



**CENTRAL BANK**  
OF THE REPUBLIC OF AZERBAIJAN

# Central Bank of the Republic of Azerbaijan Consolidated Financial Statements for the year ended 31 December 2023

---

AZERBAIJAN REPUBLIC BANKING  
MƏRKƏZİ BANKI

## CONTENTS

Independent Auditor's Report

### Consolidated Financial Statements

Consolidated Statement of Financial Position .....	1
Consolidated Statement of Profit or Loss and Other Comprehensive Income .....	2
Consolidated Statement of Changes in Equity .....	3
Consolidated Statement of Cash Flows .....	4

### Notes to the Consolidated Financial Statements

1	Background.....	5
2	Basis of Preparation .....	7
3	Adoption of New or Revised Standards and Interpretations .....	9
4	New Accounting Pronouncements .....	10
5	Cash and Cash Equivalents .....	10
6	Balances with the International Monetary Fund .....	11
7	Derivative Financial Instruments .....	12
8	Debt Securities .....	14
9	Loans to Banks .....	27
10	Loans to Non-Bank Credit Organisations .....	31
11	Loans to Deposit Insurance Fund.....	31
12	Property and Equipment.....	32
13	Intangible Assets .....	34
14	Investment Property.....	35
15	Other Financial Assets.....	35
16	Other Assets .....	35
17	Money in Circulation .....	35
18	Short-term Deposits of Resident Banks .....	36
19	Amounts Due to Government Organisations.....	36
20	Amounts Due to Credit Institutions .....	36
21	Amounts Due to Other Organisations.....	36
22	Debt Securities in Issue .....	37
23	Other Financial Liabilities .....	37
24	Charter Fund and Reserves .....	37
25	Net Interest Income .....	38
26	Fee and Commission Income .....	38
27	Fee and Commission Expense.....	39
28	Net gains/(losses) from Foreign Exchange Translation .....	39
29	Segment Analysis .....	39
30	(Provision for)/Recovery of Impairment Loss .....	42
31	Administrative and Other Operating Expenses .....	42
32	Risk Management.....	42
33	Management of Capital .....	58
34	Commitments and Contingencies.....	58
35	Related Party Transactions .....	59
36	Financial Assets and Liabilities: Fair Values and Accounting Classifications .....	62



## Independent Auditor's Report

To the Management Board of the Central Bank of the Republic of Azerbaijan

---

### Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Central Bank of the Republic of Azerbaijan (the "Central Bank") and its subsidiary (together – the "Group") as at 31 December 2023, and the Group's consolidated financial performance and consolidated cash flows for the year then ended in accordance with IFRS Accounting Standards.

### What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2023;
- the consolidated statement of profit or loss and other comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, comprising material accounting policy information and other explanatory information

---

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report.

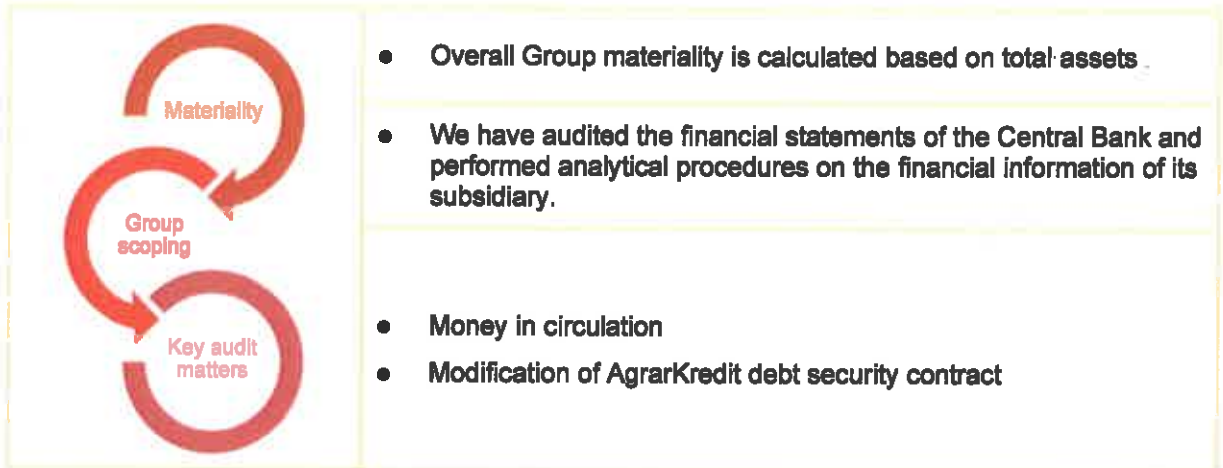
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Independence

We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

## Our audit approach

### Overview



As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls including, among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

#### Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the consolidated financial statements as a whole. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, if any, both individually and in aggregate on the consolidated financial statements as a whole.

As set out in Article 4 of the Law of the Republic of Azerbaijan on the Central Bank, the primary goal of the Bank is to ensure price stability, organise and ensure operation of the centralized interbank and other payment systems as well as support the stability of the banking system. The Law also explicitly states the primary goal of the Bank shall not be profit making. Hence, we chose total assets as the benchmark to determine our audit materiality.

#### Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
<p><b>Money in circulation</b></p> <p>We considered money in circulation as a key audit matter due to the materiality of the balance of AZN 17,318,200 thousand as of 31 December 2023 and the importance of the related business processes for the activities of the Central Bank. In addition, due to the specific nature of money in circulation, determining the completeness and accuracy of this balance depends on controls and processes around the production of banknotes, physical control over banknotes stored in the Central Bank's own vaults and around the destruction of banknotes taken out of circulation.</p> <p>Our focus was on confirming the completeness and accuracy of the balance of money in circulation. Note 17, <i>Money in Circulation</i>, and Note 32, <i>Risk Management</i>, provide detailed information on the balance of money in circulation.</p>	<p>We obtained an understanding, assessed the design and tested the operational effectiveness of selected key controls over the processes relating to money in circulation, including accounting for money in circulation, acceptance of banknotes from the third-party printing company, transfers of banknotes to/from commercial banks, destruction of damaged/old banknotes as well as stock counts of banknotes held by the Central Bank.</p> <p>In order to confirm the completeness and accuracy of money in circulation, our audit procedures included the following:</p> <ul style="list-style-type: none"> <li>- We assessed the policies and internal regulations of the Central Bank and compared it to the actual accounting process for money in circulation.</li> <li>- We participated in the year end stock count of banknotes held by the Central Bank.</li> <li>- We carried out a reconciliation of the movement in the year of the balance of money in circulation;</li> <li>- We tested the operating effectiveness of controls over the movement of money in circulation. This included controls over receiving newly printed banknotes and minted coins, transfers of money between different divisions of treasury department, transfer of banknotes to and receipt of banknotes from commercial banks, and destruction of old/damaged banknotes and coins.</li> <li>- On a sample basis we tested transfer of banknotes to and receipt of banknotes from commercial banks;</li> <li>- We obtained confirmations from the printing companies to check the number of newly printed banknotes and number of coins delivered per each denomination during the year.</li> <li>- We reviewed the completeness and accuracy of the disclosures regarding money in circulation in the Group's consolidated financial statements.</li> </ul>

Key audit matter	How our audit addressed the key audit matter
<p><b>Modification of AgrarKredit debt securities contract</b></p> <p>As described in Notes 2 and 8 to the financial statements the Central Bank of Azerbaijan has a balance due from Agrarkredit and the terms of the debt repayment were modified in the year.</p> <p>We considered the AgrarKredit debt balance as a key audit matter due to the complexity of the accounting treatment of contractual modifications of financial assets of financial assets carried at amortised cost.</p> <p>Note 8, <i>Debt Securities</i>, and Note 2, <i>Basis of Preparation</i> (Change in the contractual terms of the Agrarkredit securities) provide detailed information on the restructured debt securities.</p>	<p>Our audit procedures aimed to obtain comfort over management's conclusion on the impact of Agrarkredit securities contractual modification of the repayment on the accounting for this debt and the related presentation and disclosures in the financial statements of the Central Bank, included the following</p> <ul style="list-style-type: none"> <li>- We have obtained and reviewed the Decree of the President of Azerbaijan Republic and the subsequent three party agreement signed between the Central Bank, Agrarkredit and the Ministry of Finance (as guarantor).</li> <li>- We have obtained and analysed management's assessment of the debt repayment agreement against the IFRS 9 criteria for derecognition of financial assets.</li> <li>- We involved our experts in IFRS for assessing the management's analysis and conclusion on the accounting treatment of the Agrarkredit debt security following the agreed modification to the terms of the debt repayment.</li> <li>- We have also evaluated the completeness and accuracy of the disclosures in the notes to the consolidated financial statements.</li> </ul>

#### **How we tailored our Group audit scope**

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

The subsidiary of the Central Bank is a non-significant component. We applied analytical procedures to the financial information of the component.

#### **Responsibilities of management and those charged with governance for the consolidated financial statements**

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern basis of accounting. In discharging this responsibility, the management considers the provision of Article 14 of the Law of the Republic of Azerbaijan "On the Central Bank of the Republic of Azerbaijan", which states that "the Central Bank may not be declared bankrupt. Capital shortfall resulting from the Central Bank's activity shall be covered at the expense of securities issued by the State"

Those charged with governance, the Management Board, are responsible for overseeing the Group's financial reporting process.

### **Auditor's responsibilities for the audit of the consolidated financial statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Aigul Akhmetova.

*PricewaterhouseCoopers Audit Azerbaijan NE*

PricewaterhouseCoopers Audit Azerbaijan LLC

Baku, Republic of Azerbaijan

16 May 2024



**Central Bank of the Republic of Azerbaijan***Consolidated Statement of Financial Position*

(Amounts are presented in thousands of Azerbaijani Manats, unless otherwise stated)

	Note	31 December 2023	31 December 2022
<b>ASSETS</b>			
Cash and cash equivalents	5	5,629,471	6,583,022
Special Drawing Rights with the IMF	6	1,208,132	1,196,216
Derivative financial instruments	7	49	329
Debt securities	8	27,046,827	22,019,990
Loans to banks	9	72,951	288,889
Loans to non-bank credit organizations	10	7,584	13,845
Loans to Deposit Insurance Fund	11	216,419	221,755
Property and equipment	12	353,449	287,951
Intangible assets	13	50,473	67,118
Investment Property	14	38,495	-
Other financial assets	15	51,571	64,793
Other assets	16	118,042	118,079
<b>Total assets</b>		<b>34,793,463</b>	<b>30,861,987</b>
<b>LIABILITIES</b>			
Money in circulation	17	17,318,195	14,714,360
Short-term deposits of resident banks	18	2,681,989	1,938,977
Amounts due to government organisations	19	3,759,175	4,280,227
Amounts due to credit institutions	20	6,521,107	6,169,718
Amounts due to other organisations	21	45,336	16,182
Debt securities in issue	22	1,295,374	1,319,529
Liabilities on transactions with the IMF	6	1,211,857	1,199,372
Amounts due to international financial		1,706	1,178
Derivative financial instruments	7	3,789	2,109
Other financial liabilities	23	374,451	226,424
Other liabilities		26,269	13,120
<b>Total liabilities</b>		<b>33,239,248</b>	<b>29,881,196</b>
<b>EQUITY</b>			
Charter capital	24	500,000	500,000
Capital reserves	24	500,000	480,791
Revaluation reserve for debt securities at FVOCI		52,977	(171,334)
Retained earnings		501,238	171,334
<b>Total equity</b>		<b>1,554,215</b>	<b>980,791</b>
<b>Total liabilities and equity</b>		<b>34,793,463</b>	<b>30,861,987</b>

The consolidated financial statements were approved by Management on 16 May 2024 and were signed on its behalf by:

Mr. Taleh Kazimov  
Governor

Mr. Anar Mansurov  
Director of Financial Management Department

**Central Bank of the Republic of Azerbaijan***Consolidated Statement of Profit or Loss and Other Comprehensive Income**(Amounts are presented in thousands of Azerbaijani Manats, unless otherwise stated)*

	<b>Note</b>	<b>2023</b>	<b>2022</b>
Interest income calculated using the effective interest method	25	482,523	205,521
Other interest income	25	32,804	15,499
Interest expense	25	(299,649)	(167,928)
<b>Net interest income</b>		<b>215,678</b>	<b>53,092</b>
Fee and commission income	26	28,371	32,421
Fee and commission expense	27	(3,330)	(3,700)
Gain on recognition of financial liabilities		47,892	59,042
Gain on recognition of financial assets		2,974	-
Net gains/(losses) from debt securities at fair value through profit or loss		34,465	(92,846)
Net gains/(losses) from disposals of securities measured at fair value through other comprehensive income		101,931	(29,906)
Net (losses)/gains from derivative financial instruments		(4,320)	23,863
Net gains from investments in money market funds at fair value through profit or loss		13,548	4,587
Net gains/(losses) from foreign exchange translation	28	48,801	(68,632)
Impairment of debt securities at fair value through other comprehensive income		(470)	(776)
Net gains from trading in currencies		914	4,090
Other operating income		1,116	30,357
(Provision for)/recovery of impairment loss	30	(25,137)	39,659
Administrative and other operating expenses	31	(113,320)	(115,206)
<b>Profit/(Loss) for the year</b>		<b>349,113</b>	<b>(63,955)</b>
<b>Other comprehensive income / (loss):</b>			
<i>Items that are or may be reclassified subsequently to profit or loss:</i>			
Debt securities at fair value through other comprehensive income/(loss):	8		
- Net gains/(losses) arising during the year		326,242	(161,197)
- Gains less losses reclassified to profit or loss upon disposal		(101,931)	29,906
<b>Other comprehensive income / (loss) for the year</b>		<b>224,311</b>	<b>(131,291)</b>
<b>Total comprehensive income / (loss) for the year</b>		<b>573,424</b>	<b>(195,246)</b>

**Central Bank of the Republic of Azerbaijan***Consolidated Statement of Changes in Equity**(Amounts are presented in thousands of Azerbaijani Manats, unless otherwise stated)*

	Note	Charter fund	Capital reserves	Revaluation reserve for debt securities at FVOCI	Retained earnings	Total equity
<b>Balance at 1 January 2022</b>		<b>500,000</b>	<b>526,968</b>	<b>(40,043)</b>	<b>183,263</b>	<b>1,170,188</b>
Loss for the year		-	-	-	(63,955)	(63,955)
<b>Other comprehensive loss</b>	8					
Revaluation reserve for debt securities at FVOCI:						
- Net change in fair value		-	-	(161,197)	-	(161,197)
- Net amount reclassified to profit or loss		-	-	29,906	-	29,906
Total other comprehensive loss		-	-	(131,291)	-	(131,291)
<b>Total comprehensive loss for 2022</b>		<b>-</b>	<b>-</b>	<b>(131,291)</b>	<b>(63,955)</b>	<b>(195,246)</b>
Transfer of FX losses	33		(68,632)	-	68,632	-
Replenishment of capital reserve	33		22,455	-	(22,455)	-
National Depository Center		-	-	-	5,849	5,849
<b>Balance as at 31 December 2022</b>		<b>500,000</b>	<b>480,791</b>	<b>(171,334)</b>	<b>171,334</b>	<b>980,791</b>
<b>Balance at 1 January 2023</b>		<b>500,000</b>	<b>480,791</b>	<b>(171,334)</b>	<b>171,334</b>	<b>980,791</b>
Profit for the year		-	-	-	349,113	349,113
<b>Other comprehensive income</b>	8					
Revaluation reserve for debt securities at FVOCI:						
- Net change in fair value		-	-	326,242	-	326,242
- Net amount reclassified to profit or loss		-	-	(101,931)	-	(101,931)
Total other comprehensive income		-	-	224,311	-	224,311
<b>Total comprehensive income for 2023</b>		<b>-</b>	<b>-</b>	<b>224,311</b>	<b>349,113</b>	<b>573,424</b>
Replenishment of capital reserve	33	-	19,209	-	(19,209)	-
<b>Balance as at 31 December 2023</b>		<b>500,000</b>	<b>500,000</b>	<b>52,977</b>	<b>501,238</b>	<b>1,554,215</b>

**Central Bank of the Republic of Azerbaijan****Consolidated Statement of Cash Flows***(Amounts are presented in thousands of Azerbaijani Manats, unless otherwise stated)*

	<b>Note</b>	<b>2023</b>	<b>2022</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Interest received		420,539	162,834
Interest paid		(232,766)	(46,221)
Fee and commission received		28,371	32,421
Fee and commission paid		(3,330)	(3,700)
Net payments for trading in debt securities at FVTPL		(17,833)	(33,204)
Net (payments)/receipts from derivative financial instruments		(2,360)	27,615
Net receipts from trading in foreign currencies		914	4,090
Other operating income received		1,111	2,829
Net receipts from investments in money market funds at fair value through		13,548	4,587
Administrative and other operating expenses paid		(78,514)	(85,515)
<b>Cash flows from operating activities before changes in operating</b>		<b>129,680</b>	<b>65,736</b>
<b>(Increase)/decrease in operating assets</b>			
Debt securities at fair value through profit or loss		24,863	(366,918)
Special Drawing Rights with the IMF		554	126
Loans to banks		166,116	105,469
Loans to non-bank credit organizations		6,268	6,156
Loans to Deposit Insurance Fund		22,501	30,001
Other financial assets		268	450
Other assets		18,060	25,924
<b>Increase/(decrease) in operating liabilities</b>			
Money in circulation		2,603,835	2,404,342
Short-term deposits of resident banks		753,251	1,886,500
Amounts due to government organisations		(521,698)	278,098
Amounts due to credit institutions		364,560	(1,226,717)
Amounts due to other organisations		29,154	4,772
Debt securities in issue		(53,385)	1,109,939
Other financial liabilities		5,139	3,833
Other liabilities		13,232	241
<b>Net cash from operating activities</b>		<b>3,562,398</b>	<b>4,327,952</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Acquisition of debt securities at fair value through other	8	(19,966,690)	(15,134,382)
Proceeds from sale and redemption of debt securities at fair value	8	16,995,706	10,752,219
Acquisition of investments in debt securities carried at amortised cost	8	(1,689,029)	-
Proceeds from redemption of debt securities carried at amortised cost	8	266,851	6,653
Purchases of property, equipment	12	(118,565)	(133,690)
Purchases of intangible assets	13	(3,589)	(11,188)
<b>Cash flows used in investing activities</b>		<b>(4,515,316)</b>	<b>(4,520,388)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds of IMF borrowings		(2)	126
Repayment of IMF borrowings		-	(44)
Proceeds from amounts due to international financial institutions		528	391,021
Repayment of amounts due to international financial institutions		-	(390,868)
<b>Cash flows from financing activities</b>		<b>526</b>	<b>235</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(952,392)</b>	<b>(192,201)</b>
Effect of exchange rate changes on cash and cash equivalents		(1,159)	(63,768)
Cash and cash equivalents at the beginning of the year		6,583,022	6,838,991
<b>Cash and cash equivalents at the end of the year</b>	5	<b>5,629,471</b>	<b>6,583,022</b>

## Central Bank of the Republic of Azerbaijan

Notes to the Consolidated Financial Statements for the year ended 31 December 2023  
(Amounts are presented in thousands of Azerbaijani Manats, unless otherwise stated)

### 1 Background

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2023 for the Central Bank of the Republic of Azerbaijan (the Bank) and its subsidiary (together, the Group).

The only subsidiary of the Bank is as follows:

Name	Country of incorporation	Principal activities	Ownership %	
			2023	2022
National Depository Center of the Republic of Azerbaijan	The Republic of Azerbaijan	Depository services	100	100

The National Depository Center (the "NDC") was established on 18 September 1997 in accordance with the Regulation "On the National Depository System" approved by the Decree of the President of the Republic of Azerbaijan dated 14 May 1997.

Pursuant to the Presidential Decree dated 3 February 2016 on establishment of the public legal entity 'Financial Markets Supervisory Authority of the Republic of Azerbaijan' ("FIMSA"), the State Securities Committee of the Republic of Azerbaijan (the founder of the National Depository Center) was abolished, and the state property used by the Committee was transferred to FIMSA.

Later, based on the Presidential Decree № 1616 dated 28 November 2019 'On improvement of the management of the system of regulation and supervision in the financial services market', the Financial Market Supervisory Authority was abolished and its powers as defined in the laws of the Republic of Azerbaijan, including its rights and responsibilities in the areas of licensing, regulation and supervision, protection of rights of investors and consumers of financial services, as well as its property were transferred to the Central Bank of the Republic of Azerbaijan.

**Principal activity.** The Central Bank of the Republic of Azerbaijan (the "Bank") is the central bank of the Republic of Azerbaijan, and is wholly-owned by the Republic of Azerbaijan. It acts in accordance with the "Law on the Central Bank of the Republic of Azerbaijan" effective from 10 December 2004 (the "Law").

Article 4 of the Law sets out the goals of the Bank, which are as follows:

- The primary goal of the Bank is to ensure, within its power, the stability of prices;
- Without prejudice to its main goal, the Central Bank shall safeguard financial stability within the powers established by the laws regulating financial markets;
- Profit making is not a primary goal of the Bank.

