information system built on the Oracle Exalytics platform firstly in the country processed data from 6 local

information resources (the General Ledger, the CMS, the Electronic Mortgage, the CCR, the GPP, the HRM) effectively and efficiently, with over 50,000 users' simultaneous access to statistic and analytic data. Given critical importance in banking, the system was backed up in an online mode in Backup Centers.

Efforts on the Electronic Document Circulation (EDC) and the Salary and Fixed Assets Accounting Systems continued in the reported year. The main goal of the EDC is to expand functionalities of the automated document circulation infrastructure to the banking and deliver to the public via the Electronic Government Portal. It will allow to electronize all correspondence received by the Central Bank, to control execution of documents fully, and create a unified archive base making management processes more effective and transparent. Another modernization project under way will contribute to the development of a unified accounting system which encompasses Central Bank's regional Centers and will boost the efficiency and effectiveness of the centralized management.

The business processes out of the scope of ICT related projects were automated by the Bank's internal staff. During the year, the following new systems were introduced: the Information systems centralized back-ups creation system, the Electronic procurement system, the Electronic library, and the Project Management System of Agreements.