

**Central Bank of the Republic of Azerbaijan  
Financial Statements**

**for the year ended 31 December 2017**

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## *Independent Auditor's Report*

To: the Management Board of the Central Bank of the Republic of Azerbaijan ("Bank").

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### *Our opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

### **What we have audited**

The Bank's financial statements comprise:

- the statement of financial position as at 31 December 2017;
  - the statement of comprehensive income for the year then ended;
  - the statement of changes in equity for the year ended;
  - the statement of cash flows for the year then ended; and
  - the notes to the financial statements, which include significant accounting policies and other explanatory information.
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### *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 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 Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code).

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

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

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern and disclosing, as applicable, matters related to going concern. In discharging this responsibility, the management considers the provisions 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 cannot be declared bankrupt and that any short fall in capital will be covered by the issuance of securities by the Azerbaijan Government.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the 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 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 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 Bank'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 Bank'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 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 Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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.

*PricewaterhouseCoopers Audit Azerbaijan LLC*

19 April 2018

Baku, the Republic of Azerbaijan



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

<i>In thousands of Azerbaijani Manats</i>	<b>Notes</b>	<b>31/12/2017</b>	<b>31/12/2016</b>
<b>ASSETS</b>			
Cash and cash equivalents	4	5,389,626	5,885,213
Special Drawing Rights with the IMF	5	370,827	364,399
Trading securities	6	6,250,456	4,212,232
Derivative financial instruments	7	123	2,191
Investment securities	8	10,063,245	10,522,619
Loans to banks	9	400,869	4,061,362
Promissory notes from government	31	-	244,240
Property and equipment	10	50,390	55,075
Intangible assets	11	44,433	43,639
Other financial assets	12	8,059	121,223
Other assets	13	57,526	51,870
<b>Total assets</b>		<b>22,635,554</b>	<b>25,564,063</b>
<b>LIABILITIES</b>			
Money in circulation	14	8,140,238	6,960,778
Short-term deposits of resident banks	15	4,389,826	5,922,278
Amounts due to government organizations	16	1,530,229	2,697,269
Amounts due to credit institutions	17	2,070,918	3,225,104
Amounts due to other organizations	18	36,576	13,569
Debt securities in issue	19	920,768	108,987
Liabilities on transactions with the IMF	5	373,299	366,589
Amounts due to international financial institutions	20	4,693	4,326
Derivative financial instruments	7	1,012	-
Other financial liabilities	21	653,531	391,435
Other liabilities	22	1,292	1,259
<b>Total liabilities</b>		<b>18,122,382</b>	<b>19,691,594</b>
<b>EQUITY</b>			
Charter fund	23	500,000	500,000
Capital reserves	23	500,000	500,000
Revaluation reserve for available-for-sale financial assets		(281)	(2,582)
Retained earnings		3,513,453	4,875,051
<b>Total equity</b>		<b>4,513,172</b>	<b>5,872,469</b>
<b>Total liabilities and equity</b>		<b>22,635,554</b>	<b>25,564,063</b>

The financial statements were approved by Management on 19 April 2018 and were signed on its behalf by

**Central Bank of the Republic of Azerbaijan**  
**Statement of Profit or Loss and Other Comprehensive Income**

<i>In thousands of Azerbaijani Manats</i>	<b>Notes</b>	<b>2017</b>	<b>2016</b>
Interest income	24	159,080	282,315
Interest expense	24	(282,126)	(257,895)
<b>Net interest income/ (expense)</b>		<b>(123,046)</b>	<b>24,420</b>
Fee and commission income	25	14,126	6,192
Fee and commission expense	26	(3,871)	(3,031)
<b>Net fee and commission income</b>		<b>10,255</b>	<b>3,161</b>
Transfers from the State Oil Fund of Azerbaijan	27	3,949,485	-
Net gains/ (losses) from trading securities		28,859	(2,937)
Net losses on available-for-sale assets		(3,403)	(7,411)
Net gains/ (losses) from derivative financial instruments		(14,726)	8,212
Losses on recognition of restructured loans at fair value		(29,848)	-
Net gains/ (losses) from foreign exchange translation	28	(204,006)	899,713
Net gains from trading in currencies		3,987	10,882
Other operating income		2,467	1,803
Impairment losses		(42,013)	(477,076)
Administrative and other operating expenses	29	(64,558)	(59,103)
<b>Profit for the year</b>		<b>3,513,453</b>	<b>401,664</b>
<b>Other comprehensive income</b>			
<i>Items that are or may be reclassified subsequently to profit or loss:</i>			
Revaluation reserve for available-for-sale financial assets:			
- Net change in fair value		2,301	2,332
<i>Total items that are or may be reclassified subsequently to profit or loss</i>		2,301	2,332
<b>Other comprehensive income for the year</b>		<b>2,301</b>	<b>2,332</b>
<b>Total comprehensive income for the year</b>		<b>3,515,754</b>	<b>403,996</b>