Article 5 of the Law sets out the functions of the Bank as follows:

- Establish and implement the country's monetary and foreign exchange policy;
- Organize cash circulation, issue banknotes into and withdraw from circulation according to Item II of Article 19 of the Constitution and the present Law;
- Regularly set and announce an official exchange rate of manat against foreign currencies;
- Maintain and manage the gold and foreign currency reserves in its charge;
- Develop monetary, financial markets and payment systems statistics, the balance of payments of the country, international investment balance and external debt (public and non-public) statistics in accordance with international standards and methodologies, summarize and disseminate data, as well as participate in forecasting of the balance of payments of the country;
- Ensure stability and sustainability of financial markets, regulate and supervise financial markets, and maintain macro prudential regulation and supervision;
- Maintain stable, safe and effective operation of payment systems and support their development;
- Take measures for the protection of the rights of consumers and investors in financial markets and conduct financial literacy efforts;
- Provide currency regulation and control according to the Law of the Republic of Azerbaijan on Currency Regulation;
- Supervise deposit insurance activities;
- Discharge other functions stipulated by the present Law and other laws

## **Central Bank of the Republic of Azerbaijan**

Notes to the Consolidated Financial Statements for the year ended 31 December 2023  
(Amounts are presented in thousands of Azerbaijani Manats, unless otherwise stated)

---

### **1 Background (Continued)**

In accordance with Article 14.1 of the Law, the Bank cannot be declared bankrupt. Any deficit in capital is to be covered by the securities issued by the Government of Azerbaijan Republic.

Pursuant to the legislation of the Republic of Azerbaijan and the international treaties acceded to by the Republic of Azerbaijan, the Bank represents the Republic of Azerbaijan in relations with the central banks of foreign states, as well as international financial and credit institutions in matters relating to the Bank's responsibilities.

The Bank may conclude agreements on cooperation with the central banks of foreign countries concerning various areas of its activities. It may also conclude clearing and settlement agreements and other agreements with foreign public and private clearing agencies, on its own behalf and on behalf of the Republic of Azerbaijan, if appropriately empowered.

The Bank may participate in the capital and activity of international organisations for the purpose of cooperation in monetary and foreign exchange policy.

At 31 December 2023, the Management Board (the "Board") of the Bank was composed of the following members:

<b>Name</b>	<b>Position</b>
Mr. Taleh Kazimov	Governor
Mr. Rashad Orujov	First Deputy Governor
Mr. Aliyar Mammadyarov	Deputy Governor

The responsibilities of the Board and Governor are presented in Article 22 of the Law.

**Registered address and place of business.** The Bank's main office is located at the following address: 90 Rashid Behbudov Street, Baku, AZ1014, Azerbaijan. The Bank had six regional branches in the Republic of Azerbaijan (2022: six).

**Functional and presentation currency.** The functional currency of the Group is Azerbaijani Manats ("AZN") as being the national currency of the Republic of Azerbaijan. These consolidated financial statements are presented in thousands of AZN, rounded to nearest thousand, unless otherwise stated.

### **Operating Environment of the Group**

In 2023, the Bank carried out its functions in line with its mandate and implemented a policy aimed at safeguarding the macroeconomic and financial stability in the country.

The operating environment of the Bank in 2023 is characterized with multifaceted effects of global macroeconomic developments on the country's economy. Throughout the year, the external economic environment faced pressure from geopolitical tensions, resulting in a weakening of global economic activity and the relevant risks to financial stability. Global commodity markets mostly experienced a decline in prices during the year with the exception of gold. As the global supply chain recovered, transportation costs and durations returned to pre-pandemic levels. Additionally, the implementation of tight monetary policies by most central banks contributed to reducing inflation on a global scale. The average inflation rate among Azerbaijan's trading partners also decreased. Against a backdrop of escalating geopolitical tensions, global economic fragmentation, and ongoing tight monetary policies, the financial sector and global financial markets experienced challenges throughout 2023. While financial stability risks emerged in some leading countries, authorities responded promptly to regulate these risks.

In 2023, annual inflation declined as a result of both external and internal factors, stabilizing within the target range after a twenty-five-month break. The equilibrium in the foreign exchange market, the appreciation of the nominal effective exchange rate of the Manat, monetary policy decisions, and government measures played crucial roles in mitigating inflationary pressures. Throughout 2023, twelve-month inflation stood at 2.1%, within the lower bound of the target range (4±2%). Inflation decreased across all its components during this period.

## **1 Background (Continued)**

The external environment was largely favourable for Azerbaijan in terms of the balance of payments and support for domestic economic activity. The backdrop of a balance of payments surplus was accompanied by an expanded supply and growth of strategic foreign exchange reserves in the country. During the year, the exchange rate of the Manat against foreign currencies was determined based on the demand-supply ratio in the foreign exchange market.

The economic growth rate remained high, with the key driver of increased economic activity being the non-oil and gas sector. In 2023, real GDP year-over-year increased by 1.1%, with a growth rate of 3.7% in the non-oil and gas sector. The growth in the non-oil and gas sector was supported by both internal and external demand.

During the year, monetary policy was focused on returning inflation to the target range. Monetary policy tools were utilized while considering the liquidity position of the banking system and the balance of risks. Efforts to improve the operational framework of monetary policy, develop the money market infrastructure, and expand communication on monetary policy continued, thereby increasing opportunities to control inflation. Average interest rates on money market operations began to align within the interest rate corridor for the first time, responding to changes in corridor parameters.

In 2023, the key priorities of the Central Bank's financial stability policy included maintaining confidence in the financial and banking system, minimizing risks, improving the management system in the financial sector, and enhancing the sector's resilience to shocks. The implemented policy aimed to ensure the stable and efficient functioning of the financial sector.

Throughout the year, efforts were made to increase financial access in the real sector. The growth of the business loan portfolio and the dynamics observed in the corporate securities market provided further opportunities for financing economic growth. Continued efforts were made to strengthen the financial sector, with its resource base expanding further as non-cash payments increased.

## **2 Basis of Preparation**

### **Basis of measurement**

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the IASB ("IFRS Accounting Standards") under historical cost basis except that financial instruments at fair value through profit or loss and financial instruments at fair value through other comprehensive income are stated at fair value.

These consolidated financial statements are directed to primary users. These consolidated financial statements aim disclosing only information that management considers is material for the primary users. Management seeks not to reduce the understandability of these consolidated financial statements by obscuring material information with immaterial information. Hence, only material accounting policy information is disclosed, where relevant, in the related disclosure notes.

### **Transactions and balances**

Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rate of exchange ruling at the end of the reporting period. Gains and losses resulting from the translation of foreign currency transactions are recognized in current year profit or loss for the year. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

As of 31 December 2023, exchange rates for translation of foreign currency balances were as follows: US Dollar 1 = AZN 1.7000, Euro 1 = AZN 1.8766, Pound Sterling 1 = AZN 2.1643 and Special Drawing Right 1 = AZN 2.2860 (31 December 2022: US Dollar 1 = AZN 1.7000, Euro 1 = AZN 1.8114, Pound Sterling 1 = AZN 2.0477 and Special Drawing Right 1 = AZN 2.2624).

## **2 Basis of Preparation (Continued)**

The Group makes estimates and assumptions that affect the amounts recognised in the consolidated financial statements, and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the consolidated financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

### **Estimates and judgments**

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

At times, the Bank issues the loans and attracts deposits at non market interest rates to ensure the sustainability and development of the financial and banking system. Such financial instruments are recorded at fair value on initial recognition using market interest rates. The Bank considers the special market segment for some financial instruments where there is no other available sources of similar financing and no comparable financial instruments. Please refer to the Notes 8, 9, 11, 18 for details of estimates in these areas.

### **Change in the contractual terms of the Agrarkredit securities.**

According to the Decree of President of Azerbaijan Republic dated 5 October 2023, the payment terms of the Agrarkredit securities held by the Bank, should be changed and confirmed between Ministry of Finance, Agrarkredit and Central Bank of Azerbaijan. On 6 October 2023, a tri-party agreement was signed by Agrarkredit (bond issuer), Ministry of Finance (guarantor) and Central Bank of Azerbaijan (bondholder) in order to change the payment terms. Based on a thorough quantitative and qualitative analysis performed of the modification of the Agrarkredit security, the management concludes that the change in the payment structure is a non-substantial modification and does not lead to derecognition of the existing financial instrument.

The management considers that the credit quality of the financial instrument has not changed, and change in the payment structure represents a business restructuring.

### **ECL measurement**

Measurement of ECLs is a significant estimate that involves determination of relevant methodology, models and data inputs. Details of ECL measurement are disclosed in Note 31. The following components have a major impact on credit loss allowance: definition of default, significant increase in credit risk ("SICR"), probability of default ("PD"), exposure at default ("EAD") and loss given default ("LGD"). The Group regularly reviews the models and inputs to the models to reduce any differences between expected credit loss estimates and actual credit loss experience. Impact of forward-looking assumptions correlated with ECL level and their assigned weight is not significant.

Details about the most significant forward-looking assumptions that correlate with ECL level and further information is disclosed in Note 32.

### **Significant increase in credit risk ("SICR")**

In order to determine whether there has been a significant increase in credit risk, the Group compares the risk of a default occurring over the life of a financial instrument at the end of the reporting date with the risk of default at the date of initial recognition. The assessment considers relative increase in credit risk, all reasonable forward-looking information available without undue cost and effort, which includes a range of factors of particular borrowers. See Note 32 for SICR criterias.

### **Business model assessment**

The business model drives the classification of financial assets. Management applied judgement in determining the level of aggregation and portfolios of financial instruments when performing the business model assessment.



## **2 Basis of Preparation (Continued)**

When assessing sales transactions, the Group considers their historical frequency, timing and value, reasons for the sales and expectations about future sales activity. Sales transactions aimed at minimising potential losses due to credit deterioration are considered consistent with the “hold to collect” business model. Other sales before maturity, not related to credit risk management activities, are also consistent with the “hold to collect” business model, if they are infrequent or insignificant in value, both individually and in aggregate. In addition, sales of financial asset expected only in stress case scenario, or in response to an isolated event that is beyond the Group’s control, is not recurring and could not have been anticipated by the Group, are regarded as incidental to the business model objective and do not impact the classification of the respective financial assets.

The “hold to collect and sell” business model means that assets are held to collect the cash flows but selling is also integral to achieving the business model’s objective, such as, managing liquidity needs, achieving a particular yield, or matching the duration of the financial assets to the duration of the liabilities that fund those assets.

The residual category includes those portfolios of financial assets, which are managed with the objective of realising cash flows primarily through sale, such as where a pattern of trading exists. Collecting contractual cash flow is often incidental for this business model.

### **Assessment whether cash flows are solely payments of principal and interest (“SPPI”)**

For the purpose of classification of financial assets the Group assesses whether the cash flows represent solely payments of principal and interest (“SPPI”). The principal is the fair value of the financial asset at initial recognition, which may change over the life of a financial instrument. The interest is the compensation for the time value of money, credit risk and other risks associated with the outstanding principal, as well as the profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Group considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Group’s claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- features that modify consideration of the time value of money – e.g. periodical reset of interest rates.
- inverse floater condition

All the instruments that are included in “hold to collect” and “hold to collect and sell” business models passed SPPI tests.

### **Environmental, Social and Governance (ESG) matters**

The management has taken note of global awareness and concerns about the potential impact of climate change. Currently, this matter has had no significant impact on the consolidated financial statements, and the future effects on the Group’s activities and business plans are difficult to predict. Management continues to monitor developments in this area and will respond as necessary to ensure the Group’s viability and will adopt all government guidelines if and when these are issued in the markets in which the Group operates.

## **3 Adoption of New or Revised Standards and Interpretations**

**Amendments to IAS 1 and IFRS Practice Statement 2: Disclosure of Accounting policies (issued on 12 February 2021 and effective for annual periods beginning on or after 1 January 2023).** IAS 1 was amended to require companies to disclose their material accounting policy information rather than their significant accounting policies. The amendment provided the definition of material accounting policy information. The amendment also clarified that accounting policy information is expected to be material if, without it, the users of the financial statements would be unable to understand other material information in the financial statements. The amendment provided illustrative examples of accounting policy information that is likely to be considered material to the entity’s financial statements. Further, the amendment to IAS 1 clarified that immaterial accounting policy information need not be disclosed.

### **3 Adoption of New or Revised Standards and Interpretations (Continued)**

However, if it is disclosed, it should not obscure material accounting policy information. To support this amendment, IFRS Practice Statement 2, 'Making Materiality Judgements' was also amended to provide guidance on how to apply the concept of materiality to accounting policy disclosures. The amendments resulted in changes in presentation of these consolidated financial statements, primarily by removing significant accounting policies that do not represent material accounting policy information.

The following amended standards became effective from 1 January 2023, but did not have a material impact on the Group:

- Amendments to IAS 8: Definition of Accounting Estimates (issued on 12 February 2021 and effective for annual periods beginning on or after 1 January 2023),

### **4 New Accounting Pronouncements**

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2024 or later, and which the Group has not early adopted.

- Amendments to IFRS 16 Leases: Lease Liability in a Sale and Leaseback (issued on 22 September 2022 and effective for annual periods beginning on or after 1 January 2024),
- Classification of liabilities as current or non-current – Amendments to IAS 1 (originally issued on 23 January 2020 and subsequently amended on 15 July 2020 and 31 October 2022, ultimately effective for annual periods beginning on or after 1 January 2024),
- Amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures: Supplier Finance Arrangements (Issued on 25 May 2023),
- Amendments to IAS 21 Lack of Exchangeability (Issued on 15 August 2023).

The Group is currently assessing the impact of new standards and interpretations on its consolidated financial statements.

### **5 Cash and Cash Equivalents**

#### ***Material accounting policy***

Cash and cash equivalents are short-term items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents consist of cash on hand in foreign currency and unrestricted balances on correspondent accounts including overnight deposits and deposits with a maturity of less than three months from origination as well as investments on money market funds. Cash and cash equivalents other than investments on money market funds are carried at amortized cost. The investments on money market funds are required to be measured at FVTPL in accordance with IFRS 9 because the units give rise to cash flows that are not solely payments of principal and interest. The Group invests in money market fund instruments with maturities less than 90 days, highly liquid and high rated instruments. These instruments are readily convertible into cash and have a determinable market value which means that at the time of the initial investment, the Group is satisfied that the risk of changes in fair value is insignificant and the amount of cash to receive on redemption is known.

**Central Bank of the Republic of Azerbaijan**

Notes to the Consolidated Financial Statements for the year ended 31 December 2023  
(Amounts are presented in thousands of Azerbaijani Manats, unless otherwise stated)

**5 Cash and cash equivalents (Continued)**

The table below discloses the credit quality of cash and cash equivalents balances based on credit risk grades at 31 December 2023 and 2022.

	<u>31 December 2023</u>	<u>31 December 2022</u>
Cash on hand	1,939,195	510,925
<b>Nostro accounts with non-resident banks</b>		
- Rated excellent	3,372,699	5,013,807
- Rated good	-	364,513
<b>Total nostro accounts with non-resident banks</b>	<u>3,372,699</u>	<u>5,378,320</u>
<b>Cash equivalents</b>		
Short-term deposits with non-resident banks (rated excellent)	50,853	440,601
Investments in money market funds (rated excellent)	266,724	253,176
<b>Total cash equivalents</b>	<u>317,577</u>	<u>693,777</u>
<b>Total cash and cash equivalents</b>	<u>5,629,471</u>	<u>6,583,022</u>

As at 31 December 2023, the Group has 3 counterparty banks (2022: 6 banks), whose balances exceed 10% of equity. The gross value of these balances as at 31 December 2023 is AZN 3,438,749 thousand (2022: AZN 5,924,316 thousand).

Refer to Note 32 for the description of the Group's credit risk grading system.

**6 Balances with the International Monetary Fund****Material accounting policy**

Based on the provision of Article 9 of the Law of the Republic of Azerbaijan on the Central Bank of the Republic of Azerbaijan, the Bank acts as an intermediary of the Government of the Republic of Azerbaijan in transactions related to the membership of the Republic of Azerbaijan in international financial organisations (e.g. IMF, World Bank), including payment of membership fees to such organisations.

Membership fees payable to IMF are denominated in Special Drawing Rights ("SDR") and are revalued in AZN at the rate of exchange set by the IMF at year-end. Membership quota and securities issued by the Ministry of Finance of the Republic of Azerbaijan in respect of IMF quota are not presented in the statement of financial position as they do not represent the assets and liabilities of the Group, but are disclosed in the consolidated financial statements.

General and special allocations received from the IMF to boost the liquidity of member countries are taken up by the Group as an asset under SDR holdings with the IMF and on the other hand, as a liability to the Government of the Republic of Azerbaijan.

	<u>31 December 2023</u>	<u>31 December 2022</u>
<b>ASSETS</b>		
Special Drawing Rights (SDR) holdings	1,208,132	1,196,216
<b>Total assets with IMF</b>	<u>1,208,132</u>	<u>1,196,216</u>
<b>LIABILITIES</b>		
Current accounts	2,556	2,556
SDR allocations	1,209,301	1,196,816
<b>Total liabilities with IMF</b>	<u>1,211,857</u>	<u>1,199,372</u>

**SDR holdings**

SDR holdings represent the current account with the IMF used for borrowings and settlements with the IMF. Interest accrued in respect of SDR holdings is calculated using the rates set by the IMF on weekly basis in accordance with short-term market rates in major money markets.

## Central Bank of the Republic of Azerbaijan

Notes to the Consolidated Financial Statements for the year ended 31 December 2023  
(Amounts are presented in thousands of Azerbaijani Manats, unless otherwise stated)

### 6 Balances with the International Monetary Fund (Continued)

#### Current accounts

The Group maintains two separate accounts with the IMF for special purposes, account No. 1 and No. 2. Account No. 1 is used for paying commissions for transactions with the IMF, whereas account No.2 is used for covering expenses of IMF representatives during their visit to member countries.

#### SDR allocation

SDR allocation is an unconditional distribution of SDRs to member countries by the IMF. A general SDR allocation became effective since 28 August 2009. The allocation is designed to provide liquidity to the global economic system by supplementing the IMF member countries' foreign exchange reserves. General SDR allocation is determined proportionate to existing IMF quotas for each member country.

Additionally, on 10 August 2009, the Fourth Amendment to the IMF Articles of Agreement providing for a special one-time SDR allocation came into force to boost global liquidity.

According to the Amendment, the special allocation was made to IMF members, including the Republic of Azerbaijan on 9 September 2009 in amount of SDR 34.3 million (AZN 78,410 thousand) resulting total SDR allocation to be SDR 119.3 million (AZN 272,720 thousand) for Azerbaijan.

To support the global economy, especially the economies of countries affected by the pandemic, the IMF has distributed the next general SDR to member countries in 2021. The general SDR allocation was made to the member countries in proportion to their existing quotas in the IMF and according to the current quota of Azerbaijan, an additional SDR 375.4 million (AZN 858,164 thousand) was allocated.

Members and prescribed holders may use their SDR holdings to conduct transactions with the IMF. The Group treats the allocation as a foreign exchange liability.

#### IMF Quota and securities held in custody in respect of IMF Quota

The IMF Quota, in the amount of SDR 391.7 million (AZN 895,426 thousand and AZN 886,182 thousand as at 31 December 2023 and 2022 respectively) has remained unchanged since 25 February 2016 and represents the membership subscription of the Republic of Azerbaijan with the IMF. Securities were issued by the Government of the Republic of Azerbaijan to guarantee these amounts. These securities are held by the Group on behalf of IMF as the beneficial owner.

### 7 Derivative Financial Instruments

The fair value of derivative financial instruments as at 31 December 2023 and 2022 are as follows:

	Notional amount	31 December 2023		Notional amount	31 December 2022	
		Fair value			Fair value	
		Assets	Liabilities		Assets	Liabilities
Foreign exchange contracts	570,156	-	(3,389)	391,660	-	(2,109)
Futures contracts	25,270	-	(400)	2,005	154	-
SWAP contracts	20,315	49	-	19,836	175	-
<b>Total derivative financial instruments</b>	<b>615,741</b>	<b>49</b>	<b>(3,789)</b>	<b>413,501</b>	<b>329</b>	<b>(2,109)</b>

#### Foreign currency contracts

The table below summarizes, by major currencies, the contractual amounts of forward (including forward made on the basis of mutual settlement) exchange contracts outstanding, with details of the weighted average contractual exchange rates and remaining periods to maturity. Foreign currency amounts presented below are translated at rates ruling at the reporting date.

**Central Bank of the Republic of Azerbaijan**

Notes to the Consolidated Financial Statements for the year ended 31 December 2023

(Amounts are presented in thousands of Azerbaijani Manats, unless otherwise stated)

**7 Derivative Financial Instruments (Continued)**

	Notional		Weighted average contractual	
	31 December 2023	31 December 2022	31 December 2023	31 December 2022
<b>Buy USD sell EUR</b> Less than 3 months	285,211	198,056	1.1052	1.0681
<b>Sell USD buy EUR</b> Less than 3 months	102,024	69,098	0.9053	0.9369
<b>Buy USD sell GBP</b> Less than 3 months	80,881	44,290	1.2749	1.2033
<b>Sell USD buy GBP</b> Less than 3 months	32,881	16,383	0.7844	0.8313
<b>Buy USD sell CAD</b> Less than 3 months	19,047	22,807	0.7585	0.7381
<b>Sell USD buy CAD</b> Less than 3 months	8,070	7,683	1.3186	1.3549
<b>Buy USD sell other currencies</b> Less than 3 months	32,869	26,301	0.6209	0.5739
<b>Sell USD buy other currencies</b> Less than 3 months	9,173	7,042	16.8378	3.5015

**Central Bank of the Republic of Azerbaijan**

Notes to the Consolidated Financial Statements for the year ended 31 December 2023  
(Amounts are presented in thousands of Azerbaijani Manats, unless otherwise stated)

**8 Debt Securities****Material accounting policy**

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention (“regular way” purchases and sales) are recorded at trade date, which is the date on which the Group commits to deliver a financial asset. All other purchases are recognised when the Group becomes a party to the contractual provisions of the instrument.

Based on the business model and the cash flow characteristics, the Group classifies debt securities as carried at AC, FVOCI or FVTPL. Debt securities are carried at AC if they are held for collection of contractual cash flows and where those cash flows represent SPPI, and if they are not designated at FVTPL in order to significantly reduce an accounting mismatch.

Debt securities are carried at FVOCI if they are held for collection of contractual cash flows and for selling, where those cash flows represent SPPI, and if they are not designated at FVTPL. Interest income from these assets is calculated using the effective interest method and recognised in profit or loss. An impairment allowance estimated using the expected credit loss model is recognised in profit or loss for the year. All other changes in the carrying value are recognised in OCI. When the debt security is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from OCI to profit or loss.

Debt securities are carried at FVTPL if they do not meet the criteria for AC or FVOCI.

The Group measures, on a forward-looking basis, the ECL for financial instruments measured at AC and FVOCI and recognises credit loss allowance at each reporting date. The measurement of ECL reflects: (i) an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes, (ii) time value of money and (iii) all information about past events, current conditions and forecasts of future conditions before the reporting date.

Refer to Note 32 for the description of how ECL is calculated.

	<b>31 December 2023</b>	<b>31 December 2022</b>
Debt securities mandatorily measured at FVTPL	1,421,185	1,386,359
Debt securities at FVOCI	14,706,792	11,158,876
Debt securities at AC	10,918,850	9,474,755
<b>Total debt securities</b>	<b>27,046,827</b>	<b>22,019,990</b>

The table below discloses debt securities at 31 December 2023 and 2022 by measurement categories and classes:

<b>31 December 2023</b>	<b>Debt securities mandatorily measured</b>	<b>Debt securities at FVOCI</b>	<b>Debt securities at AC</b>	<b>Total</b>
Agency	70,271	2,724,637	86,909	2,881,817
Supranational	187,964	1,024,620	260,729	1,473,313
Treasury	446,427	9,443,760	1,361,121	11,251,308
Local Authority	7,029	383,696	-	390,725
Corporate	69,511	104,662	-	174,173
Sovereign	1,207	57,514	-	58,721
US Agency MBS	602,457	-	-	602,457
Covered	36,319	-	-	36,319
Mortgage and Credit Guarantee Fund of the Republic	-	967,903	-	967,903
JSCO Agrarkredit	-	-	9,057,659	9,057,659
Ministry of Finance of the Republic of Azerbaijan	-	-	152,432	152,432
<b>Total debt securities</b>	<b>1,421,185</b>	<b>14,706,792</b>	<b>10,918,850</b>	<b>27,046,827</b>

**Central Bank of the Republic of Azerbaijan**

Notes to the Consolidated Financial Statements for the year ended 31 December 2023  
(Amounts are presented in thousands of Azerbaijani Manats, unless otherwise stated)

**8 Debt Securities (Continued)**

<b>31 December 2022</b>	<b>Debt securities mandatorily measured at FVTPL</b>	<b>Debt securities at FVOCI</b>	<b>Debt securities at AC</b>	<b>Total</b>
Agency	47,347	3,577,827	-	3,625,174
Supranational	172,538	684,876	-	857,414
Treasury	472,803	5,150,391	-	5,623,194
Local Authority	3,803	689,437	-	693,240
Corporate	69,777	300,671	-	370,448
Sovereign	2,082	164,995	-	167,077
US Agency MBS	468,404	-	-	468,404
Covered	149,605	6,667	-	156,272
Mortgage and Credit Guarantee Fund of the Republic of Azerbaijan	-	584,012	-	584,012
JSCO Agrarkredit	-	-	9,474,240	9,474,240
Ministry of Finance of the Republic of Azerbaijan	-	-	515	515
<b>Total debt securities</b>	<b>1,386,359</b>	<b>11,158,876</b>	<b>9,474,755</b>	<b>22,019,990</b>

**Agency.** These bonds are represented by investments in debt securities issued by financial agencies of Europe, Asia and America. Agency bonds were held in the portfolio managed both directly by the Bank as well as the external managers. As at 31 December 2023 these securities bear fixed interest ranging from 0.0% per annum to 6.25% per annum (2022: 0.0% per annum to 6.01% per annum) with 2.25% annual-average interest rate (2022: 1.23%).

Credit risk grade of the debt securities are excellent and credit rating ranged from A1 to Aaa based on Moody's ratings or equivalents of Standard and Poor's and/or Fitch ratings.

**Supranational.** These securities are represented by investments in debt securities issued by international organizations of Europe, Asia, Africa and America. The debt securities were held in the portfolio managed both directly by the Bank as well as the external managers. As at 31 December 2023 these securities bear fixed interest ranging from 0.0% per annum to 5.65% per annum (2022: 0.0% per annum to 4.65% per annum) with 2.30% annual-average interest rate (2022: 1.15%).

Credit risk grade of the debt securities are excellent and credit rating ranged from Aa3 to Aaa based on Moody's ratings or equivalents of Standard and Poor's and/or Fitch ratings.

**Treasury.** The treasury securities are represented by investments in debt securities issued by treasuries of various developed countries. The debt securities were held in the portfolio managed both directly by the Bank as well as the external managers. As at 31 December 2023 these securities bear fixed interest ranging from 0.0% per annum to 5.00% per annum (2022: 0.0% per annum to 5.65% per annum) with 2.25% annual-average interest rate (2022: 1.24%).

Credit risk grade of the debt securities are excellent and good and credit rating ranged from Baa3 to Aaa based on Moody's ratings or equivalents of Standard and Poor's and/or Fitch ratings.

**Local Authority.** These securities are represented by investments in debt securities issued by local authorities of Germany, New Zealand, Canada, Sweden, Japan, Denmark, and Netherlands. The debt securities were held in the portfolio managed both directly by the Bank as well as the external managers. As at 31 December 2023 these securities bear fixed interest ranging from 0.0% per annum to 5.13% per annum (2022: 0.0% per annum to 3.63% per annum) with 2.13% annual-average interest rate (2022: 1.14%).

Credit risk grade of the debt securities are excellent and good, and credit rating ranged from Baa1 to Aaa based on Moody's ratings or equivalents of Standard and Poor's and/or Fitch ratings.

## 8 Debt Securities (Continued)

**Corporate.** These securities are represented by investments in debt securities issued by corporations of various countries. The debt securities were held in the portfolio managed both directly by the Bank as well as the external managers. As at 31 December 2023 these securities bear variable and fixed interest which ranges from 0.0% per annum to 7.35% per annum (2022: 0.0% per annum to 7.00% per annum) with 3.81% annual-average interest rate (2022: 2.03%).

Credit risk grade of the debt securities are excellent and good, and credit rating ranged from Baa3 to Aaa based on Moody's ratings or equivalents of Standard and Poor's and/or Fitch ratings.

**Sovereign.** These securities are represented by investments in debt securities issued by Bank of England and China Government. The debt securities were held in the portfolio managed both directly by the Bank as well as the external managers. As at 31 December 2023 these securities bear fixed interest ranging from 0.0% per annum to 4.63% per annum (2022: 0.0% per annum to 0.50% per annum) with 3.09% annual-average interest rate (2022: 0.10%).

Credit risk grade of the debt securities are excellent and credit rating ranged from A1 to Aa3 based on Moody's ratings or equivalents of Standard and Poor's and/or Fitch ratings.

**US Agency MBS.** These mortgage-backed securities are represented by investments in debt securities issued by The Federal National Mortgage Association (FNMA), The Government National Mortgage Association (GNMA) and The Federal Home Loan Mortgage Corporation (FHLMC). The debt securities were held in the portfolio managed by the external managers. As at 31 December 2023 these securities bear variable and fixed interest which ranges from 1.50% per annum to 6.50% per annum (2022: 0.02% per annum to 5.50% per annum) with 3.88% annual-average interest rate (2022: 0.78%).

Credit risk grade of the debt securities are excellent and credit rating ranged from A1 to Aaa based on Moody's ratings or equivalents of Standard and Poor's and/or Fitch ratings.

**Covered.** These collateralised securities are represented by investments in debt securities issued by various financial institutions. The debt securities were held in the portfolio managed directly by the external managers. As at 31 December 2023 these securities bear variable and fixed interest which ranges from 0.39% per annum to 4.68% per annum (2022: 0.0% per annum to 3.21% per annum) with 3.18% annual-average interest rate (2022: 1.55%).

Credit risk grade of the debt securities are excellent and credit rating ranged from Aa1 to Aaa based on Moody's ratings or equivalents of Standard and Poor's and/or Fitch ratings.

**Mortgage and Credit Guarantee Fund of the Republic of Azerbaijan.** These local securities are represented by investments in debt securities issued Mortgage and Credit Guarantee Fund of the Republic of Azerbaijan. The debt securities were held in the portfolio managed directly by the Bank. As at 31 December 2023 these securities bear fixed interest ranging from 3.00% per annum to 3.25% per annum (2022: 3.00% per annum to 3.25% per annum) with 3.05% annual-average interest rate (2022: 3.04%).

Credit risk grade of the debt securities are good and credit rating is Ba1 based on Moody's ratings or equivalents of Standard and Poor's and/or Fitch ratings.

**JSCO Agrarkredit.** Included in Debt Securities at AC were securities of Joint-Stock Credit Organisation Agrarkredit (Agrarkredit JSCO) purchased by the Group during 2015 with the nominal amount of AZN 2,500,000 thousand and, additionally, during 2016 AZN 7,500,000 thousand, bearing interest rate of 0.15% and maturing in 2045 (in total AZN 10,000,000 thousand). In 2017 Agrarkredit JSCO repurchased the securities in the amount of AZN 517,896 thousand from the Group. These securities were issued in a special market segment in which there were no other available sources of similar financing and no comparable financial instruments. The Central Bank of Azerbaijan plays a unique role in providing finance to banks and other financial institutions which aims for stability of the overall monetary system as part of its macro-economic policy. Therefore, 0.15% was considered as market interest rate in this segment.

As at 31 December 2023, the outstanding balance of the Agrarkredit securities in the portfolio of the Group was AZN 9,057,659 thousand. Repayment of these securities is guaranteed by the Government of



## **8 Debt Securities (Continued)**

Azerbaijan. These securities were purchased based on Decrees of the President of Azerbaijan Republic № 570, dated 15 July 2015 on “Actions for improvement of International Bank of Azerbaijan OJSC’s condition to prepare for the privatization of shares owned by government” and № 575 dated 07 August 2015 on “Approval of issue, volume, maturity and payment conditions of securities with government guarantee issued by Agrarkredit JSCO”, respectively. Refer to Note 36 for fair value disclosures.

According to the Decree of President of Azerbaijan Republic dated 5 October 2023, the payment terms should be changed and confirmed among Ministry of Finance (MoF), Agrarkredit and CBAR. On 6 October 2023, a tri-party agreement was signed by Agrarkredit (bond issuer), MoF (guarantor) and CBAR (bondholder) in order to change payment terms.

The management expects that the change in the payment schedule is a business restructuring and the credit risk of these debt instruments has not significantly increased since their origination.

**Ministry of Finance of the Republic of Azerbaijan.** In 2023, promissory note in the amount of AZN 148,804 thousand was issued by Ministry of Finance of the Republic of Azerbaijan with 0% interest. In addition, AZN 3,628 thousand bonds have fixed interest rate ranging from 5% per annum to 9% per annum (2022: from 4.85% per annum to 9%)

Credit risk grade of the debt securities are good and credit rating is Ba1 based on Moody’s ratings or equivalents of Standard and Poor’s and/or Fitch ratings.

Financial instruments are classified into the following categories:

### **(a) Debt securities at FVTPL**

Debt securities classified as at FVTPL by the Group represent securities held for trading. Debt securities at FVTPL are carried at fair value, which also reflects any credit risk related write-downs and best represents the Group’s maximum exposure to credit risk. Debt securities at FVTPL have excellent credit risk grade.

### **(b) Debt securities at FVOCI**

The table below contains an analysis of the credit risk exposure of debt securities measured at FVOCI at 31 December 2023 and 31 December 2022, for which an ECL allowance is recognised, based on credit risk grades. Refer to Note 32 for the description of credit risk grading system used by the Group and the approach to ECL measurement, including the definition of default and SICR as applicable to debt securities at FVOCI:

**Central Bank of the Republic of Azerbaijan**

Notes to the Consolidated Financial Statements for the year ended 31 December 2023  
(Amounts are presented in thousands of Azerbaijani Manats, unless otherwise stated)

**8 Debt Securities (Continued)**

	2023		2022	
	Stage 1	Total	Stage 1	Total
<b>Agency</b>				
- Excellent	2,712,029	2,712,029	3,624,197	3,624,197
Total AC gross carrying amount	2,712,029	2,712,029	3,624,197	3,624,197
Less credit loss allowance	(233)	(233)	(365)	(365)
Less fair value adjustment from AC to FV	12,841	12,841	(46,005)	(46,005)
Carrying value (fair value)	2,724,637	2,724,637	3,577,827	3,577,827
<b>Supranational</b>				
- Excellent	1,032,521	1,032,521	716,136	716,136
Total AC gross carrying amount	1,032,521	1,032,521	716,136	716,136
Less credit loss allowance	(55)	(55)	(38)	(38)
Less fair value adjustment from AC to FV	(7,846)	(7,846)	(31,222)	(31,222)
Carrying value (fair value)	1,024,620	1,024,620	684,876	684,876
<b>Treasury</b>				
- Excellent	9,397,410	9,397,410	5,229,320	5,229,320
Total AC gross carrying amount	9,397,410	9,397,410	5,229,320	5,229,320
Less credit loss allowance	(884)	(884)	(269)	(269)
Less fair value adjustment from AC to FV	47,234	47,234	(78,660)	(78,660)
Carrying value (fair value)	9,443,760	9,443,760	5,150,391	5,150,391
<b>Local Authority</b>				
- Excellent	383,385	383,385	702,163	702,163
Total AC gross carrying amount	383,385	383,385	702,163	702,163
Less credit loss allowance	(15)	(15)	(95)	(95)
Less fair value adjustment from AC to FV	326	326	(12,631)	(12,631)
Carrying value (fair value)	383,696	383,696	689,437	689,437

**Central Bank of the Republic of Azerbaijan**

Notes to the Consolidated Financial Statements for the year ended 31 December 2023  
(Amounts are presented in thousands of Azerbaijani Manats, unless otherwise stated)

**8 Debt Securities (Continued)**

	2023		2022	
	Stage 1	Total	Stage 1	Total
<b>Corporate</b>				
- Excellent	105,683	105,683	304,432	304,432
Total AC gross carrying amount	105,683	105,683	304,432	304,432
Less credit loss allowance	(10)	(10)	(113)	(113)
Less fair value adjustment from AC to FV	(1,011)	(1,011)	(3,648)	(3,648)
Carrying value (fair value)	104,662	104,662	300,671	300,671
<b>Sovereign</b>				
- Excellent	58,006	58,006	164,454	164,454
Total AC gross carrying amount	58,006	58,006	164,454	164,454
Less credit loss allowance	(11)	(11)	(10)	(10)
Less fair value adjustment from AC to FV	(481)	(481)	551	551
Carrying value (fair value)	57,514	57,514	164,995	164,995
<b>Covered</b>				
- Excellent	-	-	6,775	6,775
Total AC gross carrying amount	-	-	6,775	6,775
Less credit loss allowance	-	-	(2)	(2)
Less fair value adjustment from AC to FV	-	-	(106)	(106)
Carrying value (fair value)	-	-	6,667	6,667
<b>Mortgage and Credit Guarantee Fund of the Republic of Azerbaijan</b>				
- Good	966,635	966,635	584,119	584,119
Total AC gross carrying amount	966,635	966,635	584,119	584,119
Less credit loss allowance	(646)	(646)	(487)	(487)
Less fair value adjustment from AC to FV	1,914	1,914	380	380
Carrying value (fair value)	967,903	967,903	584,012	584,012

**Central Bank of the Republic of Azerbaijan**

Notes to the Consolidated Financial Statements for the year ended 31 December 2023  
(Amounts are presented in thousands of Azerbaijani Manats, unless otherwise stated)

**8 Debt Securities (Continued)**

Movements in the credit loss allowance and in the gross carrying amount of Agency bonds at FVOCI were as follows:

	Credit loss allowance		Gross carrying amount	
	Stage 1	Total	Stage 1	Total
<b>Agency</b>				
<b>At 31 December 2022</b>	<b>365</b>	<b>365</b>	<b>3,624,197</b>	<b>3,624,197</b>
<i>Movements with impact on credit loss allowance charge for the period:</i>				
New originated or purchased	195	195	3,284,447	3,284,447
Derecognised during the period	(327)	(327)	(4,214,261)	(4,214,261)
Changes in accrued interest	-	-	11,159	11,159
<b>Total movements with impact on credit loss allowance charge for the period</b>	<b>(132)</b>	<b>(132)</b>	<b>(918,655)</b>	<b>(918,655)</b>
<i>Movements without impact on credit loss allowance charge for the period:</i>				
FX and other movements	-	-	6,487	6,487
<b>At 31 December 2023</b>	<b>233</b>	<b>233</b>	<b>2,712,029</b>	<b>2,712,029</b>

Movements in the credit loss allowance and in the gross carrying amount of Supranational bonds at FVOCI were as follows:

	Credit loss allowance		Gross carrying amount	
	Stage 1	Total	Stage 1	Total
<b>Supranational</b>				
<b>At 31 December 2022</b>	<b>38</b>	<b>38</b>	<b>716,136</b>	<b>716,136</b>
<i>Movements with impact on credit loss allowance charge for the period:</i>				
New originated or purchased	35	35	862,607	862,607
Derecognised during the period	(18)	(18)	(560,297)	(560,297)
Changes in accrued interest	-	-	5,692	5,692
<b>Total movements with impact on credit loss allowance charge for the period</b>	<b>17</b>	<b>17</b>	<b>308,002</b>	<b>308,002</b>
<i>Movements without impact on credit loss allowance charge for the period:</i>				
FX and other movements	-	-	8,383	8,383
<b>At 31 December 2023</b>	<b>55</b>	<b>55</b>	<b>1,032,521</b>	<b>1,032,521</b>

**Central Bank of the Republic of Azerbaijan**

Notes to the Consolidated Financial Statements for the year ended 31 December 2023  
(Amounts are presented in thousands of Azerbaijani Manats, unless otherwise stated)

**8 Debt Securities (Continued)**

Movements in the credit loss allowance and in the gross carrying amount of Treasury bonds at FVOCI were as follows:

	Credit loss allowance		Gross carrying amount	
	Stage 1	Total	Stage 1	Total
<b>Treasury</b>				
<b>At 31 December 2022</b>	<b>269</b>	<b>269</b>	<b>5,229,320</b>	<b>5,229,320</b>
<i>Movements with impact on credit loss allowance charge for the period:</i>				
New originated or purchased	818	818	14,893,510	14,893,510
Derecognised during the period	(203)	(203)	(10,729,216)	(10,729,216)
Changes in accrued interest	-	-	41,965	41,965
<b>Total movements with impact on credit loss allowance charge for the period</b>	<b>615</b>	<b>615</b>	<b>4,206,259</b>	<b>4,206,259</b>
<i>Movements without impact on credit loss allowance charge for the period:</i>				
FX and other movements	-	-	(38,169)	(38,169)
<b>At 31 December 2023</b>	<b>884</b>	<b>884</b>	<b>9,397,410</b>	<b>9,397,410</b>

Movements in the credit loss allowance and in the gross carrying amount of Local Authority bonds at FVOCI were as follows:

	Credit loss allowance		Gross carrying amount	
	Stage 1	Total	Stage 1	Total
<b>Local Authority</b>				
<b>At 31 December 2022</b>	<b>95</b>	<b>95</b>	<b>702,163</b>	<b>702,163</b>
<i>Movements with impact on credit loss allowance charge for the period:</i>				
New originated or purchased	7	7	210,689	210,689
Derecognised during the period	(87)	(87)	(530,103)	(530,103)
Changes in accrued interest	-	-	(1,224)	(1,224)
<b>Total movements with impact on credit loss allowance charge for the period</b>	<b>(80)</b>	<b>(80)</b>	<b>(320,638)</b>	<b>(320,638)</b>
<i>Movements without impact on credit loss allowance charge for the period:</i>				
FX and other movements	-	-	1,860	1,860
<b>At 31 December 2023</b>	<b>15</b>	<b>15</b>	<b>383,385</b>	<b>383,385</b>

**Central Bank of the Republic of Azerbaijan**

Notes to the Consolidated Financial Statements for the year ended 31 December 2023  
(Amounts are presented in thousands of Azerbaijani Manats, unless otherwise stated)

**8 Debt Securities (Continued)**

Movements in the credit loss allowance and in the gross carrying amount of Corporate bonds at FVOCI were as follows:

	Credit loss allowance		Gross carrying amount	
	Stage 1	Total	Stage 1	Total
<b>Corporate</b>				
<b>At 31 December 2022</b>	<b>113</b>	<b>113</b>	<b>304,432</b>	<b>304,432</b>
<i>Movements with impact on credit loss allowance charge for the period:</i>				
New originated or purchased	-	-	82,551	82,551
Derecognised during the period	(103)	(103)	(281,247)	(281,247)
Changes in accrued interest	-	-	180	180
<b>Total movements with impact on credit loss allowance charge for the period</b>	<b>(103)</b>	<b>(103)</b>	<b>(198,516)</b>	<b>(198,516)</b>
<i>Movements without impact on credit loss allowance charge for the period:</i>				
FX and other movements	-	-	(233)	(233)
<b>At 31 December 2023</b>	<b>10</b>	<b>10</b>	<b>105,683</b>	<b>105,683</b>

Movements in the credit loss allowance and in the gross carrying amount of Sovereign bonds at FVOCI were as follows:

	Credit loss allowance		Gross carrying amount	
	Stage 1	Total	Stage 1	Total
<b>Sovereign</b>				
<b>At 31 December 2022</b>	<b>10</b>	<b>10</b>	<b>164,454</b>	<b>164,454</b>
<i>Movements with impact on credit loss allowance charge for the period:</i>				
New originated or purchased	10	10	51,597	51,597
Derecognised during the period	(9)	(9)	(158,035)	(158,035)
Changes in accrued interest	-	-	747	747
<b>Total movements with impact on credit loss allowance charge for the period</b>	<b>1</b>	<b>1</b>	<b>(105,691)</b>	<b>(105,691)</b>
<i>Movements without impact on credit loss allowance charge for the period:</i>				
FX and other movements	-	-	(757)	(757)
<b>At 31 December 2023</b>	<b>11</b>	<b>11</b>	<b>58,006</b>	<b>58,006</b>

**Central Bank of the Republic of Azerbaijan**

Notes to the Consolidated Financial Statements for the year ended 31 December 2023  
(Amounts are presented in thousands of Azerbaijani Manats, unless otherwise stated)

**8 Debt Securities (Continued)**

Movements in the credit loss allowance and in the gross carrying amount of Covered bonds at FVOCI were as follows:

	Credit loss allowance		Gross carrying amount	
	Stage 1	Total	Stage 1	Total
<b>Covered</b>				
<b>At 31 December 2022</b>	<b>2</b>	<b>2</b>	<b>6,775</b>	<b>6,775</b>
<i>Movements with impact on credit loss allowance charge for the period:</i>				
New originated or purchased	-	-	-	-
Derecognised during the period	(2)	(2)	(6,635)	(6,635)
Changes in accrued interest	-	-	(52)	(52)
<b>Total movements with impact on credit loss allowance charge for the period</b>	<b>(2)</b>	<b>(2)</b>	<b>(6,687)</b>	<b>(6,687)</b>
<i>Movements without impact on credit loss allowance charge for the period:</i>				
FX and other movements	-	-	(88)	(88)
<b>At 31 December 2023</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

Movements in the credit loss allowance and in the gross carrying amount of Mortgage and Credit Guarantee Fund of the Republic of Azerbaijan bonds at FVOCI were as follows:

	Credit loss allowance		Gross carrying amount	
	Stage 1	Total	Stage 1	Total
<b>Mortgage and Credit Guarantee Fund of</b>				
<b>At 31 December 2022</b>	<b>487</b>	<b>487</b>	<b>584,119</b>	<b>584,119</b>
<i>Movements with impact on credit loss allowance charge for the period:</i>				
New originated or purchased	328	328	559,125	559,125
Derecognised during the period	(169)	(169)	(197,237)	(197,237)
Changes in accrued interest	-	-	20,628	20,628
<b>Total movements with impact on credit loss allowance charge for the period</b>	<b>159</b>	<b>159</b>	<b>382,516</b>	<b>382,516</b>
<i>Movements without impact on credit loss allowance charge for the period:</i>				
FX and other movements	-	-	-	-
<b>At 31 December 2023</b>	<b>646</b>	<b>646</b>	<b>966,635</b>	<b>966,635</b>

**Central Bank of the Republic of Azerbaijan**

Notes to the Consolidated Financial Statements for the year ended 31 December 2023  
(Amounts are presented in thousands of Azerbaijani Manats, unless otherwise stated)

**8 Debt Securities (Continued)****(c) Debt securities at AC**

The following table contains an analysis of debt securities at AC by credit quality at 31 December 2023 and 31 December 2022 based on credit risk grades and discloses the balances for the purpose of ECL measurement. Refer to Note 32 for the description of credit risk grading system used by the Group and the approach to ECL measurement, including the definition of default and SICR as applicable to debt securities at AC. The carrying amount of debt securities at AC at 31 December 2023 and 31 December 2022 below also represents the Group's maximum exposure to credit risk on these assets:

	2023		2022	
	Stage 1	Total	Stage 1	Total
<b>Agency</b>				
- Excellent	86,938	86,938	-	-
Total AC gross carrying amount	86,938	86,938	-	-
Less credit loss allowance	(29)	(29)	-	-
Carrying value (fair value)	86,909	86,909	-	-
<b>Supranational</b>				
- Excellent	260,744	260,744	-	-
Total AC gross carrying amount	260,744	260,744	-	-
Less credit loss allowance	(15)	(15)	-	-
Carrying value (fair value)	260,729	260,729	-	-
<b>Treasury</b>				
- Excellent	1,361,283	1,361,283	-	-
Total AC gross carrying amount	1,361,283	1,361,283	-	-
Less credit loss allowance	(162)	(162)	-	-
Carrying value (fair value)	1,361,121	1,361,121	-	-
<b>JSCO Agrarkredit</b>				
- Good	9,063,701	9,063,701	9,482,142	9,482,142
Total AC gross carrying amount	9,063,701	9,063,701	9,482,142	9,482,142
Less credit loss allowance	(6,042)	(6,042)	(7,902)	(7,902)
Carrying value (fair value)	9,057,659	9,057,659	9,474,240	9,474,240
<b>Ministry of Finance of the Republic of Azerbaijan</b>				
- Good	152,531	152,531	515	515
Total AC gross carrying amount	152,531	152,531	515	515
Less credit loss allowance	(99)	(99)	-	-
Carrying value (fair value)	152,432	152,432	515	515



**Central Bank of the Republic of Azerbaijan**

Notes to the Consolidated Financial Statements for the year ended 31 December 2023  
(Amounts are presented in thousands of Azerbaijani Manats, unless otherwise stated)

**8 Debt Securities (Continued)**

Movements in the credit loss allowance and in the gross carrying amount of Agency bonds at AC were as follows:

	Credit loss allowance		Gross carrying amount	
	Stage 1	Total	Stage 1	Total
<b>Agency</b>				
<b>At 31 December 2022</b>	-	-	-	-
<i>Movements with impact on credit loss allowance charge for the period:</i>				
New originated or purchased	29	29	85,179	85,179
Derecognised during the period	-	-	-	-
Changes in accrued interest	-	-	1,759	1,759
<b>Total movements with impact on credit loss allowance charge for the period</b>	<b>29</b>	<b>29</b>	<b>86,938</b>	<b>86,938</b>
<b>At 31 December 2023</b>	<b>29</b>	<b>29</b>	<b>86,938</b>	<b>86,938</b>

Movements in the credit loss allowance and in the gross carrying amount of Supranational bonds at AC were as follows:

	Credit loss allowance		Gross carrying amount	
	Stage 1	Total	Stage 1	Total
<b>Supranational</b>				
<b>At 31 December 2022</b>	-	-	-	-
<i>Movements with impact on credit loss allowance charge for the period:</i>				
New originated or purchased	15	15	257,461	257,461
Derecognised during the period	-	-	-	-
Changes in accrued interest	-	-	3,283	3,283
<b>Total movements with impact on credit loss allowance charge for the period</b>	<b>15</b>	<b>15</b>	<b>260,744</b>	<b>260,744</b>
<b>At 31 December 2023</b>	<b>15</b>	<b>15</b>	<b>260,744</b>	<b>260,744</b>

Movements in the credit loss allowance and in the gross carrying amount of Treasury bonds at AC were as follows:

	Credit loss allowance		Gross carrying amount	
	Stage 1	Total	Stage 1	Total
<b>Treasury</b>				
<b>At 31 December 2022</b>	-	-	-	-
<i>Movements with impact on credit loss allowance charge for the period:</i>				
New originated or purchased	162	162	1,346,389	1,346,389
Derecognised during the period	-	-	-	-
Changes in accrued interest	-	-	14,894	14,894
<b>Total movements with impact on credit loss allowance charge for the period</b>	<b>162</b>	<b>162</b>	<b>1,361,283</b>	<b>1,361,283</b>
<b>At 31 December 2023</b>	<b>162</b>	<b>162</b>	<b>1,361,283</b>	<b>1,361,283</b>

**Central Bank of the Republic of Azerbaijan**

Notes to the Consolidated Financial Statements for the year ended 31 December 2023

(Amounts are presented in thousands of Azerbaijani Manats, unless otherwise stated)

**8 Debt Securities (Continued)**

Movements in the credit loss allowance and in the gross carrying amount of JSCO Agrarkredit bonds at AC were as follows:

	<b>Credit loss allowance</b>		<b>Gross carrying amount</b>	
	<b>Stage 1</b>	<b>Total</b>	<b>Stage 1</b>	<b>Total</b>
<b>JSCO Agrarkredit bonds</b>				
<b>At 31 December 2022</b>	<b>7,902</b>	<b>7,902</b>	<b>9,482,142</b>	<b>9,482,142</b>
<i>Movements with impact on credit loss allowance charge for the period:</i>				
New originated or purchased	-	-	-	-
Derecognised during the period	(1,860)	(1,860)	(418,439)	(418,439)
Changes in accrued interest	-	-	(2)	(2)
<b>Total movements with impact on credit loss allowance charge for the period</b>	<b>(1,860)</b>	<b>(1,860)</b>	<b>(418,441)</b>	<b>(418,441)</b>
<b>At 31 December 2023</b>	<b>6,042</b>	<b>6,042</b>	<b>9,063,701</b>	<b>9,063,701</b>

Movements in the credit loss allowance and in the gross carrying amount of Ministry of Finance of the Republic of Azerbaijan bonds at AC were as follows:

	<b>Credit loss allowance</b>		<b>Gross carrying amount</b>	
	<b>Stage 1</b>	<b>Total</b>	<b>Stage 1</b>	<b>Total</b>
<b>Ministry of Finance of the Republic of Azerbaijan</b>				
<b>At 31 December 2022</b>	<b>-</b>	<b>-</b>	<b>515</b>	<b>515</b>
<i>Movements with impact on credit loss allowance charge for the period:</i>				
New originated or purchased	99	99	152,406	152,406
Derecognised during the period	-	-	(503)	(503)
Changes in accrued interest	-	-	113	113
<b>Total movements with impact on credit loss allowance charge for the period</b>	<b>99</b>	<b>99</b>	<b>152,016</b>	<b>152,016</b>
<b>At 31 December 2023</b>	<b>99</b>	<b>99</b>	<b>152,531</b>	<b>152,531</b>

**Central Bank of the Republic of Azerbaijan**

Notes to the Consolidated Financial Statements for the year ended 31 December 2023  
(Amounts are presented in thousands of Azerbaijani Manats, unless otherwise stated)

**9 Loans to Banks****Material accounting policy**

Based on the business model and the cash flow characteristics, the Group classifies loans to banks in the amortised cost measurement category (AC) because the loans are held for collection of contractual cash flows and those cash flows represent SPPI.

The Group measures, on a forward-looking basis, the ECL for loans to banks measured at AC and recognises credit loss allowance at each reporting date.

Refer to Note 32 for a description of how the Group calculate the ECL.

	<b>31 December 2023</b>	<b>31 December 2022</b>
Loans to banks, gross	504,546	658,469
Loss allowance	(431,595)	(369,580)
<b>Loans to banks, net of loss allowance</b>	<b>72,951</b>	<b>288,889</b>

Gross carrying amount and loss allowance amount for loans to banks by classes at 31 December 2023 and 31 December 2022 are disclosed in the table below:

	<b>31 December 2023</b>			<b>31 December 2022</b>		
	<b>Gross carrying amount</b>	<b>Loss allowance</b>	<b>Carrying amount</b>	<b>Gross carrying amount</b>	<b>Loss allowance</b>	<b>Carrying amount</b>
Refinancing loans	504,546	(431,595)	72,951	658,469	(369,580)	288,889
<b>Total</b>	<b>504,546</b>	<b>(431,595)</b>	<b>72,951</b>	<b>658,469</b>	<b>(369,580)</b>	<b>288,889</b>

Refinancing loans to legal entities is provided as part of implementing monetary policy of the Central Bank. As at 31 December 2023 and 2022, the Group had no banks, whose balance exceed 10% of equity.

**Central Bank of the Republic of Azerbaijan**

Notes to the Consolidated Financial Statements for the year ended 31 December 2023

(Amounts are presented in thousands of Azerbaijani Manats, unless otherwise stated)

**9 Loans to Banks (Continued)**

The following tables disclose the changes in the loss allowance for loans to banks between the beginning and the end of the reporting period:

	2023				2022			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
<b>Refinancing loans</b>								
<b>Balance at 1 January</b>	585	1,615	367,380	369,580	2,608	2,419	367,716	372,743
Net remeasurement of loss allowance	(557)	(1,613)	51,706	49,536	(2,535)	(2,403)	(13,299)	(18,237)
New financial assets originated or purchased	-	-	-	-	512	1,599	1,839	3,950
Unwinding of discount on present value of ECLs	-	-	12,479	12,479	-	-	11,124	11,124
<b>Balance at 31 December</b>	<b>28</b>	<b>2</b>	<b>431,565</b>	<b>431,595</b>	<b>585</b>	<b>1,615</b>	<b>367,380</b>	<b>369,580</b>

Changes in the gross carrying amount of financial instruments during the period that contributed to changes in loss allowance were as follows:

	2023				2022			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
<b>Refinancing loans</b>								
<b>Balance at 1 January</b>	167,634	45,359	445,476	658,469	248,897	63,310	416,817	729,024
Transfer to Stage 2	(2,616)	2,616	-	-	-	-	-	-
Transfer to Stage 3	-	(15,716)	15,716	-	-	-	-	-
Repaid during the year	(123,361)	(29,092)	(13,949)	(166,402)	(160,345)	(44,713)	(8,284)	(213,342)
Issued during the year	-	-	-	-	79,082	26,762	2,111	107,955
Unwinding of discount on present value of ECLs	-	-	12,479	12,479	-	-	11,124	11,124
Other movements	-	-	-	-	-	-	23,708	23,708
<b>Balance at 31 December</b>	<b>41,657</b>	<b>3,167</b>	<b>459,722</b>	<b>504,546</b>	<b>167,634</b>	<b>45,359</b>	<b>445,476</b>	<b>658,469</b>

The credit loss allowance for loans to banks recognised in the period is impacted by a variety of factors, details of ECL measurement are provided in Note 32.

**Central Bank of the Republic of Azerbaijan**

Notes to the Consolidated Financial Statements for the year ended 31 December 2023

(Amounts are presented in thousands of Azerbaijani Manats, unless otherwise stated)

**9 Loans to Banks (Continued)**

The credit quality of loans to banks carried at amortised cost is as follows at 31 December 2023 and 2022:

	2023				2022			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
<b>Refinancing loans</b>								
- Good	41,657	3,167	27,564	72,388	167,634	-	-	167,634
- Satisfactory	-	-	-	-	-	45,359	-	45,359
- Default	-	-	432,158	432,158	-	-	445,476	445,476
<b>Gross carrying amount</b>	<b>41,657</b>	<b>3,167</b>	<b>459,722</b>	<b>504,546</b>	<b>167,634</b>	<b>45,359</b>	<b>445,476</b>	<b>658,469</b>
Loss allowance	(28)	(2)	(431,565)	(431,595)	(585)	(1,615)	(367,380)	(369,580)
<b>Carrying amount</b>	<b>41,629</b>	<b>3,165</b>	<b>28,157</b>	<b>72,951</b>	<b>167,049</b>	<b>43,744</b>	<b>78,096</b>	<b>288,889</b>

For description of the credit risk grading used in the tables above refer to Note 32.

**Central Bank of the Republic of Azerbaijan**

Notes to the Consolidated Financial Statements for the year ended 31 December 2023  
(Amounts are presented in thousands of Azerbaijani Manats, unless otherwise stated)

**9 Loans to Banks (Continued)**

The Group's policies regarding obtaining collateral have not significantly changed during the reporting period and there has been no significant change in the overall quality of the collateral held by the Group since the prior period. Description of collateral held for refinancing loans to banks is as follows at 31 December 2023:

	<b>Total</b>
Loans collateralised by:	
- government guarantee	72,340
- commercial real estate	611
Carrying value of loans to banks secured	72,951
Unsecured exposures	-
<b>Total carrying value of loans to banks</b>	<b>72,951</b>

Information about collateral for refinancing loans to banks is as follows at 31 December 2022:

	<b>Total</b>
Loans collateralised by:	
- government guarantee	130,748
- commercial real estate	54,836
Carrying value of loans to banks secured	185,584
Unsecured exposures	103,305
<b>Total carrying value of loans to banks</b>	<b>288,889</b>

Information about collateral for refinancing loans to banks that are credit-impaired is as follows at 31 December 2023:

	<b>Total</b>
Loans collateralised by:	
- government guarantee	27,546
- commercial real estate	611
Carrying value of loans to banks secured	28,157
Unsecured exposures	-
<b>Total carrying value of loans to banks</b>	<b>28,157</b>

Information about collateral for refinancing loans to banks that are credit-impaired is as follows at 31 December 2022:

	<b>Total</b>
Loans collateralised by:	
- government guarantee	23,688
- commercial real estate	29,674
Carrying value of loans to banks secured	53,362
Unsecured exposures	24,734
<b>Total carrying value of loans to banks</b>	<b>78,096</b>

All loans of the Group other than unsecured loans are over-collateralized before discounting for time to sell and costs to sell.

**Reposessed collateral**

During the year ended 31 December 2023, the Group obtained certain assets by taking possession of collateral for loans to banks comprising real estate with a net carrying amount of AZN 18,075 thousand (as at 31 December 2022: AZN 4,977 thousand). The Group's policy is to sell these assets as soon as it is practicable.

**Central Bank of the Republic of Azerbaijan**

Notes to the Consolidated Financial Statements for the year ended 31 December 2023

(Amounts are presented in thousands of Azerbaijani Manats, unless otherwise stated)

**9 Loans to Banks (Continued)****Sensitivity****31 December 2023**

*LGD increase.* 10 percentage points increase in LGD estimates would result in an increase in total expected credit loss allowances of AZN 190 thousand at 31 December 2023 (2022: AZN 42,465 thousand).

*PD increase.* 10 percentage points increase in PD estimates would be result in an increase in total expected credit loss allowances of AZN 2,681 thousand at 31 December 2023 (2022: AZN 13,356 thousand)

**10 Loans to Non-Bank Credit Organisations**

Loans to non-bank credit organisations include low interest rate loans provided to non-bank credit organisations under the state guarantee as per the decree "On the additional measures related to the solution of problem loans of individuals in the Republic of Azerbaijan" signed by the President of the Republic of Azerbaijan on 28 February 2019.

	<b>31 December 2023</b>	<b>31 December 2022</b>
Loans to Non-Bank Credit Organisations, gross	7,589	13,857
Loss allowance	(5)	(12)
<b>Loans to Non-Bank Credit Organisations, net of loss allowance</b>	<b>7,584</b>	<b>13,845</b>

**11 Loans to Deposit Insurance Fund**

	<b>31 December 2023</b>	<b>31 December 2022</b>
Loans to Deposit Insurance Fund, gross	216,584	221,940
Loss allowance	(165)	(185)
<b>Loans to Deposit Insurance Fund, net of loss allowance</b>	<b>216,419</b>	<b>221,755</b>

Loans to Deposit Insurance Fund include low interest rate loans provided to Azerbaijan Deposit Insurance Fund under the state guarantee to compensate money deposited by individuals in banks whose licenses were revoked and declared bankrupt based on relevant court decisions and to ensure the sustainability of the financial and banking system.

During 2023, the principal amount of AZN 22,500 thousand was repaid early (2022: AZN 30,000 thousand). These loans were recorded at fair value on initial recognition calculated using the market interest rates of 6.25%.