**Central Bank of the Republic of Azerbaijan**  
**Statement of Changes in Equity**

Note	Charter Fund	Capital reserves	Revaluation reserve for available-for-sale financial assets	(Accumulated losses)/ Retained earnings	Total equity
<i>In thousands of Azerbaijani Manats</i>					
<b>Balance as at 1 January 2016</b>	<b>500,000</b>	<b>500,000</b>	<b>(4,914)</b>	<b>4,473,387</b>	<b>5,468,473</b>
Profit for the year	-	-	-	401,664	401,664
<b>Other comprehensive income</b>					
<i>Items that are or may be reclassified subsequently to profit or loss:</i>					
Net change in fair value of available- for-sale financial assets	-	-	2,332	-	2,332
<i>Total items that are or may be reclassified subsequently to profit or loss</i>	-	-	2,332	-	2,332
<b>Total other comprehensive income</b>	-	-	<b>2,332</b>	-	<b>2,332</b>
<b>Total comprehensive income for the year</b>	-	-	<b>2,332</b>	<b>401,664</b>	<b>403,996</b>
<b>Balance as at 31 December 2016</b>	<b>500,000</b>	<b>500,000</b>	<b>(2,582)</b>	<b>4,875,051</b>	<b>5,872,469</b>
Profit for the year	-	-	-	3,513,453	3,513,453
<b>Other comprehensive income</b>					
<i>Items that are or may be reclassified subsequently to profit or loss:</i>					
Net change in fair value of available- for-sale financial assets	-	-	2,301	-	2,301
<i>Total items that are or may be reclassified subsequently to profit or loss</i>	-	-	2,301	-	2,301
<b>Total other comprehensive income</b>	-	-	<b>2,301</b>	-	<b>2,301</b>
<b>Total comprehensive income for the year</b>	-	-	<b>2,301</b>	<b>3,513,453</b>	<b>3,515,754</b>
Transfers to the State Budget	-	-	-	(4,875,051)	(4,875,051)
<b>Balance as at 31 December 2017</b>	<b>500,000</b>	<b>500,000</b>	<b>(281)</b>	<b>3,513,453</b>	<b>4,513,172</b>

*Central Bank of the Republic of Azerbaijan*  
*Statement of Cash Flows*

<i>In thousands of Azerbaijani Manats</i>	<b>Notes</b>	<b>31/12/2017</b>	<b>31/12/2016</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Interest receipts		227,308	356,406
Interest payments		(277,336)	(257,264)
Fee and commission receipts		14,126	6,192
Fee and commission payments		(3,871)	(3,031)
Net (payments)/receipts from trading securities		49,945	(19,776)
Net receipts/(payments) from derivative financial instruments		(11,646)	6,053
Net receipts from trading in foreign currencies		3,987	10,882
Other operating income receipts		2,467	1,803
Administrative and other operating expenses payments		(51,294)	(45,414)
<b>Cash flows from operating activities before changes in operating assets and liabilities</b>		<b>(46,314)</b>	<b>55,851</b>
<b>(Increase)/decrease in operating assets</b>			
Amounts due from non-resident banks		-	17,784
Trading securities	6	(1,837,423)	(550,710)
Special Drawing Rights with the IMF		89	20
Loans to banks		3,527,698	1,333,552
Other financial assets		106,467	(95,146)
Other assets		(5,657)	7,436
<b>Increase/(decrease) in operating liabilities</b>			
Money issued in circulation		1,179,460	1,544,027
Short-term deposits of resident banks		(1,532,452)	5,922,278
Amounts due to government organizations		(1,115,821)	(1,722,065)
Amounts due to credit institutions		(1,093,012)	(379,181)
Amounts due to other organizations		23,578	7,262
Debt securities in issue		807,023	108,357
Other financial liabilities		(117,987)	70,125
Other liabilities		8,618	(139)
<b>Cash flows from (used in) operations</b>		<b>(95,733)</b>	<b>6,319,451</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchases of investment securities	8	(568,508)	(7,568,355)
Sale and repayment of investment securities	8	1,029,926	843,894
Purchases of property and equipment	10	(2,366)	(2,817)
Purchases of intangible assets	11	(7,008)	(12,104)
<b>Cash flows from/ (used in) investing activities</b>		<b>452,044</b>	<b>(6,739,382)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Transfers from the "State Oil Fund of Azerbaijan"	27	3,949,485	-
Transfers to the State Budget		(4,630,064)	-
Proceeds from IMF borrowings		198	1,502
Proceeds from / (repayment of) amounts due to international financial institutions		468	(777)
<b>Cash flows (used in)/ from financing activities</b>		<b>(679,913)</b>	<b>725</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(323,602)</b>	<b>(419,206)</b>
Effect of changes in exchange rates on cash and cash equivalents		(171,985)	516,246
Cash and cash equivalents as at the beginning of the year		5,885,213	5,788,173
<b>Cash and cash equivalents as at the end of the year</b>	4	<b>5,389,626</b>	<b>5,885,213</b>