Changes in the gross carrying amount of financial instruments during the period:

	<b>2023</b>		<b>2022</b>	
	<b>Stage 1</b>	<b>Total</b>	<b>Stage 1</b>	<b>Total</b>
<b>Loans to Deposit Insurance Fund</b>				
<b>Balance at 1 January</b>	<b>221,940</b>	<b>221,940</b>	<b>236,600</b>	<b>236,600</b>
Repaid during the year	(22,500)	(22,500)	(30,000)	(30,000)
Issued during the year	-	-	-	-
Changes in Accrued interest receivable	-	-	(2)	(2)
Interest income calculated using the effective interest method	14,170	14,170	15,342	15,342
Modification gain on financial assets	2,974	2,974	-	-
<b>Balance at 31 December</b>	<b>216,584</b>	<b>216,584</b>	<b>221,940</b>	<b>221,940</b>

**Central Bank of the Republic of Azerbaijan**

Notes to the Consolidated Financial Statements for the year ended 31 December 2023

(Amounts are presented in thousands of Azerbaijani Manats, unless otherwise stated)

**12 Property and Equipment**

Property and equipment are stated at historical cost less accumulated depreciation and impairment losses, where required. Land and construction in progress are not depreciated. Depreciation on other items of property and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives. Depreciation of an asset begins when it is available for use. Estimated useful life is determined using the following annual depreciation rates:

Buildings	3%
Furniture and fixtures	20-25%
Computer and communication equipment	25%
Motor vehicles	15%

The following table provides information on the movement of property and equipment for the year ended at 31 December 2023:

	<u>Land</u>	<u>Buildings</u>	<u>Furniture and fixtures</u>	<u>Computers and communication</u>	<u>Motor vehicles</u>	<u>Construction in progress</u>	<u>Total</u>
<b>Cost</b>							
<b>Balance at 1 January 2023</b>	<b>16,062</b>	<b>61,554</b>	<b>66,076</b>	<b>44,604</b>	<b>4,589</b>	<b>217,633</b>	<b>410,518</b>
Additions	-	161	4,204	612	222	113,366	118,565
Disposals	-	-	(71)	(116)	-	-	(187)
Other	-	(37)	258	(116)	66	-	171
Transfers to Investment property	-	(40,339)	-	-	-	-	(40,339)
Transfers from CIP	-	32,691	15,895	532	-	(49,118)	-
<b>Balance at 31 December 2023</b>	<b>16,062</b>	<b>54,030</b>	<b>86,362</b>	<b>45,516</b>	<b>4,877</b>	<b>281,881</b>	<b>488,728</b>
<b>Depreciation</b>							
<b>Balance at 1 January 2023</b>	-	<b>(26,884)</b>	<b>(57,771)</b>	<b>(34,802)</b>	<b>(3,110)</b>	-	<b>(122,567)</b>
Depreciation for the year	-	(2,804)	(5,954)	(5,331)	(398)	-	(14,487)
Disposals	-	-	42	60	-	-	102
Other	-	24	(226)	58	(27)	-	(171)
Transfers to Investment property	-	1,844	-	-	-	-	1,844
<b>Balance at 31 December 2023</b>	-	<b>(27,820)</b>	<b>(63,909)</b>	<b>(40,015)</b>	<b>(3,535)</b>	-	<b>(135,279)</b>
Carrying amount							
<b>At 31 December 2023</b>	<b>16,062</b>	<b>26,210</b>	<b>22,453</b>	<b>5,501</b>	<b>1,342</b>	<b>281,881</b>	<b>353,449</b>



**Central Bank of the Republic of Azerbaijan***Notes to the Consolidated Financial Statements for the year ended 31 December 2023**(Amounts are presented in thousands of Azerbaijani Manats, unless otherwise stated)***12 Property and Equipment (Continued)**

The additions in the construction in progress are AZN 242,077 thousand for the construction of a new office building of the Central Bank in the Nizami district as per the agreement with the main contractor and AZN 39,804 thousand for the works performed classified as other capital investments (including VAT). The works to be performed under the contract with the main contractor for the completion of the new building amounts to AZN 355,096 thousand (2022: AZN 331,878 thousand), including AZN 132,863 thousand for equipment, installation the Cash Centre within the building and furnishing the Headquarter.

The following table provides information on the movement of property and equipment for the year ended at 31 December 2022:

	<b>Land</b>	<b>Buildings</b>	<b>Furniture and fixtures</b>	<b>Computers and communication equipment</b>	<b>Motor vehicles</b>	<b>Construction in progress</b>	<b>Total</b>
<b>Cost</b>							
<b>Balance at 1 January 2022</b>	<b>15,976</b>	<b>51,526</b>	<b>65,772</b>	<b>39,978</b>	<b>3,253</b>	<b>7,123</b>	<b>183,628</b>
Additions resulting from NDC	-	2,905	85	1,193	289	-	4,472
Additions	86	-	252	3,544	1,047	217,633	222,562
Disposals	-	-	(33)	(111)	-	-	(144)
Transfers from CIP	-	7,123	-	-	-	(7,123)	-
<b>Balance at 31 December 2022</b>	<b>16,062</b>	<b>61,554</b>	<b>66,076</b>	<b>44,604</b>	<b>4,589</b>	<b>217,633</b>	<b>410,518</b>
<b>Depreciation</b>							
<b>Balance at 1 January 2022</b>	-	<b>(22,995)</b>	<b>(54,285)</b>	<b>(27,420)</b>	<b>(2,567)</b>	-	<b>(107,267)</b>
Accumulated depreciation resulting from NDC	-	(1,126)	(29)	(664)	(262)	-	(2,081)
Depreciation for the year	-	(2,763)	(3,490)	(6,829)	(281)	-	(13,363)
Disposals	-	-	33	111	-	-	144
<b>Balance at 31 December 2022</b>	-	<b>(26,884)</b>	<b>(57,771)</b>	<b>(34,802)</b>	<b>(3,110)</b>	-	<b>(122,567)</b>
Carrying amount							
<b>At 31 December 2022</b>	<b>16,062</b>	<b>34,670</b>	<b>8,305</b>	<b>9,802</b>	<b>1,479</b>	<b>217,633</b>	<b>287,951</b>

**Central Bank of the Republic of Azerbaijan***Notes to the Consolidated Financial Statements for the year ended 31 December 2023**(Amounts are presented in thousands of Azerbaijani Manats, unless otherwise stated)***13 Intangible Assets**

Intangible assets are stated at cost less accumulated amortization and impairment losses.

Group's intangible assets have definite useful life and primarily include capitalized computer software and licenses.

Amortization is charged to profit or loss on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives range from 1 to 10 years.

The following table provides information on the movement of intangible assets for the year ended at 31 December 2023:

	<b>Software Development</b>	<b>Licenses</b>	<b>Total intangible assets</b>
<b>Cost</b>			
<b>Balance at 1 January 2023</b>	<b>95,575</b>	<b>54,885</b>	<b>150,460</b>
Additions	3,589	-	3,589
Disposals	(16,981)	(3,057)	(20,038)
<b>Balance at 31 December 2023</b>	<b>82,183</b>	<b>51,828</b>	<b>134,011</b>
<b>Amortization</b>			
<b>Balance at 1 January 2023</b>	<b>(55,305)</b>	<b>(28,037)</b>	<b>(83,342)</b>
Amortization for the year	(7,742)	(8,673)	(16,415)
Disposals	13,969	2,250	16,219
<b>Balance at 31 December 2023</b>	<b>(49,078)</b>	<b>(34,460)</b>	<b>(83,538)</b>
Carrying amount <b>At 31 December 2023</b>	<b>33,105</b>	<b>17,368</b>	<b>50,473</b>

The following table provides information on the movement of intangible assets for the year ended at 31 December 2022:

	<b>Software Development</b>	<b>Licenses</b>	<b>Total intangible assets</b>
<b>Cost</b>			
<b>Balance at 1 January 2022</b>	<b>85,592</b>	<b>50,177</b>	<b>135,769</b>
Additions resulting from NDC	3,492	12	3,504
Additions	6,491	4,696	11,187
<b>Balance at 31 December 2022</b>	<b>95,575</b>	<b>54,885</b>	<b>150,460</b>
<b>Amortization</b>			
<b>Balance at 1 January 2022</b>	<b>(45,334)</b>	<b>(20,217)</b>	<b>(65,551)</b>
Accumulated amortization resulting from NDC	(1,463)	-	(1,463)
Amortization for the year	(8,508)	(7,820)	(16,328)
<b>Balance at 31 December 2022</b>	<b>(55,305)</b>	<b>(28,037)</b>	<b>(83,342)</b>
Carrying amount <b>At 31 December 2022</b>	<b>40,270</b>	<b>26,848</b>	<b>67,118</b>

## Central Bank of the Republic of Azerbaijan

Notes to the Consolidated Financial Statements for the year ended 31 December 2023

(Amounts are presented in thousands of Azerbaijani Manats, unless otherwise stated)

### 14 Investment Property

The Guba Olympic Sports Complex (Complex) is transferred from construction in progress to investment property by CBAR in 2023. Investment property is stated at cost less accumulated depreciation and provision for impairment, where required. The fair value of the Complex is close to its carrying amount.

On 24 August 2023 CBAR signed a one-year contract with “AzəridmanServis” LLC (Company) under the Ministry of Youth and Sport. According to the contract, the Company can use the Complex to conduct various events and competitions, as well as for other purposes allowed under its charter. CBAR is the lessor and the Company should pay 50% of the profit to CBAR per Contract.

Refer to Note 12 for the description of the transfer of the investment property.

### 15 Other Financial Assets

	31 December 2023	31 December 2022
Receivables from trade securities disposed	51,172	64,054
Loans to employees	398	457
Amounts in the course of settlement	6	288
Loss allowance	(5)	(6)
	<b>51,571</b>	<b>64,793</b>

Other financial assets are included in Stage 1 and assigned with good credit risk grade.

### 16 Other Assets

	31 December 2023	31 December 2022
Reposessed collateral	73,157	55,082
Prepayments to suppliers	40,651	61,575
Other non-financial assets	4,234	1,422
	<b>118,042</b>	<b>118,079</b>

### 17 Money in Circulation

#### Material accounting policy

Money in circulation represents banknotes and coins issued by the Group and in circulation in accordance with the Law and its function as a central bank. Banknotes and coins in circulation are recorded in the statement of financial position at their nominal value net of cash in the Group's cash offices.

The costs of the production of notes and coins except for bullion coins are expensed upon delivery by the suppliers to the Group.

Money issued in circulation represents the amount of national currency of the Republic of Azerbaijan issued by the Bank. This comprises the AZN issued into circulation since 1 January, 2006, and old Azerbaijani Manats (“AZM”) issued into circulation since the introduction of the national currency in 1992 and currently withdrawn from the circulation and commemorative coins.

During the year ended 31 December 2023 the Bank accepted new banknotes and coins amounting to AZN 550,960 thousand from printing and minting companies (2022: AZN 2,446,950 thousand).

	31 December 2023	31 December 2022
Balance at the beginning of the year	14,714,360	12,310,018
Net amount of banknotes and coins put into circulation	2,603,835	2,404,342
<b>Balance at the end of the year</b>	<b>17,318,195</b>	<b>14,714,360</b>

**Central Bank of the Republic of Azerbaijan***Notes to the Consolidated Financial Statements for the year ended 31 December 2023**(Amounts are presented in thousands of Azerbaijani Manats, unless otherwise stated)***18 Short-term Deposits of Resident Banks**

On 31 December 2023, the amount of short-term deposits of resident banks (including accrued interest) was AZN 2,681,989 thousand (31 December 2022: AZN 1,938,977 thousand). This amount includes the deposits of AZN 1,175,224 thousand obtained through auctions as a part of monetary policy tools (including accrued interest on them) (31 December 2022: AZN 476,665 thousand) and deposits of AZN 1,506,765 thousand placed with the Group out of deposit auction (including accrued interest) (31 December 2022: AZN 1,462,312 thousand).

During 2023, the Group obtained deposit in the amount of AZN 1,464,951 thousand out of auction from International Bank of Azerbaijan (IBAR) with the annual interest rate of 3%. The deposit was recorded at fair value on initial recognition calculated by applying the Central Bank's corridor floor rate of 6.25%. As at 31 December 2023, the amortized carrying amount of these deposits was AZN 1,506,765 thousand.

**19 Amounts Due to Government Organisations**

	<b>31 December 2023</b>	<b>31 December 2022</b>
Amounts due to the Central Treasury of the Republic of Azerbaijan	3,171,173	3,543,846
Amounts due to State Oil Fund of the Republic of Azerbaijan and Azerbaijan	411,520	545,193
Other current/demand accounts	176,482	191,188
	<b><u>3,759,175</u></b>	<b><u>4,280,227</u></b>

Amounts due to government organisations are non-derivative liabilities and are carried at amortized cost.

Interest rate, currency and maturity analysis of amounts due to government organisations are disclosed in Note 32.

**20 Amounts Due to Credit Institutions**

	<b>31 December 2023</b>	<b>31 December 2022</b>
Mandatory reserves	5,050,818	1,389,206
Current accounts	1,470,289	4,780,512
	<b><u>6,521,107</u></b>	<b><u>6,169,718</u></b>

Amounts due to credit institutions are recorded when money or other assets are advanced to the Group by counterparty banks and carried at amortized cost.

**21 Amounts Due to Other Organisations**

	<b>31 December 2023</b>	<b>31 December 2022</b>
Other financial institutions	45,263	16,097
Public organisations	73	85
	<b><u>45,336</u></b>	<b><u>16,182</u></b>

**Central Bank of the Republic of Azerbaijan***Notes to the Consolidated Financial Statements for the year ended 31 December 2023**(Amounts are presented in thousands of Azerbaijani Manats, unless otherwise stated)*

---

**22 Debt Securities in Issue**

	<b>31 December 2023</b>	<b>31 December 2022</b>
Short-term notes	<u>1,295,374</u>	<u>1,319,529</u>
	<b><u>1,295,374</u></b>	<b><u>1,319,529</u></b>

Notes are bonds issued by the Central Bank for a period of 28, 84, 168 and 252 days for the purpose of implementing the monetary policy. Placement of bonds is carried out through auctions, where interest rate restrictions are not applied. In the auctions held in 2023, the average interest rate ranged from 5.9% to 10.8%. Debt securities in issue are stated at AC.

Refer to Note 36 for the disclosure of the fair value of debt securities in issue. Interest rate analyses of debt securities in issue are disclosed in Note 32. Information on debt securities in issue held by related parties is disclosed in Note 35.

**23 Other Financial Liabilities**

	<b>31 December 2023</b>	<b>31 December 2022</b>
Amounts payable for trading securities purchased	<u>359,322</u>	<u>217,268</u>
Amounts in the course of settlement	<u>13,920</u>	<u>7,811</u>
Other financial liabilities	<u>1,209</u>	<u>1,345</u>
	<b><u>374,451</u></b>	<b><u>226,424</u></b>

**24 Charter Fund and Reserves**

The Group capital consists of its charter fund and other capital components. The Charter fund of the Bank is AZN 500,000 thousand (2022: AZN 500,000 thousand ). At the end of the reporting year, Group's other capital components were AZN 1,054,215 thousand (2022: AZN 480,791 thousand).

**Central Bank of the Republic of Azerbaijan***Notes to the Consolidated Financial Statements for the year ended 31 December 2023**(Amounts are presented in thousands of Azerbaijani Manats, unless otherwise stated)***25 Net Interest Income**

Interest income and expense are recorded for all financial instruments on an accrual basis using the effective interest method. This method defers, as part of interest income or expense, all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts

	<b>2023</b>	<b>2022</b>
<b>Interest income calculated using the effective interest method</b>		
Debt securities at FVOCI	279,137	114,949
Placements with non-resident banks	106,260	47,024
SDR holdings with the IMF	42,472	8,788
Debt securities at AC	38,349	14,124
Amortisation of loss on initial recognition of financial assets	14,171	15,342
Reverse repo operations	936	-
Loans to banks	767	4,828
Loans to Deposit Insurance Fund	405	437
Other assets	26	29
	<b>482,523</b>	<b>205,521</b>
<b>Other interest income</b>		
Debt securities at FVTPL	32,716	15,410
Investments in money market funds	88	89
	<b>32,804</b>	<b>15,499</b>
<b>Interest expense</b>		
Deposits of resident banks	109,313	68,263
Debt securities in issue	96,629	32,878
Amortisation of gain on initial recognition of financial liabilities	47,832	57,578
Liabilities on transactions with the IMF	43,027	8,913
Amounts due to State Oil Fund of the Republic of Azerbaijan and Azerbaijan Deposit Insurance Fund	2,454	234
Repo operations	334	62
Overdraft on international financial institutions	60	-
	<b>299,649</b>	<b>167,928</b>
	<b>215,678</b>	<b>53,092</b>

Amortisation of loss on initial recognition of financial assets arises from low interest rate loans provided to Azerbaijan Deposit Insurance Fund under the state guarantee.

Amortisation of gain on initial recognition of financial liabilities derives from low interest rate short-term deposit obtained from International Bank of Azerbaijan.

**26 Fee and Commission Income**

	<b>2023</b>	<b>2022</b>
Cash withdrawal	12,234	16,723
Settlement	11,268	11,428
Other	4,869	4,270
	<b>28,371</b>	<b>32,421</b>

**Central Bank of the Republic of Azerbaijan**

Notes to the Consolidated Financial Statements for the year ended 31 December 2023

(Amounts are presented in thousands of Azerbaijani Manats, unless otherwise stated)

---

**27 Fee and Commission Expense**

	<u>2023</u>	<u>2022</u>
Management fee	1,295	1,140
Cash withdrawal	1,248	55
Custodian Fee	641	727
Settlement	101	58
Service fee	16	1,695
Other	29	25
	<u><b>3,330</b></u>	<u><b>3,700</b></u>

**28 Net gains/(losses) from Foreign Exchange Translation**

Due to the revaluation of assets and liabilities denominated in foreign currency following official exchange rate changes in 2023, the foreign exchange gain in the amount of AZN 48,801 thousand was recognised in the consolidated statement of profit or loss and other comprehensive income. (2022: AZN 68,632 thousand as a loss).

**29 Segment Analysis**

The Group's operations comprise a single operating segment for the purposes of these consolidated financial statements in accordance with IFRS 8 Operating Segments.

**Central Bank of the Republic of Azerbaijan**

Notes to the Consolidated Financial Statements for the year ended 31 December 2023

(Amounts are presented in thousands of Azerbaijani Manats, unless otherwise stated)

**29 Segment Analysis (Continued)**

The geographical segment analysis as of 31 December 2023 is presented below:

	Azerbaijan	Western Europe	East Europe	Southern Europe	Northern Europe	North America	East Asia	Australia and New Zealand	International Organisations	Other	Total
<b>ASSETS</b>											
Cash and cash equivalents	1,939,195	928,088	-	-	-	2,762,188	-	-	-	-	5,629,471
Special Drawing Rights with the IMF	-	-	-	-	-	-	-	-	1,208,132	-	1,208,132
Derivative financial instruments	-	-	-	-	-	-	-	-	-	49	49
Debt securities	10,177,994	1,762,483	650	61,058	457,982	11,881,033	1,454,312	50,181	1,199,447	1,687	27,046,827
Loans to banks	72,951	-	-	-	-	-	-	-	-	-	72,951
Loans to non-bank credit organizations	7,584	-	-	-	-	-	-	-	-	-	7,584
Loans to Deposit Insurance Fund	216,419	-	-	-	-	-	-	-	-	-	216,419
Property and equipment	353,449	-	-	-	-	-	-	-	-	-	353,449
Intangible assets	50,473	-	-	-	-	-	-	-	-	-	50,473
Investment property	38,495	-	-	-	-	-	-	-	-	-	38,495
Other financial assets	399	-	-	-	51,172	-	-	-	-	-	51,571
Other assets	118,042	-	-	-	-	-	-	-	-	-	118,042
<b>Total assets</b>	<b>12,975,001</b>	<b>2,690,571</b>	<b>650</b>	<b>61,058</b>	<b>509,154</b>	<b>14,643,221</b>	<b>1,454,312</b>	<b>50,181</b>	<b>2,407,579</b>	<b>1,736</b>	<b>34,793,463</b>
<b>LIABILITIES</b>											
Money in circulation	17,318,195	-	-	-	-	-	-	-	-	-	17,318,195
Short-term deposits of resident banks	2,681,989	-	-	-	-	-	-	-	-	-	2,681,989
Amounts due to government organisations	3,759,175	-	-	-	-	-	-	-	-	-	3,759,175
Amounts due to credit institutions	6,521,107	-	-	-	-	-	-	-	-	-	6,521,107
Amounts due to other organisations	45,336	-	-	-	-	-	-	-	-	-	45,336
Debt securities in issue	1,295,374	-	-	-	-	-	-	-	-	-	1,295,374
Liabilities on transactions with the IMF	-	-	-	-	-	-	-	-	1,211,857	-	1,211,857
Amounts due to international financial institutions	-	-	-	-	-	-	-	-	1,706	-	1,706
Derivative financial instruments	-	-	-	-	-	-	-	-	-	3,789	3,789
Other financial liabilities	14,454	679	-	-	-	359,318	-	-	-	-	374,451
Other liabilities	26,269	-	-	-	-	-	-	-	-	-	26,269
<b>Total liabilities</b>	<b>31,661,899</b>	<b>679</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>359,318</b>	<b>-</b>	<b>-</b>	<b>1,213,563</b>	<b>3,789</b>	<b>33,239,248</b>



**Central Bank of the Republic of Azerbaijan**

Notes to the Consolidated Financial Statements for the year ended 31 December 2023

(Amounts are presented in thousands of Azerbaijani Manats, unless otherwise stated)

**29 Segment Analysis (Continued)**

The geographical segment analysis as of 31 December 2022 is presented below:

	Azerbaijan	Western Europe	Southern Europe	Northern Europe	North America	East Asia	Australia and New Zealand	International Organisations	Other	Total
<b>ASSETS</b>										
Cash and cash equivalents	511,649	1,094,097	-	-	4,806,351	170,925	-	-	-	6,583,022
Special Drawing Rights with the IMF	-	-	-	-	-	-	-	1,196,216	-	1,196,216
Derivative financial instruments	-	-	-	-	-	-	-	-	329	329
Debt securities	10,058,768	2,157,744	47,184	485,152	6,500,097	1,928,867	38,854	795,958	7,366	22,019,990
Loans to banks	288,889	-	-	-	-	-	-	-	-	288,889
Loans to non-bank credit organizations	13,845	-	-	-	-	-	-	-	-	13,845
Loans to Deposit Insurance Fund	221,755	-	-	-	-	-	-	-	-	221,755
Property and equipment	287,951	-	-	-	-	-	-	-	-	287,951
Intangible assets	67,118	-	-	-	-	-	-	-	-	67,118
Other financial assets	739	-	-	-	64,054	-	-	-	-	64,793
Other assets	118,079	-	-	-	-	-	-	-	-	118,079
<b>Total assets</b>	<b>11,568,793</b>	<b>3,251,841</b>	<b>47,184</b>	<b>485,152</b>	<b>11,370,502</b>	<b>2,099,792</b>	<b>38,854</b>	<b>1,992,174</b>	<b>7,695</b>	<b>30,861,987</b>
<b>LIABILITIES</b>										
Money in circulation	14,714,360	-	-	-	-	-	-	-	-	14,714,360
Short-term deposits of resident banks	1,938,977	-	-	-	-	-	-	-	-	1,938,977
Amounts due to government organisations	4,280,227	-	-	-	-	-	-	-	-	4,280,227
Amounts due to credit institutions	6,169,718	-	-	-	-	-	-	-	-	6,169,718
Amounts due to other organisations	16,182	-	-	-	-	-	-	-	-	16,182
Debt securities in issue	1,319,529	-	-	-	-	-	-	-	-	1,319,529
Liabilities on transactions with the IMF	-	-	-	-	-	-	-	1,199,372	-	1,199,372
Amounts due to international financial institutions	-	-	-	-	-	-	-	1,178	-	1,178
Derivative financial instruments	-	-	-	-	-	-	-	-	2,109	2,109
Other financial liabilities	9,156	9,563	-	-	206,926	-	-	779	-	226,424
Other liabilities	13,120	-	-	-	-	-	-	-	-	13,120
<b>Total liabilities</b>	<b>28,461,269</b>	<b>9,563</b>	<b>-</b>	<b>-</b>	<b>206,926</b>	<b>-</b>	<b>-</b>	<b>1,201,329</b>	<b>2,109</b>	<b>29,881,196</b>

## Central Bank of the Republic of Azerbaijan

Notes to the Consolidated Financial Statements for the year ended 31 December 2023

(Amounts are presented in thousands of Azerbaijani Manats, unless otherwise stated)

### 30 (Provision for)/Recovery of Impairment Loss

	<u>2023</u>	<u>2022</u>
Loans to banks	(26,644)	47,874
Debt securities at AC	1,554	(8,018)
Loans to Deposit Insurance Fund	20	(185)
Loans to non-bank credit organizations	5	(12)
Other financial assets	(72)	-
	<u>(25,137)</u>	<u>39,659</u>

In 2023, the AZN 22,892 thousand of the total represent the recovery of written-off receivables from defaulted banks (2022: AZN 23,708 thousand and AZN 9,877 thousand of the total represent the recovery of written-off loans and receivables from defaulted banks).