The notes set out on pages 5 to 56 form an integral part of these financial statements.



## **1 Background**

These financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2017 for 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;
- The goal of the Central Bank’s activity shall also be to organize and ensure operation of centralized interbank and other unlicensed payment systems, as well as support the stability of the banking system
- 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; in accordance with paragraph 2 of article 19 of the Constitution and the Law: issue, put into circulation, and withdraw banknotes from circulation;
- Determine and declare the official exchange rate of Azerbaijani Manat;
- Implement foreign currency regulation and control;
- Maintain and manage the gold and foreign currency reserves at its disposal;
- Manage the drawing up of the reporting balance of payments and participate in the drawing-up of the projected balance of payments of the country;
- Develop the country’s consolidated (public and non-public) foreign debt statistics and international investment balance, summarize and disseminate data;
- Organize, coordinate, regulate activities of and oversee centralized interbank and other unlicensed payment systems.

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 organizations for the purpose of cooperation in monetary and foreign exchange policy.

At 31 December 2017, the Management Board (the “Board”) of the Bank was composed of the following members:

<b>Name</b>	<b>Position</b>
Mr. Elman Rustamov	Governor
Mr. Alim Guliyev	First Deputy Governor
Mr. Aftandil Babayev	Deputy Governor
Mr. Vadim Khubanov	Deputy Governor

## **1 Background (Continued)**

The responsibilities of the Board and Governor are presented in Articles 23 and 24 of the Law.

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 (2016: six). As of 31 December 2017, the Bank had 575 employees (2016: 594).

### **Functional and presentation currency**

The functional currency of the Bank is Azerbaijani Manats ("AZN") as being the national currency of the Republic of Azerbaijan. These financial statements are presented in AZN, unless otherwise stated.

### **Operating Environment of the Bank**

During 2017, the Central Bank of the Republic of Azerbaijan implemented macroeconomic stability-oriented policy and the size of money supply was regulated in the light of economic growth and inflation forecasts, developments in financial markets and the banks' liquidity position.

During the period, the balance of payments was balanced, pressure on foreign exchange reserves weakened, the external value of the national currency stabilized and inflation expectations relatively slowed down. These positive outcomes are the result of deep macroeconomic maneuvers and a flexibly coordinated macroeconomic policy framework.

In 2017, the Central Bank implemented an anti-inflationary monetary policy. Parameters of the interest rate corridor responded to indicators of the economic cycle, analyses of inflationary risks and processes in various segments of financial markets. When making policy decisions in a preventive regime, monetary policy transmission capacity was considered.

In general, as a result of implemented policy measures, positive trends have been formed and strengthened in 2017 to ensure macroeconomic stability.

## **2 Basis of Preparation**

### **Basis of measurement**

These financial statements are prepared on the historical cost basis except that financial instruments at fair value through profit or loss, available-for-sale financial assets and investment property are stated at fair value.

### **Use of estimates and judgments**

The preparation of 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. Actual results could differ from those estimates. 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.

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies is described in the following notes:

- Loan impairment estimates – Note 9;
- Transfers from State Oil Fund of Azerbaijan – Note 27

### **3 Significant Accounting Policies**

The accounting policies set out below are applied consistently to all periods presented in these financial statements.