### 31 Administrative and Other Operating Expenses

	<u>2023</u>	<u>2022</u>
Staff costs	37,241	32,509
Amortisation of software and other intangible assets	16,415	16,328
Depreciation of premises and equipment	14,487	13,363
Banknotes and coin production	14,097	24,100
Contributions to Social Security Pension Fund	8,210	7,248
Software maintenance	7,988	10,098
Loss on disposal of intangible assets	3,900	-
Security	1,987	1,887
Repair and maintenance	1,288	869
Communication	1,238	1,101
Insurance	891	1,056
Office supplies	813	1,877
Heating and lighting	809	821
Social	700	1,060
Contributions to Mandatory Health Insurance	663	572
Audit and consulting	579	186
Business travel	538	300
Representation	232	100
Literature, printing and membership fee	93	136
Utilities	67	60
Consultancy (under contract with "McKinsey & Company")	-	669
Other	1,084	866
	<u>113,320</u>	<u>115,206</u>

### 32 Risk Management

The risk management function within the Group is carried out with respect to financial risks, operational risks, *strategic (policy) risks and reputational risks*. Group's risks are classified in the following four categories:

- *Strategic (policy) risks* – are the risks related to the monetary policy, financial stability, and other strategic issues arising out of mandate. Strategic (policy) Risk Management is implemented by Group's Management Board, Monetary Policy and Financial Stability Committee;
- *Financial risks* – is targeted at the identification, management of credit, market and liquidity risks. Financial Risk Management is performed by Management Board of the Group, Foreign Exchange Reserves Management Department in accordance with relevant rules and procedures. Risk management policy and procedures are regularly reviewed considering the changes in the market condition, offered products and services and innovations in the advanced practice;

## 32 Risk Management (Continued)

- *Operational risks* – are the risks arising out of the intentional or careless behavior of employees of Group's units, non-adequacy of the internal processes, deficiency in the technical equipment, as well as software and technical platforms of the information system, and external events. In accordance with the principles of the Basel Committee on Corporate Management Department, it is carried out on the basis of 3 lines of defense.

The first line of defense consists of the Group's all structural units of the model, the second and the third lines include the Operational Risk Division, the Information and Cyber Security Division and the Internal Audit Department, respectively. Functions of the Group's operational risk division include preparation, development, communication and training of the policy and methodology documents for the Group's Operational Risk Management (ORM) and business continuity management (BCM) system and relevant supporting systems; coordination, facilitation, monitoring and reporting of the ORM process and as well as the performance of Risk and Control Self-Assessment and the preparation of risk profile of the Group's consolidated operations. These functions also include providing appropriate opinion by carrying out expertise on operational risks of internal bank documents and risk monitoring of the implementation status of identified measures related to the execution of audit recommendations resulting from the audit procedures performed.

- *Reputational risks* – are the risks arising out of the personal life, behavior and communication of Group's high-ranking officials (Members of the Management Board and General Directors), as well as discrepancy between the Group's goals and activities and the public opinion. Reputational losses in the result of inefficient management of strategic (policy), financial, operational risks are not considered as reputational risks. Those losses are considered as one of the risk impact categories within the strategic (policy), financial, operational risks management. Group's reputational risks are managed by the Management Board, General Directors and International Cooperation and Communications Department.

### Financial risk management policies and procedures

Risk management of the Group is a critical component of its banking activities. Risk is inherent in the Group's activities but it is managed through a process of ongoing identification, measurement and daily monitoring, subject to risk limits and other controls.

The Management Board is ultimately responsible for identifying and controlling risks; however, there are separate business units responsible for managing and monitoring the various risks:

*Management Board.* The Management Board is ultimately responsible for controlling of risk management system. The Management Board is responsible for the overall risk management approach, risk tolerance levels and for approving the main principles of risk management.

*Foreign Exchange Reserves Management Department.* The Risk Management Unit of the Foreign Exchange Reserves Management Department regularly controls the limits and exposures set for management of foreign currency assets in accordance with the "Regulations for Management of Foreign Currency Assets of the Central Bank of the Republic of Azerbaijan", "Main Directions for Management of Foreign Currency Assets of the Central Bank of the Republic of Azerbaijan", and "Operational Investment Strategy for Management of Foreign Currency Assets of the Central Bank of the Republic of Azerbaijan".

*Internal audit.* Risk management processes throughout the Group are audited annually by the Internal Audit that examines both the adequacy of the procedures and the Group's compliance with the procedures. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Chairman of the Group.

There are also special committees and commissions within the Group for conducting operations and control such as the Credit Committee, and Regular Commission on determination of official exchange rates of the Group, and others.

The risk related to the Group's foreign currency assets is a significant risk. Segregation of duties, procedures and reporting for risk management are regulated by the "Guidelines on Management of Foreign Currency Assets of the Central Bank of the Republic of Azerbaijan" and "Instruction on operations

## Central Bank of the Republic of Azerbaijan

Notes to the Consolidated Financial Statements for the year ended 31 December 2023

(Amounts are presented in thousands of Azerbaijani Manats, unless otherwise stated)

### 32 Risk Management (Continued)

for maintenance and management of currency reserves of the Central Bank of the Republic of Azerbaijan”.

Acceptable limits on managed risks are stipulated in the “Guidelines on Management of Foreign Currency Assets of the Central Bank of the Republic of Azerbaijan”, “Main Directions of Management of Foreign Currency Assets of the Central Bank of the Republic of Azerbaijan”, “Operational Investment Strategy for Management of Foreign Currency Assets of the Central Bank of the Republic of Azerbaijan” and “Investment Rules for Management of Assets by Foreign Managers”. The respective documents are approved by the Management Board.

#### Credit risk

The Group is exposed to credit risk, which is the risk that one party will incur a loss because the other party failed to comply with its financial obligations. Exposure to credit risk arises as a result of the Group’s lending and other transactions with counterparties. Credit risk is managed and controlled through proper selection of investment assets, credit quality of investment assets and setting limits on the amount of investment per investment asset.

In accordance with the investment guidelines of the Group, only investment instruments with short-term ratings of not less than A-2 (Standard & Poor’s), F-2 (Fitch) or P-2 (Moody’s) and long-term ratings of not less than A- (Standard & Poor’s, Fitch) or A3 (Moody’s) may be used for management of the Group’s assets.

At the same time, the maximum amount invested in corporations, state agencies without government guarantees and regional self-governing authorities is defined as 5% of the investment portfolio. Subject to the terms of the investment instrument, minimal credit rating is defined as A- / A3 (Standard & Poor’s, Fitch, Moody’s) for investment instruments with a term of up to twelve months, and A / A2 (Standard & Poor’s, Fitch, Moody’s) for deposits with a term over twelve months. When different credit ratings are designated by the various agencies, the rating meeting the minimum required level for this asset is used.

In 2023 and 2022, loans granted to credit institutions as part of monetary policy were secured by relevant collaterals. Exposure to credit risk is managed by obtaining collateral with the value of not less than the amount defined under the “Rules on loan issuance to the banks by the Central Bank of the Republic of Azerbaijan” depending on the type of collateral. In order to monitor credit risk exposures, the Financial Market Operations Department regularly controls overdue loan balances and produces appropriate reports.

*Credit risk grading system.* For measuring credit risk and grading financial instruments by the amount of credit risk, the Group applies two approaches – an Internal Risk-Based (IRB) rating system or risk grades estimated by external international rating agencies (Standard & Poor’s - “S&P”, Fitch, Moody’s). Internal and external credit ratings are mapped on an internally defined master scale with a specified range of probabilities of default as disclosed in the table below. The table describes the corresponding PD interval for corporate financial institutions and organizations. For sovereign debts in local currency, the government credit rating was considered as BB+ in accordance with S&P rating agency and 0.18% probability of default was applied.

Master scale credit risk grade	Corresponding internal and external ratings	Corresponding PD interval
Excellent	AAA to A-	0,01% - 0,05%
Good	BBB+ to B+	0,051% - 3%
Satisfactory	B, B-	3.1% - 10%
Special monitoring	CCC+ to CC-	10.1% - 99,9%
Default	C, D-I, D-II	100%

Each master scale credit risk grade is assigned a specific degree of creditworthiness:

- *Excellent* – strong credit quality with low expected credit risk;
- *Good* – adequate credit quality with a moderate credit risk;

## 32 Risk Management (Continued)

- *Satisfactory* – moderate credit quality with a satisfactory credit risk;
- *Special monitoring* – facilities that require closer monitoring and remedial management; and
- *Default* – facilities in which a default has occurred

If the borrower is not provided with credit ratings by the leading international rating agencies, a credit rating is assigned by the Group using the CAELS rating system. Relevant credit rating is estimated based on the borrower's financial ratios such as: the Tier 1 capital ratio, Non-Performing Loans Ratio, Return on Equity and Return on Assets. The Group monitors adverse changes in economic and business conditions in the longer term that may impact the ability of borrowers to fulfil contractual cash flow obligations at each reporting date. The assigned internal ratings are identical with corresponding external ratings.

### **Expected credit loss (ECL) measurement**

ECL is a probability-weighted estimate of the present value of future cash shortfalls. An ECL measurement is unbiased and is determined by evaluating a range of possible outcomes. ECL measurement is based on four components used by the Group: Probability of Default ("PD"), Exposure at Default ("EAD"), Loss Given Default ("LGD") and Discount Rate.

EAD represents the expected exposure in the event of a default. The Group derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract and arising from amortisation. The EAD of a financial asset is its gross carrying amount at the time of default.

PD is an estimate of the likelihood of default to occur over a given time period. LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the Group would expect to receive, including from any collateral. It is usually expressed as a percentage of the EAD. The expected losses are discounted to present value at the end of the reporting period. The discount rate represents the effective interest rate ("EIR") for the financial instrument or an approximation thereof.

Expected credit losses are modelled over instrument's *lifetime period*. The *lifetime period* is equal to the remaining contractual period to maturity of debt instruments, adjusted for expected prepayments, if any.

Management models *Lifetime ECL*, that is, losses that result from all possible default events over the remaining lifetime period of the financial instrument. The *12-month ECL*, represents a portion of lifetime ECLs that result from default events on a financial instrument that are possible within 12 months after the reporting period, or remaining *lifetime period* of the financial instrument if it is less than a year.

The ECLs that are estimated by management for the purposes of these financial statements are point-in-time estimates, rather than through-the-cycle estimates that are commonly used for regulatory purposes. The estimates consider *forward looking information*, that is, ECLs reflect probability weighted development of key macroeconomic variables that have an impact on credit risk.

Two types of PDs are used for calculating ECLs: 12-month and lifetime PD. An assessment of a 12-month PD is based on the latest available historic default data and adjusted for supportable forward-looking information when appropriate. Lifetime PDs represent the estimated probability of a default occurring over the remaining life of the financial instrument and it is calculated based on the 12 months PDs over the life of the instrument. The Group uses different statistical approaches depending on the segment and product type to calculate lifetime PDs, such as the extrapolation of 12-month PDs based on migration matrices, developing lifetime PD curves based on the historical default data, hazard rate approach or other.

The ECL modelling does not differ for Purchased or Originated Credit Impaired ("POCI") financial assets, except that (a) gross carrying value and discount rate are based on cash flows that were recoverable at initial recognition of the asset, rather than based on contractual cash flows, and (b) the ECL is always a lifetime ECL. POCI assets are financial assets that are credit-impaired upon initial recognition.

The Group considers a financial instrument to have experienced a *significant increase in credit risk* when one or more of the following criteria have been met:

## **32 Risk Management (Continued)**

- contractual payment is overdue for 31-90 days
- financial assets are downgraded by the leading international credit rating agencies of the long-term credit rating by 2 grades since initial recognition
- evidences that other institutions (except for the Group) filed lawsuits against the borrower that may deteriorate their financial position.

The Group decided to use the low credit risk assessment exemption for the financial instruments which have “Excellent” credit risk grade.

The Group defines a financial instrument as in default, which is fully aligned with the definition of credit-impaired, when it meets one or more of the following criteria:

- the credit rating of a financial asset is downgraded to “D” (C) by leading international rating agencies
- licence of the borrower to operate in the banking industry is revoked
- the payment of principal amount and interest on loans is past due for over 90 days
- when the borrower’s loans are restructured due to significant deterioration in a bank’s position
- the Group raises claims against the borrower in accordance with the law

For purposes of disclosure, the Group fully aligned the definition of default with the definition of credit-impaired assets. The default definition stated above is applied to all types of financial assets of the Group, except for debt securities for which the criterion of 7 days or less is applied.

An instrument is considered to no longer be in default (i.e. to have cured) when it no longer meets any of the default criteria for a consecutive period of two payments (six months). This period of two payments (six months) has been determined based on an analysis that considers the likelihood of a financial instrument returning to default status after curing.

The amount of ECL that is recognised in these consolidated financial statements depends on whether the credit risk of the borrower has increased significantly since initial recognition. There is a three-stage model for ECL measurement. A financial instrument that is not credit-impaired on initial recognition and its credit risk has not increased significantly since initial recognition has a credit loss allowance based on 12-month ECLs (Stage 1). If a SICR since initial recognition is identified, the financial instrument is moved to Stage 2 but is not yet deemed to be credit-impaired and the loss allowance is based on lifetime ECLs.

If a financial instrument is credit-impaired, the financial instrument is moved to Stage 3 and loss allowance is based on lifetime ECLs. The consequence of an asset being in Stage 3 is that the entity ceases to recognise interest income based on gross carrying value and applies the asset’s effective interest rate to the carrying amount, net of ECL, when calculating interest income.

If there is evidence that the SICR criteria are no longer met, the instrument is transferred back to Stage 1. If an exposure has been transferred to Stage 2 based on a qualitative indicator, the Group monitors whether that indicator continues to exist or has changed.

The Group has three approaches for ECL measurement: (i) assessment on an individual basis; (ii) assessment on a portfolio basis: internal ratings are estimated on an individual basis but the same credit risk parameters (e.g. PD, LGD) will be applied during the process of ECL calculations for the same credit risk ratings and homogeneous segments of the loan portfolio; and (iii) assessment based on external ratings.

ECL assessment on an individual basis is performed by weighting the estimates of credit losses for different possible outcomes against the probabilities of each outcome. When assessment is performed on a portfolio basis, the Group determines the staging of the exposures and measures the loss allowance on a collective basis.

The ECL is determined by predicting credit risk parameters (EAD, PD and LGD) for each future year during the lifetime period for each individual exposure.

## **32 Risk Management (Continued)**

### ***The key principles of calculating the credit risk parameters***

The EADs are determined based on the expected payment profile including contractual principal plus interest. EAD is based on the contractual repayments owed by the borrower over a 12-month or lifetime basis for amortising products. This will also be adjusted for any expected overpayments made by a borrower. Early repayment or refinancing assumptions are also incorporated into the calculation.

LGD represents the Group's expectation of the extent of loss on a defaulted exposure. LGD varies by the type of counterparty, type and seniority of the claim, and the availability of collateral or other credit support. The 12-month and lifetime LGDs are determined based on the factors that impact the expected recoveries after a default event. The approach to LGD measurement for the loans to banks is as follows: LGD is calculated based on the history of cash inflows for the last five financial years from realisation of the collaterals pledged against the loans payable to the Central Bank by the banks whose licences were revoked since 2010.

***Forward-looking information incorporated in the ECL models.*** The assessment of SICR and the calculation of ECLs both incorporate unbiased and supportable forward-looking information. Adjustment for forward looking information is done only for local markets. It is done by modelling country level delinquencies on different macroeconomic variables. The Group identified certain key economic variables that correlate with developments in credit risk and ECLs. Forecasts of economic variables (the "base economic scenario") are provided by the Group and provide the best estimate of the expected macroeconomic development over the following year. The impact of the relevant economic variables on the PD, EAD and LGD has been determined by performing statistical regression analysis to understand the impact that the changes in these variables historically had on the default rates and on the components of LGD and EAD.

In addition to the base economic scenario, the Group also incorporates other possible scenarios along with scenario weightings in ECL measurement. Brent oil prices and total 30+ day overdue loan portfolio of the banks variables are selected to be the main variables in the main modelling phase. A pseudo-panel database was created using the monthly data recorded in the "Macroeconomic data" section of the officially published statistical reports. Each month, consequent 12 month of observations are summed to get annual data for flow variables.

Scenarios and their weights for macro-variables are created analytically. 2 scenarios are formed for each selected variable (one scenario for each quantile), and 4 scenarios are formed as a result of their combination. The final prediction is then determined based on the weights of each scenario.

### ***Principles of assessment based on external ratings***

Certain exposures have external credit risk ratings and these are used to estimate credit risk parameters PD (0.01%-0.25%) and LGD (60%) from the default and recovery statistics published by the respective rating agencies. This approach is applied for the debt securities in foreign currencies and short-term deposits.

The Group regularly reviews its methodology and assumptions to reduce any difference between the estimates and the actual loss of credit.

### **Market risk**

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises currency risk, interest rate risk and other price risks. Market risk arises from open positions in interest rate and equity financial instruments, which are exposed to general and specific market movements and changes in the level of volatility of market prices and foreign currency rates.

### **Interest rate risk**

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may also reduce or create losses in the event that unexpected movements occur. The main objective when managing the interest rate risk is to maintain stable return on investments while not exceeding the risk levels that can be undertaken per investment policies.