#### **Foreign currency**

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 (as foreign exchange translation gains less losses). 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 2017, exchange rates for translation of foreign currency balances were as follows: US Dollar 1 = AZN 1.7001, Euro 1 = AZN 2.0307, Pound Sterling 1 = AZN 2.2881 and Special Drawing Right 1 = AZN 2.4153 (31 December 2016: US Dollar 1 = AZN 1.7707, Euro 1 = AZN 1.8644, Pound Sterling 1 = AZN 2.1745 and Special Drawing Right 1 = AZN 2.3729).

#### **Cash and cash equivalents**

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 three months from origination. Cash and cash equivalents are carried at amortized cost.

#### **Financial instruments**

##### **Classification**

##### **Trading securities**

Trading securities are financial assets which are either acquired for generating a profit from short-term fluctuations in price or trader's margin, or are securities included in a portfolio in which a pattern of short-term trading exists. The Bank classifies securities into trading securities if it has an intention to sell them within a short period after purchase, i.e. within one month.

##### **Available for sale financial assets**

This classification includes investment securities which the Bank intends to hold for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. Available for sale financial assets are carried at fair value.

##### **Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as trading securities or designated as investment securities available-for-sale. Such assets are carried at amortized cost using the effective interest method.

Financial assets that would have met the definition of loans and receivables may be reclassified out of the fair value through profit or loss or available-for-sale category if the Bank has an intention and ability to hold them for the foreseeable future or until maturity.

### **3 Significant Accounting Policies (Continued)**

Other financial instruments not included in the category of loans and receivables may be reclassified out of at fair value through profit or loss trading category only in the case that is unusual and highly unlikely to recur in the near term.

Derivative financial instruments and financial instruments designated as at fair value through profit or loss upon initial recognition are not reclassified out of at fair value through profit or loss category.

#### **Recognition**

Financial assets and liabilities are recognized in the statement of financial position when the Bank becomes a party to the contractual provisions of the instrument.

#### **Measurement**

A financial asset or liability is initially measured at its fair value plus, in the case of a financial asset or liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or liability.

Subsequent to initial recognition, financial assets, including derivatives, are measured at their fair values.

Loans and receivables are measured at amortized cost using the effective interest method.

All financial liabilities, other than derivative financial instruments are measured at amortized cost.

#### **Amortized cost**

Amortized cost is the amount at which the financial instrument was recognized at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortization of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortized discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the statement of financial position.

#### **Gains and losses on subsequent measurement**

A gain or loss arising from a change in the fair value of a financial asset or liability is recognized as follows:

- a gain or loss on a financial instrument classified as at fair value through profit or loss is recognized in profit or loss;
- a gain or loss on an available-for-sale financial asset is recognized as other comprehensive income in equity (except for impairment losses and foreign exchange gains and losses on debt financial instruments available-for-sale) until the asset is derecognized, at which time the cumulative gain or loss previously recognized in equity is recognized in profit or loss. Interest in relation to an available-for-sale financial asset is recognized in profit or loss using the effective interest method.

For financial assets and liabilities carried at amortized cost, a gain or loss is recognized in profit or loss when the financial asset or liability is derecognized or impaired, and through the amortization process.

#### **Derecognition**

The Bank derecognizes financial assets when (a) the assets are redeemed or the contractual rights to cash flows from the assets expired or (b) the Bank transfers the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all the risks and rewards of ownership and not retaining control of the financial asset. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose restrictions on the sale.

### 3 Significant Accounting Policies (Continued)

The Bank enters into transactions whereby it transfers assets recognized on its statement of financial position, but retains either all risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognized.

In transactions where the Bank neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, it derecognizes the asset if control over the asset is lost.

In transfers where control over the asset is retained, the Bank continues to recognize the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred assets.

#### Derecognition of financial liabilities

An entity shall remove a financial liability (or a part of a financial liability) from its statement of financial position when, and only when, it is extinguished—ie when the obligation specified in the contract is discharged or cancelled or expires.

If the Bank purchases its own debt, it is removed from the statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains or losses arising from early retirement of debt.

#### Derivative financial instruments

Derivative financial instruments include swaps, futures, forwards and spot transactions in interest rates, foreign exchanges.

Derivatives are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently premeasured at fair value. All derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative. Changes in the fair value of derivatives are recognized immediately in profit or loss.

#### Property and equipment

Items of property and equipment are stated at historical cost less accumulated depreciation and impairment losses, where required.

Costs of minor repairs and day-to-day maintenance are expensed when incurred. Costs of replacing major parts or components of premises and equipment items are capitalized, and the replaced part is retired.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognized in profit or loss for the year (within other operating income or expenses).