**Central Bank of the Republic of Azerbaijan**

Notes to the Consolidated Financial Statements for the year ended 31 December 2023

(Amounts are presented in thousands of Azerbaijani Manats, unless otherwise stated)

**32 Risk Management (Continued)****Interest rate gap analysis**

Interest rate risk is managed principally through monitoring interest rate gaps. A summary of the interest gap position for major financial instruments as at 31 December 2023 is as follows:

	<b>Less than 3 months</b>	<b>3-6 months</b>	<b>6-12 months</b>	<b>More than 1 year</b>	<b>Non-interest bearing</b>	<b>Carrying amount</b>
<b>31 December 2023</b>						
<b>ASSETS</b>						
Cash and cash equivalents	3,690,276	-	-	-	1,939,195	5,629,471
Special Drawing Rights with the IMF	1,208,132	-	-	-	-	1,208,132
Derivative Financial Instruments	49	-	-	-	-	49
Debt securities						
- Debt securities at AC	631	-	-	10,918,219	-	10,918,850
- Debt securities at FVOCI	2,162,412	1,918,570	3,288,383	7,337,427	-	14,706,792
- Debt securities mandatorily measured at FVTPL	1,421,185	-	-	-	-	1,421,185
Loans to banks	611	-	72,340	-	-	72,951
Loans to non-bank credit organizations	-	-	7,159	425	-	7,584
Loans to Deposit Insurance Fund	4,921	4,919	24,957	181,622	-	216,419
Other financial assets	51,186	18	28	339	-	51,571
<b>Total Financial Assets</b>	<b>8,539,403</b>	<b>1,923,507</b>	<b>3,392,867</b>	<b>18,438,032</b>	<b>1,939,195</b>	<b>34,233,004</b>
<b>LIABILITIES</b>						
Money in circulation	-	-	-	-	17,318,195	17,318,195
Short-term deposits of resident banks	2,681,989	-	-	-	-	2,681,989
Amounts due to government organisations	3,759,175	-	-	-	-	3,759,175
Amounts due to credit institutions	6,521,107	-	-	-	-	6,521,107
Amounts due to other organisations	45,336	-	-	-	-	45,336
Debt securities in issue	831,347	349,245	114,782	-	-	1,295,374
Liabilities on transactions with the IMF	1,211,857	-	-	-	-	1,211,857
Amounts due to international financial institutions	1,706	-	-	-	-	1,706
Derivative financial instruments	3,725	-	9	55	-	3,789
Other financial liabilities	360,192	-	150	14,109	-	374,451
<b>Total Financial Liabilities</b>	<b>15,416,434</b>	<b>349,245</b>	<b>114,941</b>	<b>14,164</b>	<b>17,318,195</b>	<b>33,212,979</b>



**Central Bank of the Republic of Azerbaijan**

Notes to the Consolidated Financial Statements for the year ended 31 December 2023

(Amounts are presented in thousands of Azerbaijani Manats, unless otherwise stated)

**32 Risk Management (Continued)**

Interest rate risk is managed principally through monitoring interest rate gaps. A summary of the interest gap position for major financial instruments as at 31 December 2022 is as follows:

	Less than 3 months	3-6 months	6-12 months	More than 1 year	Non-interest bearing	Carrying amount
<b>31 December 2022</b>						
<b>ASSETS</b>						
Cash and cash equivalents	6,072,097	-	-	-	510,925	6,583,022
Special Drawing Rights with the IMF	1,196,216	-	-	-	-	1,196,216
Derivative Financial Instruments	310	8	7	4	-	329
Debt securities						
- Debt securities at AC	-	-	-	9,474,755	-	9,474,755
- Debt securities at FVOCI	2,855,587	1,486,914	2,109,335	4,707,040	-	11,158,876
- Debt securities mandatorily measured at FVTPL	1,386,359	-	-	-	-	1,386,359
Loans to banks	59,545	98,325	65,645	65,374	-	288,889
Loans to non-bank credit organizations	-	-	6,720	7,125	-	13,845
Loans to Deposit Insurance Fund	-	-	-	221,755	-	221,755
Other financial assets	64,343	7	25	418	-	64,793
<b>Total Financial Assets</b>	<b>11,634,457</b>	<b>1,585,254</b>	<b>2,181,732</b>	<b>14,476,471</b>	<b>510,925</b>	<b>30,388,839</b>
<b>LIABILITIES</b>						
Money in circulation	-	-	-	-	14,714,360	14,714,360
Short-term deposits of resident banks	1,938,977	-	-	-	-	1,938,977
Amounts due to government organisations	4,280,227	-	-	-	-	4,280,227
Amounts due to credit institutions	6,169,718	-	-	-	-	6,169,718
Amounts due to other organisations	16,182	-	-	-	-	16,182
Debt securities in issue	675,670	382,607	261,252	-	-	1,319,529
Liabilities on transactions with the IMF	1,199,372	-	-	-	-	1,199,372
Amounts due to international financial institutions	1,178	-	-	-	-	1,178
Derivative financial instruments	2,109	-	-	-	-	2,109
Other financial liabilities	218,149	-	135	8,140	-	226,424
<b>Total Financial Liabilities</b>	<b>14,501,582</b>	<b>382,607</b>	<b>261,387</b>	<b>8,140</b>	<b>14,714,360</b>	<b>29,868,076</b>

**Central Bank of the Republic of Azerbaijan**

Notes to the Consolidated Financial Statements for the year ended 31 December 2023

(Amounts are presented in thousands of Azerbaijani Manats, unless otherwise stated)

---

**32 Risk Management (Continued)**

Nostro accounts with non-resident banks, derivative financial instruments, liabilities for current accounts, other financial assets and liabilities included in the table for the year 2022 categorized as "Non-interest bearing" are classified as "Less than 3 months" following changes in the presentation of the financial statements for the year 2023.

**Interest rate sensitivity analysis**

The management of interest rate risk based on interest rate gap analysis is supplemented by monitoring the sensitivity of financial assets and liabilities. An analysis of sensitivity of profit or loss and equity to changes in interest rates (repricing risk) based on a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves and positions of interest-bearing assets and liabilities existing as at 31 December 2023 and 2022 is as follows:

	<u>2023</u>	<u>2022</u>
100 bp parallel fall	74,294	46,210
100 bp parallel rise	<u>(74,294)</u>	<u>(46,210)</u>

An analysis of the sensitivity of profit or loss and equity as a result of changes in the fair value of financial instruments at fair value through profit or loss and financial assets at fair value through other comprehensive income due to changes in the interest rates, based on positions existing as at 31 December 2023 and 2022 and a simplified scenario of a 100 bp symmetrical fall or rise in all yield curves, is as follows:

	<u>2023</u>		<u>2022</u>	
	<u>Net profit</u>	<u>Equity</u>	<u>Net profit</u>	<u>Equity</u>
100 bp parallel fall	77,674	151,155	49,211	94,112
100 bp parallel rise	<u>(77,674)</u>	<u>(151,155)</u>	<u>(49,211)</u>	<u>(94,112)</u>

**Central Bank of the Republic of Azerbaijan**

Notes to the Consolidated Financial Statements for the year ended 31 December 2023

(Amounts are presented in thousands of Azerbaijani Manats, unless otherwise stated)

**32 Risk Management (Continued)**

The table below displays average effective interest rates for interest bearing assets and liabilities as at 31 December 2023 and 2022. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	31 December 2023				31 December 2022			
	AZN	USD	EUR	Other currencies	AZN	USD	EUR	Other currencies
<b>Interest bearing assets</b>								
Cash and cash equivalents	-	5.30	4.00	4.50	-	4.28	-	-
Special Drawing Rights with the IMF	-	-	-	4.10	-	-	-	2.92
Debt securities								
-Debt securities at AC	0.15	3.97	-	-	0.15	-	-	-
-Debt securities at FVOCI	3.07	2.67	1.66	2.82	3.06	1.82	0.60	1.26
-Debt securities mandatorily measured at FVTPL	-	2.31	1.75	1.47	-	1.02	1.00	1.42
Loans to banks (nominal interest rate)	3.03	-	-	-	2.62	-	-	-
Loans to non-bank credit organizations (nominal interest rate)	0.10	-	-	-	0.10	-	-	-
Loans to Deposit Insurance Fund	6.48	-	-	-	6.48	-	-	-
Other financial assets	5.91	-	-	-	5.81	-	-	-
<b>Interest bearing liabilities</b>								
Short-term deposits of resident banks	6.36	-	-	-	6.06	-	-	-
Amounts due to government organisations	-	-	-	-	-	-	2.00	-
Debt securities in issue	8.68	-	-	-	4.66	-	-	-
Liabilities on transactions with the IMF	-	-	-	4.10	-	-	-	2.92
Other financial liabilities	0.03	-	-	-	0.03	-	-	-

**Central Bank of the Republic of Azerbaijan**

Notes to the Consolidated Financial Statements for the year ended 31 December 2023

(Amounts are presented in thousands of Azerbaijani Manats, unless otherwise stated)

**32 Risk Management (Continued)****Currency risk**

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Subject to the currency structure of assets, the value of assets of the Group is exposed to risk of changes in exchange rates of main foreign currencies.

The foreign currency assets of the Group are primarily maintained in US Dollars, Euro, SDR and Pound Sterling. Currency composition of assets was defined by the "Main Directions for Management of Currency Assets of the Central Bank of the Republic of Azerbaijan" approved by the resolution of the Management Board dated 29 December 2021. This document is taken as a basis by the Foreign Exchange Reserves Management Department of the Group, who is the major body responsible for management of the currency risk.

Currency risk is managed through diversification of foreign currency portfolio and determination of the following parameters:

- foreign currencies subject to management;
- maximum share of the managed currency in the total assets denominated in foreign currencies (minimum volume for the base currency).

The following table shows the foreign currency exposure structure of financial assets and liabilities as at 31 December 2023:

	USD	EUR	Other foreign currencies	Total
<b>ASSETS</b>				
Cash and cash equivalents	4,968,272	553,045	107,455	5,628,772
Special Drawing Rights with the IMF	-	-	1,208,132	1,208,132
Debt securities	15,560,716	933,724	374,392	16,868,832
Derivative financial instruments	49	-	-	49
Other financial assets	51,172	3	-	51,175
<b>Total assets</b>	<b>20,580,209</b>	<b>1,486,772</b>	<b>1,689,979</b>	<b>23,756,960</b>
<b>LIABILITIES</b>				
Amounts due to government organisations	597,935	11,980	401	610,316
Amounts due to credit institutions	2,483,930	457,107	68,406	3,009,443
Amounts due to other organisations	4	-	-	4
Liabilities on transactions with the IMF	-	-	1,209,301	1,209,301
Derivative financial instruments	3,789	-	-	3,789
Other financial liabilities	359,318	12,947	-	372,265
<b>Total liabilities</b>	<b>3,444,976</b>	<b>482,034</b>	<b>1,278,108</b>	<b>5,205,118</b>
<b>Net recognized position</b>	<b>17,135,233</b>	<b>1,004,738</b>	<b>411,871</b>	<b>18,551,842</b>
Derivatives	286,175	(183,187)	(82,673)	20,315
<b>Net position</b>	<b>17,421,408</b>	<b>821,551</b>	<b>329,198</b>	<b>18,572,157</b>

**Central Bank of the Republic of Azerbaijan**

Notes to the Consolidated Financial Statements for the year ended 31 December 2023

(Amounts are presented in thousands of Azerbaijani Manats, unless otherwise stated)

**32 Risk Management (Continued)**

The following table shows the foreign currency exposure structure of financial assets and liabilities as at 31 December 2022:

	USD	EUR	Other foreign currencies	Total
<b>ASSETS</b>				
Cash and cash equivalents	5,974,227	569,179	37,182	6,580,588
Special Drawing Rights with the IMF	-	-	1,196,216	1,196,216
Debt securities	11,097,307	593,890	270,027	11,961,224
Derivative financial instruments	329	-	-	329
Other financial assets	64,261	-	-	64,261
<b>Total assets</b>	<b><u>17,136,124</u></b>	<b><u>1,163,069</u></b>	<b><u>1,503,425</u></b>	<b><u>19,802,618</u></b>
<b>LIABILITIES</b>				
Amounts due to government organisations	823,625	2,312	102	826,039
Amounts due to credit institutions	2,955,495	467,781	16,710	3,439,986
Liabilities on transactions with the IMF	-	-	1,196,817	1,196,817
Derivative financial instruments	2,109	-	-	2,109
Other financial liabilities	207,708	6,945	9,563	224,216
<b>Total liabilities</b>	<b><u>3,988,937</u></b>	<b><u>477,038</u></b>	<b><u>1,223,192</u></b>	<b><u>5,689,167</u></b>
<b>Net recognized position</b>	<b><u>13,147,187</u></b>	<b><u>686,031</u></b>	<b><u>280,233</u></b>	<b><u>14,113,451</u></b>
Derivatives	211,084	(128,958)	(62,290)	19,836
<b>Net position</b>	<b><u>13,358,271</u></b>	<b><u>557,073</u></b>	<b><u>217,943</u></b>	<b><u>14,133,287</u></b>

A weakening of the AZN, as indicated below, against the following currencies at 31 December 2023 and 2022 would have increased equity and profit or loss by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

	31 December 2023	31 December 2022
10% appreciation of USD against AZN (2023: 10%)	1,742,140	1,335,827
10% appreciation of EUR against AZN (2023: 10%)	82,155	55,707

A strengthening of the AZN against the above currencies at 31 December 2023 and 2022 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

**Liquidity risk**

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances. Management of the liquidity risk by the Group is based on keeping the liquidity at required level for meeting the requirements of the Group in any condition.

In order to implement the monetary policy, the Group maintains operational liquid tranche from its foreign currency assets. Liquidity risk management consists of identifying the liquid assets and determining the minimum liquidity limits of foreign currency assets over its investment period.

The table below shows liabilities at 31 December 2023 by their remaining contractual maturity. The amounts of liabilities disclosed in the maturity table are the contractual undiscounted cash flows, foreign currency payments are translated using the spot exchange rate at the end of the reporting period.

**Central Bank of the Republic of Azerbaijan***Notes to the Consolidated Financial Statements for the year ended 31 December 2023**(Amounts are presented in thousands of Azerbaijani Manats, unless otherwise stated)***32 Risk Management (Continued)**

The maturity analysis of financial instruments at 31 December 2023 is as follows:

	<b>Demand and less than 1 month</b>	<b>From 1 to 6 months</b>	<b>From 6 to 12 months</b>	<b>From 1 to 5 years</b>	<b>More than 5 years</b>	<b>Total</b>
<b>LIABILITIES</b>						
Money in circulation	17,318,195	-	-	-	-	17,318,195
Short-term deposits of resident banks	2,685,805	-	-	-	-	2,685,805
Amounts due to government organisations	3,759,175	-	-	-	-	3,759,175
Amounts due to credit institutions	6,521,107	-	-	-	-	6,521,107
Amounts due to other organisations	45,336	-	-	-	-	45,336
Debt securities in issue	317,830	882,300	120,000	-	-	1,320,130
Liabilities on transactions with the IMF	1,211,857	-	-	-	-	1,211,857
Amounts due to international financial institutions	1,706	-	-	-	-	1,706
Gross Settled Derivatives						
- Inflow	(425,489)	(161,883)	(900)	(7,154)	-	(595,426)
- Outflow	428,875	162,222	909	7,209	-	599,215
Other financial liabilities	360,215	113	136	14,150	272	374,886
<b>Total potential future payments for financial obligations</b>	<b>32,224,612</b>	<b>882,752</b>	<b>120,145</b>	<b>14,205</b>	<b>272</b>	<b>33,241,986</b>

**Central Bank of the Republic of Azerbaijan***Notes to the Consolidated Financial Statements for the year ended 31 December 2023**(Amounts are presented in thousands of Azerbaijani Manats, unless otherwise stated)***32 Risk Management (Continued)**

The maturity analysis of financial instruments at 31 December 2022 is as follows:

	<b>Demand and less than 1 month</b>	<b>From 1 to 6 months</b>	<b>From 6 to 12 months</b>	<b>From 1 to 5 years</b>	<b>More than 5 years</b>	<b>Total</b>
<b>LIABILITIES</b>						
Money in circulation	14,714,360	-	-	-	-	14,714,360
Short-term deposits of resident banks	1,941,658	-	-	-	-	1,941,658
Amounts due to government organisations	4,280,227	-	-	-	-	4,280,227
Amounts due to credit institutions	6,169,718	-	-	-	-	6,169,718
Amounts due to other organisations	16,182	-	-	-	-	16,182
Debt securities in issue	297,417	771,139	270,000	-	-	1,338,556
Liabilities on transactions with the IMF	1,199,372	-	-	-	-	1,199,372
Amounts due to international financial institutions	1,178	-	-	-	-	1,178
Gross Settled Derivatives						
- Inflow	(292,366)	(99,294)	-	-	-	(391,660)
- Outflow	294,451	99,318	-	-	-	393,769
Other financial liabilities	218,172	113	136	8,031	543	226,995
<b>Total potential future payments for financial obligations</b>	<b>28,840,369</b>	<b>771,276</b>	<b>270,136</b>	<b>8,031</b>	<b>543</b>	<b>29,890,355</b>

Money in circulation and liabilities on transactions with the IMF included in the table for the year 2022 categorized as "No maturity" are classified as "Demand and less than one month" following changes in the presentation of the financial statements for the year 2023.

**Central Bank of the Republic of Azerbaijan***Notes to the Consolidated Financial Statements for the year ended 31 December 2023**(Amounts are presented in thousands of Azerbaijani Manats, unless otherwise stated)***32 Risk Management (Continued)**

The table below shows the maturity analysis of financial assets at their carrying amounts and based on their contractual maturities, except for debt securities measured at fair value which are readily saleable if it should be necessary to meet cash outflows on financial liabilities. Such financial assets are included in the maturity analysis based on their expected date of disposal. Impaired loans are included at their carrying amounts net of impairment provisions, and based on the expected timing of cash inflows.

The table below shows the maturity analysis of the amounts recognized in the consolidated statement of financial position as at 31 December 2023:

	<b>Demand and less than 1 month</b>	<b>From 1 to 3 months</b>	<b>From 3 to 12 months</b>	<b>From 1 to 5 years</b>	<b>More than 5 years</b>	<b>Total</b>
<b>ASSETS</b>						
Cash and cash equivalents	5,629,471	-	-	-	-	5,629,471
Special Drawing Rights with the IMF	1,208,132	-	-	-	-	1,208,132
Derivative financial instruments	49	-	-	-	-	49
Debt securities	1,155,763	1,191,540	5,239,291	8,515,736	10,944,497	27,046,827
Loans to banks	611	-	72,340	-	-	72,951
Loans to non-bank credit organizations	-	-	7,159	425	-	7,584
Loans to Deposit Insurance Fund	1,642	3,279	29,876	181,622	-	216,419
Other financial assets	51,185	1	46	3	336	51,571
<b>Total financial assets</b>	<b>8,046,853</b>	<b>1,194,820</b>	<b>5,348,712</b>	<b>8,697,786</b>	<b>10,944,833</b>	<b>34,233,004</b>
<b>LIABILITIES</b>						
Money in circulation	17,318,195	-	-	-	-	17,318,195
Amounts due to government organisations	3,759,175	-	-	-	-	3,759,175
Short-term deposits of resident banks	2,681,989	-	-	-	-	2,681,989
Amounts due to credit institutions	6,521,107	-	-	-	-	6,521,107
Amounts due to other organisations	45,336	-	-	-	-	45,336
Derivative financial instruments	3,386	339	9	55	-	3,789
Debt securities in issue	316,876	514,471	464,027	-	-	1,295,374
Liabilities on transactions with the IMF	1,211,857	-	-	-	-	1,211,857
Amounts due to international financial institutions	1,706	-	-	-	-	1,706
Other financial liabilities	360,192	-	150	14,109	-	374,451
<b>Total financial liabilities</b>	<b>32,219,819</b>	<b>514,810</b>	<b>464,186</b>	<b>14,164</b>	<b>-</b>	<b>33,212,979</b>
<b>Net position</b>	<b>(24,172,966)</b>	<b>680,010</b>	<b>4,884,526</b>	<b>8,683,622</b>	<b>10,944,833</b>	<b>1,020,025</b>

Liquidity risk denominated in local currency is regularly assessed and managed by the Group.



**Central Bank of the Republic of Azerbaijan**

Notes to the Consolidated Financial Statements for the year ended 31 December 2023

(Amounts are presented in thousands of Azerbaijani Manats, unless otherwise stated)

**32 Risk Management (Continued)**

The table below shows the maturity analysis of the amounts recognized in the consolidated statement of financial position as at 31 December 2022:

	<b>Demand and less than 1 month</b>	<b>From 1 to 3 months</b>	<b>From 3 to 12 months</b>	<b>From 1 to 5 years</b>	<b>More than 5 years</b>	<b>Total</b>
<b>ASSETS</b>						
Cash and cash equivalents	6,582,299	23	700	-	-	6,583,022
Special Drawing Rights with the IMF	1,196,216	-	-	-	-	1,196,216
Derivative financial instruments	-	310	15	4	-	329
Debt securities	1,976,063	1,028,693	3,683,031	4,840,944	10,491,259	22,019,990
Loans to banks	54,136	5,409	163,970	65,374	-	288,889
Loans to non-bank credit organizations	-	-	6,720	7,125	-	13,845
Loans to Deposit Insurance Fund	-	-	-	221,755	-	221,755
Other financial assets	64,342	1	32	15	403	64,793
<b>Total financial assets</b>	<b>9,873,056</b>	<b>1,034,436</b>	<b>3,854,468</b>	<b>5,135,217</b>	<b>10,491,662</b>	<b>30,388,839</b>
<b>LIABILITIES</b>						
Money in circulation	14,714,360	-	-	-	-	14,714,360
Amounts due to government organisations	4,280,227	-	-	-	-	4,280,227
Short-term deposits of resident banks	1,938,977	-	-	-	-	1,938,977
Amounts due to credit institutions	6,169,718	-	-	-	-	6,169,718
Amounts due to other organisations	16,182	-	-	-	-	16,182
Derivative financial instruments	2,085	24	-	-	-	2,109
Debt securities in issue	296,975	378,695	643,859	-	-	1,319,529
Liabilities on transactions with the IMF	1,199,372	-	-	-	-	1,199,372
Amounts due to international financial institutions	1,178	-	-	-	-	1,178
Other financial liabilities	218,149	-	135	8,140	-	226,424
<b>Total financial liabilities</b>	<b>28,837,223</b>	<b>378,719</b>	<b>643,994</b>	<b>8,140</b>	<b>-</b>	<b>29,868,076</b>
<b>Net position</b>	<b>(18,964,167)</b>	<b>655,717</b>	<b>3,210,474</b>	<b>5,127,077</b>	<b>10,491,662</b>	<b>520,763</b>

Special Drawing Rights with the IMF, debt securities, money in circulation, liabilities on transactions with the IMF, as well as loans to banks included in the table for the year 2022 categorized as "No maturity" and "Overdue" are classified as "Demand and less than one month" following changes in the presentation of the financial statements for the year 2023.

## **Central Bank of the Republic of Azerbaijan**

Notes to the Consolidated Financial Statements for the year ended 31 December 2023

(Amounts are presented in thousands of Azerbaijani Manats, unless otherwise stated)

---

### **33 Management of Capital**

The capital of the Group comprises the residual value of the Group's assets after deduction of all its liabilities.

The Group's objectives when managing capital are to maintain an appropriate level of capital to ensure economic independence of the Group and ability to perform its functions. The Group considers total capital under management to be equity disclosed in the consolidated statement of financial position.

No external capital requirements exist for the Group as the central bank, except for the size of the charter fund and minimum amount of capital reserves stipulated by the Law of the Republic of Azerbaijan on "the Central Bank of the Republic of Azerbaijan" (the "Law").

The total consolidated equity of the Group is equal to AZN 1,554,215 thousand (2022: AZN 980,791 thousand).

As disclosed in Note 24, at 31 December 2023 the authorized and fully paid charter fund of the Bank was AZN 500,000 thousand (31 December 2022: AZN 500,000 thousand). The total capital reserves, retained earnings and revaluation reserve/(loss) for debt securities at FVOCI attributable to the Central Bank of the Republic of Azerbaijan as a separate entity are equal to AZN 500,000 thousand (2022: AZN 480,791 thousand), AZN 494,876 thousand (2022: AZN 164,773 thousand) and AZN 52,977 thousand (2022: AZN 171,334 thousand as a loss) respectively. The Bank's capital reserves shall not fall below its charter fund.

Based on Article 12 and 14 of the Law, reporting year profit shall, in the first place, be directed to formation of capital reserves of the Central Bank and capital shortfall resulting from Central Bank's activity shall be covered at the expense of securities issued by the state, being deferred by one fiscal year. Per Article 13, losses, resulting from revaluation of assets and liabilities in foreign currency and gold at the year end shall be covered at the expense of revaluation reserves of previous years, in case these reserves do not suffice, they shall be covered at the expense of capital reserves of the Central Bank

The Bank has made total gain in the amount of AZN 349,312 thousand (2022: AZN 64,667 thousand loss) for the year ended 31 December 2023. This amount represents the financial performance of the Bank as a separate entity and is not inclusive of profits or losses from its subsidiary, which is accounted for in the consolidated financial statements.

According to Article 12 of the Law, reporting year profit of the Bank shall, in the first place, be directed to formation of capital reserves of the Central Bank, and upon formation of capital reserves and approval of Central Bank's annual financial statements by the auditor's opinion, a free balance of realized gains shall be transferred to the state budget based upon an appeal by the relevant executive authority.

Transfer to the State Budget was nil in 2023 (2022: nil).

### **34 Commitments and Contingencies**

**Audit remuneration fee.** The annual fee payable to the Bank's auditors for the audit of the Bank's consolidated financial statements as of 31 December 2023 is AZN 246 thousand, net of VAT.

#### **Litigations**

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

## **Central Bank of the Republic of Azerbaijan**

Notes to the Consolidated Financial Statements for the year ended 31 December 2023

(Amounts are presented in thousands of Azerbaijani Manats, unless otherwise stated)

---

### **35 Related Party Transactions**

Parties are generally considered to be related if the parties are directly or indirectly under common control or one party has the ability to control the other party or can exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

Main government entities operating with the Group include the Mortgage and Credit Guarantee Fund of the Republic of Azerbaijan, Ministry of Finance, International Bank of Azerbaijan, State Oil Fund of Azerbaijan, Agrarkredit JSCO, Azerbaijan Deposit Insurance Fund and AzerTurk Bank.

#### **Transactions with the members of the Management**

Total remuneration included in personnel expenses for the years ended 31 December 2023 and 2022 is as follows:

	<u>2023</u>	<u>2022</u>
Short-term employee benefits (salary)	1,930	2,063
Social security contribution	407	489
	<u>2,337</u>	<u>2,552</u>

#### **Transactions with government-related entities**

The Bank is a public legal entity, and in the ordinary course of business operates with various state owned companies. Significant transactions with government owned companies include loans to banks and other government owned institutions, investment securities, promissory notes from government, placements by government and credit institutions and interest income and expenses.

**Central Bank of the Republic of Azerbaijan**

Notes to the Consolidated Financial Statements for the year ended 31 December 2023

(Amounts are presented in thousands of Azerbaijani Manats, unless otherwise stated)

**35 Related Party Transactions (Continued)**

The outstanding balances and the related average effective interest rates as at 31 December 2023 and related profit or loss amounts of transactions for the year ended 31 December 2023 with other related parties are as follows:

	<u>Government bodies of Azerbaijan</u>		<u>Entities under government control</u>		<u>Total</u>
	<u>Amount</u>	<u>Effective interest rate, %</u>	<u>Amount</u>	<u>Effective interest rate, %</u>	<u>Amount</u>
<b>Statement of financial position</b>					
<b>ASSETS</b>					
Debt securities					
-Debt securities at AC	152,531	-	9,063,701	0.15	9,216,232
<i>Credit loss allowance</i>	(99)	-	(6,042)	-	(6,141)
-Debt securities at FVOCI	-	-	967,903	from 3 to 3.25	967,903
Loans to banks (nominal interest rates)	-	-	95	0.10	95
Credit loss allowance	-	-	-	-	-
Loans to Deposit Insurance Fund	-	-	216,584	6.48	216,584
Credit loss allowance	-	-	(165)	-	(165)
<b>LIABILITIES</b>					
Amounts due to government organisations	3,171,173	-	588,002	-	3,759,175
Short-term deposits of resident banks	-	-	1,523,271	6.01	1,523,271
Amounts due to credit institutions	-	-	2,653,500	-	2,653,500
Amounts due to other organisations	70	-	45,266	-	45,336
Liabilities on transactions with the IMF	1,211,857	4.10	-	-	1,211,857
Amounts due to international financial institutions	1,706	-	-	-	1,706
Debt securities in issue	-	-	76,993	9.37	76,993
<b>Profit (loss)</b>					
Interest income	212	-	50,650	-	50,862
Interest expense	(43,027)	-	(102,394)	-	(145,421)
Recovery of /(credit) loss allowance	(99)	-	2,392	-	2,293
Impairment of debt securities at fair value through other comprehensive income	-	-	(159)	-	(159)
Gain on recognition of financial assets	-	-	2,974	-	2,974
Net losses from disposals of securities measured at FVOCI	-	-	(1,558)	-	(1,558)
Gain on recognition of financial liabilities	-	-	47,892	-	47,892

**Central Bank of the Republic of Azerbaijan**

Notes to the Consolidated Financial Statements for the year ended 31 December 2023

(Amounts are presented in thousands of Azerbaijani Manats, unless otherwise stated)

**35 Related Party Transactions (Continued)**

The outstanding balances and the related average effective interest rates as at 31 December 2022 and related profit or loss amounts of transactions for the year ended 31 December 2022 with other related parties are as follows:

	Government bodies of Azerbaijan		Entities under government control		Total
	Amount	Effective interest rate.	Amount	Effective interest	Amount
<b>Statement of financial position</b>					
<b>ASSETS</b>					
Debt securities					
-Debt securities at AC	515	5.96	9,482,142	0.15	9,482,657
Credit loss allowance			(7,902)	-	(7,902)
-Debt securities at FVOCI	-	-	584,012	from 3 to 3.25	584,012
Loans to banks (nominal interest rates)	-	-	79,272	from 0.1 to 0.5	79,272
Credit loss allowance	-	-	(512)	-	(512)
Loans to Deposit Insurance Fund	-	-	221,940	6.48	221,940
Credit loss allowance	-	-	(185)	-	(185)
<b>LIABILITIES</b>					
Amounts due to government organisations	3,544,822	-	735,405	-	4,280,227
Short-term deposits of resident banks	-	-	1,512,329	6.01	1,512,329
Amounts due to credit institutions	-	-	1,667,110	-	1,667,110
Amounts due to other organisations	83	-	16,099	-	16,182
Liabilities on transactions with the IMF	1,199,372	2.92	-	-	1,199,372
Amounts due to international financial institutions	1,178	-	-	-	1,178
Debt securities in issue	-	-	209,583	4.52	209,583
<b>Profit (loss)</b>					
Interest income	38	-	41,636	-	41,674
Interest expense	(8,913)	-	(110,548)	-	(119,461)
Recovery of /(credit) loss allowance	-	-	(8,599)	-	(8,599)
Impairment of debt securities at fair value through other comprehensive income	-	-	(487)	-	(487)
Net losses from disposals of securities measured at FVOCI	-	-	(136)	-	(136)
Gain on recognition of financial liabilities	-	-	56,007	-	56,007

**Central Bank of the Republic of Azerbaijan**

Notes to the Consolidated Financial Statements for the year ended 31 December 2023

(Amounts are presented in thousands of Azerbaijani Manats, unless otherwise stated)

**36 Financial Assets and Liabilities: Fair Values and Accounting Classifications****Accounting classifications and fair values**

For the purposes of measurement, IFRS 9 “Financial Instruments” classifies financial assets into the following categories: (a) financial assets mandatorily measured at FVTPL; (b) debt instruments at FVOCI, (c) financial assets at AC.

The following table provides a reconciliation of financial assets with these measurement categories as of 31 December 2023:

	Financial assets measured at AC	Financial assets measured at FVOCI	Financial assets measured at FVTPL	Total
<b>ASSETS</b>				
<b>Cash and cash equivalents</b>	5,362,747	-	266,724	5,629,471
<b>Debt securities</b>				
Agency	86,909	2,724,637	70,271	2,881,817
Supranational	260,729	1,024,620	187,964	1,473,313
Treasury	1,361,121	9,443,760	446,427	11,251,308
Local Authority	-	383,696	7,029	390,725
Corporate	-	104,662	69,511	174,173
Sovereign	-	57,514	1,207	58,721
US Agency MBS	-	-	602,457	602,457
Covered	-	-	36,319	36,319
Mortgage and Credit Guarantee Fund of the Republic	-	967,903	-	967,903
JSCO Agrarkredit	9,057,659	-	-	9,057,659
Ministry of Finance of the Republic of Azerbaijan	152,432	-	-	152,432
<b>Loans to banks</b>				
- Refinancing loans	72,951	-	-	72,951
<b>Loans to non-bank credit organizations</b>	7,584	-	-	7,584
<b>Loans to Deposit Insurance Fund</b>	216,419	-	-	216,419
<b>Special Drawing Rights with the IMF</b>	1,208,132	-	-	1,208,132
<b>Derivative financial instruments</b>	-	-	49	49
<b>Other financial assets:</b>				
- Receivables from trade securities disposed	51,172	-	-	51,172
- Loans to employees	393	-	-	393
- Amounts in course of settlement	6	-	-	6
<b>TOTAL FINANCIAL ASSETS</b>	<b>17,838,254</b>	<b>14,706,792</b>	<b>1,687,958</b>	<b>34,233,004</b>

**Central Bank of the Republic of Azerbaijan**

Notes to the Consolidated Financial Statements for the year ended 31 December 2023

(Amounts are presented in thousands of Azerbaijani Manats, unless otherwise stated)

**36 Financial Assets and Liabilities: Fair Values and Accounting Classifications (Continued)**

The following table provides a reconciliation of financial assets with these measurement categories as of 31 December 2022:

	Financial assets measured at AC	Financial assets measured at FVOCI	Financial assets measured at FVTPL	Total
<b>ASSETS</b>				
<b>Cash and cash equivalents</b>	6,329,846	-	253,176	6,583,022
<b>Debt securities</b>				
Agency	-	3,577,827	47,347	3,625,174
Supranational	-	684,876	172,538	857,414
Treasury	-	5,150,391	472,803	5,623,194
Local Authority	-	689,437	3,803	693,240
Corporate	-	300,671	69,777	370,448
Sovereign	-	164,995	2,082	167,077
US Agency MBS	-	-	468,404	468,404
Covered	-	6,667	149,605	156,272
Mortgage and Credit Guarantee Fund of the Republic of Azerbaijan	-	584,012	-	584,012
JSCO Aqrarkredit	9,474,240	-	-	9,474,240
Ministry of Finance of the Republic of Azerbaijan	515	-	-	515
<b>Loans to banks</b>				
- Refinancing loans	288,889	-	-	288,889
<b>Loans to non-bank credit organizations</b>	13,845	-	-	13,845
<b>Loans to Deposit Insurance Fund</b>	221,755	-	-	221,755
<b>Special Drawing Rights with the IMF</b>	1,196,216	-	-	1,196,216
<b>Derivative financial instruments</b>	-	-	329	329
<b>Other financial assets:</b>				
- Receivables from trade securities disposed	64,054	-	-	64,054
- Loans to employees	451	-	-	451
- Amounts in course of settlement	288	-	-	288
<b>TOTAL FINANCIAL ASSETS</b>	<b>17,590,099</b>	<b>11,158,876</b>	<b>1,639,864</b>	<b>30,388,839</b>

As of 31 December 2023 and 31 December 2022, all of the Group's financial liabilities except for derivatives were carried at AC.

The estimates of fair value are intended to approximate the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Group has access at that date. However given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realisable in an immediate sale of the assets or transfer of liabilities. The fair value of a liability reflects its non-performance risk.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. For all other financial instruments the Group determines fair values using other valuation techniques. The chosen valuation technique incorporates all the factors that market participants would take into account in these circumstances.

### **36 Financial Assets and Liabilities: Fair Values and Accounting Classifications (Continued)**

The objective of valuation techniques is to arrive at a fair value determination that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist, Black-Scholes and polynomial option pricing models and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's length.

The Group uses widely recognized valuation models for determining the fair value of common and more simple financial instruments, like interest rate and currency swaps that use only observable market data and require little management judgment and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange traded derivatives and simple over the counter derivatives like interest rate swaps.

There were no changes in valuation techniques as at 31 December 2023 (2022: none).

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price, i.e., the fair value of the consideration given or received. If the Group determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognized in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is supported wholly by observable market data or the transaction is closed out.

#### **Fair value hierarchy**

The Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: quoted market price (unadjusted) in an active market for an identical instrument;
- Level 2: inputs other than quotes prices included within Level 1 that are observable either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data;
- Level 3: inputs that are unobservable. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Where third-party information, such as broker quotes or pricing services are used to measure fair value, the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRS, is assessed and documented. This includes:

- verifying that the broker or pricing service is approved by the Group for use in pricing the relevant type of financial instrument;
- understanding how the fair value has been arrived at the extent to which it represents actual market transactions;
- when prices for similar instruments are used to measure fair value, how these prices have been adjusted to reflect the characteristics of the instrument subject to measurement;



**Central Bank of the Republic of Azerbaijan**

Notes to the Consolidated Financial Statements for the year ended 31 December 2023

(Amounts are presented in thousands of Azerbaijani Manats, unless otherwise stated)

**36 Financial Assets and Liabilities: Fair Values and Accounting Classifications (Continued)**

- where a number of quotes for the same financial instrument have been obtained, how fair value has been determined using those quotes.

Fair value measurements are those that the accounting standards require or permit in the statement of financial position at the end of each reporting period. The table below analyses financial instruments measured at fair value at 31 December 2023, by the level in the fair value hierarchy into which the recurring fair value measurement is categorised. The amounts are based on the values recognized in the statement of financial position:

	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
<b>Financial assets</b>			
Cash and cash equivalents	266,724	-	266,724
Debt securities			
- Agency	2,794,908	-	2,794,908
- Supranational	1,212,584	-	1,212,584
- Treasury	9,890,187	-	9,890,187
- Mortgage and Credit Guarantee Fund of the Republic of	967,903	-	967,903
- Local Authority	390,725	-	390,725
- Corporate	174,173	-	174,173
- Sovereign	58,721	-	58,721
- Us Agency MBS	602,457	-	602,457
- Covered	36,319	-	36,319
Derivative financial instruments	-	49	49
	<b>16.394.701</b>	<b>49</b>	<b>16.394.750</b>
<b>Financial liabilities</b>			
Derivative financial instruments	-	3,789	3,789

The table below analyses financial instruments measured at fair value at 31 December 2022, by the level in the fair value hierarchy into which the recurring fair value measurement is categorized. The amounts are based on the values recognized in the statement of financial position:

	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
<b>Financial assets</b>			
Cash and cash equivalents	253,176	-	253,176
Debt securities			
- Agency	3,625,174	-	3,625,174
- Supranational	857,414	-	857,414
- Treasury	5,623,194	-	5,623,194
- Mortgage and Credit Guarantee Fund of the Republic of	584,012	-	584,012
- Local Authority	693,240	-	693,240
- Corporate	370,448	-	370,448
- Sovereign	167,077	-	167,077
- Us Agency MBS	468,404	-	468,404
- Covered	156,272	-	156,272
Derivative financial instruments	-	329	329
	<b>12,798,411</b>	<b>329</b>	<b>12,798,740</b>
<b>Financial liabilities</b>			
Derivative financial instruments	-	2,109	2,109

The valuation of level 1 securities is regularly performed by the Group using available sources.

**Central Bank of the Republic of Azerbaijan**

Notes to the Consolidated Financial Statements for the year ended 31 December 2023

(Amounts are presented in thousands of Azerbaijani Manats, unless otherwise stated)

**36 Financial Assets and Liabilities: Fair Values and Accounting Classifications (Continued)**

Derivative products valued using a valuation technique with market-observable inputs are mainly currency forward (including forward made on the basis of mutual settlement) exchange and swap contracts. The fair value of forward foreign exchange and swap contracts is determined using forward exchange rates at the balance sheet date

There were no transfers between Level 1 and Level 2 during the year.

**Assets and liabilities not measured at fair value but for which fair value is disclosed**

The table below analyses financial instruments not measured at fair value at 31 December 2023, by the level in the fair value hierarchy:

	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
<b>ASSETS</b>					
Cash and cash equivalents	1,939,195	3,423,552	-	5,362,747	5,362,747
Special Drawing Rights with the IMF	-	1,208,132	-	1,208,132	1,208,132
Debt securities:					
<i>Agency</i>	86,909	-	-	86,909	86,909
<i>Supranational</i>	260,729	-	-	260,729	260,729
<i>Treasury</i>	1,361,121	-	-	1,361,121	1,361,121
<i>JSCO Agrarkredit</i>	-	-	9,057,659	9,057,659	9,057,659
<i>Ministry of Finance of the Republic of Azerbaijan</i>	-	3,727	148,705	152,432	152,432
Loans to banks	-	67,689	611	68,300	72,951
Loans to non-bank credit organizations	-	7,054	-	7,054	7,584
Loans to Deposit Insurance Fund	-	212,520	-	212,520	216,419
Other financial assets	-	51,543	-	51,543	51,571
<b>LIABILITIES</b>					
Money in circulation	17,318,195	-	-	17,318,195	17,318,195
Short-term deposits of resident banks	-	2,681,989	-	2,681,989	2,681,989
Amounts due to government organisations	-	3,759,175	-	3,759,175	3,759,175
Amounts due to credit institutions	-	6,521,107	-	6,521,107	6,521,107
Amounts due to other organisations	-	45,336	-	45,336	45,336
Debt securities in issue	-	1,295,374	-	1,295,374	1,295,374
Liabilities on transactions with the IMF	-	1,211,857	-	1,211,857	1,211,857
Amounts due to international financial institutions	-	1,706	-	1,706	1,706
Other financial liabilities	-	374,451	-	374,451	374,451

**Central Bank of the Republic of Azerbaijan**

Notes to the Consolidated Financial Statements for the year ended 31 December 2023

(Amounts are presented in thousands of Azerbaijani Manats, unless otherwise stated)

**36 Financial Assets and Liabilities: Fair Values and Accounting Classifications (Continued)**

The table below analyses financial instruments not measured at fair value at 31 December 2022, by the level in the fair value hierarchy:

	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
<b>ASSETS</b>					
Cash and cash equivalents	510,925	5,818,921	-	6,329,846	6,329,846
Special Drawing Rights with the IMF	-	1,196,216	-	1,196,216	1,196,216
Debt securities:					
<i>JSCO Agrarkredit</i>	-	-	9,474,240	9,474,240	9,474,240
<i>Ministry of Finance of the Republic of Azerbaijan</i>	-	515	-	515	515
Loans to banks	-	200,476	78,315	278,791	288,889
Loans to non-bank credit organizations	-	12,207	-	12,207	13,845
Loans to Deposit Insurance Fund	-	217,965	-	217,965	221,755
Other financial assets	-	64,746	-	64,746	64,793
<b>LIABILITIES</b>					
Money in circulation	14,714,360	-	-	14,714,360	14,714,360
Short-term deposits of resident banks	-	1,938,977	-	1,938,977	1,938,977
Amounts due to government organisations	-	4,280,227	-	4,280,227	4,280,227
Amounts due to credit institutions	-	6,169,718	-	6,169,718	6,169,718
Amounts due to other organisations	-	16,182	-	16,182	16,182
Debt securities in issue	-	1,319,529	-	1,319,529	1,319,529
Liabilities on transactions with the IMF	-	1,199,372	-	1,199,372	1,199,372
Amounts due to international financial institutions	-	1,178	-	1,178	1,178
Other financial liabilities	-	226,424	-	226,424	226,424

The fair values in level 2 and 3 fair value hierarchies were estimated using the discounted cash flows valuation technique, except for JSCO Agrarkredit. The fair value of unquoted fixed interest rate instruments was estimated based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Fair value of JSCO Agrarkredit securities equal to its carrying amount, the debt securities were issued within special market segment where market interest rate is 0.15% and not changed between inception date and as at 31 December 2023.