#### Depreciation

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 office equipment	25
Motor vehicles	15

#### Intangible assets

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

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

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.

### **3 Significant Accounting Policies (Continued)**

#### **Investment property**

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in normal course of business, or for the use in production or supply of goods or services or for administrative purposes. Investment property is measured at fair value with any change recognized in profit or loss and included in "Other Assets".

When the use of a property changes such that it is reclassified as property and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

#### **Impairment of financial assets**

The Bank assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired. If any such evidence exists, the Bank determines the amount of any impairment loss.

A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the financial asset (a loss event) and that event (or events) has had an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, breach of loan covenants or conditions, restructuring of financial asset or group of financial assets that the Bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, deterioration in the value of collateral, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers in the Bank, or economic conditions that correlate with defaults in the group.

In addition, for an investment in equity securities available-for-sale a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

#### **Financial assets carried at amortized cost**

Financial assets carried at amortized cost consist principally of loans and other receivables (loans and receivables). The Bank reviews its loans and receivables to assess impairment on a regular basis.

The Bank first assesses whether objective evidence of impairment exists individually for loans and receivables that are individually significant, and individually or collectively for loans and receivables that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed loan or receivable, whether significant or not, it includes the loan or receivable in a group of loans and receivables with similar credit risk characteristics and collectively assesses them for impairment. Loans and receivables that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on a loan or receivable has been incurred, the amount of the loss is measured as the difference between the carrying amount of the loan or receivable and the present value of estimated future cash flows including amounts recoverable from guarantees and collateral discounted at the loan or receivable's original effective interest rate. Contractual cash flows and historical loss experience adjusted on the basis of relevant observable data that reflect current economic conditions provide the basis for estimating expected cash flows.

In some cases the observable data required to estimate the amount of an impairment loss on a loan or receivable may be limited or no longer fully relevant to current circumstances. This may be the case when a borrower is in financial difficulties and there is little available historical data relating to similar borrowers. In such cases, the Bank uses its experience and judgment to estimate the amount of any impairment loss.

All impairment losses in respect of loans and receivables are recognized in profit or loss and are only reversed if a subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognized.



### **3 Significant Accounting Policies (Continued)**

When a loan is uncollectable, it is written off against the related allowance for loan impairment. The Bank writes off a loan balance (and any related allowances for loan losses) when management determines that the loans are uncollectible and when all necessary steps to collect the loan are completed.

#### **Available-for-sale financial assets**

Impairment losses are recognized by transferring the cumulative loss that is recognized in other comprehensive income to profit or loss as a reclassification adjustment when impairment occurred after the initial recognition of available-for-sale financial assets and if there is objective evidence that the asset is impaired. The cumulative loss that is reclassified from other comprehensive income to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortization, and the current fair value, less any impairment loss previously recognized in profit or loss.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed, with the amount of the reversal recognized in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognized in other comprehensive income.

#### **Money issued in circulation**

Money in circulation represents banknotes and coins issued by the Bank 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 Bank's cash offices.

The costs of the production of notes and coins are expensed upon delivery by the suppliers to the Bank.

When notes and coins are returned to the Bank by the commercial banks they are removed from notes in circulation and depending on their condition or legal tender status, are either held under the reserve funds of the Bank off-balance sheet or destroyed.

#### **Amounts due to government organizations and other organizations**

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

#### **Amounts due to credit institutions**

Amounts due to credit institutions are recorded when money or other assets are advanced to the Bank by counterparty banks. The non-derivative liability is carried at amortized cost. If the Bank purchases its own debt, the liability is removed from the statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains or losses arising from early retirement of debt.

#### **Retirement and other benefit obligations**

The Bank does not have any pension arrangements in addition to the state pension system of Azerbaijan. In addition, the Bank has no post-retirement benefits or other significant compensation benefits requiring accrual. In accordance with the requirements of the Azerbaijan legislation, the Bank withholds amounts of pension contributions from employee salaries and pays them to the state pension fund. Upon retirement all retirement benefit payments are made by the state pension fund.

#### **Charter fund and capital reserves**

The Bank's capital is comprised of its authorized paid-in charter fund and capital reserves.

#### **Taxation**

The Bank is exempt from all taxes, except for taxes on employees' remuneration as a tax agent and social taxes, in accordance with the laws of the Republic of Azerbaijan.

### **3 Significant Accounting Policies (Continued)**

#### **Membership with the International Monetary Fund and other international financial institutions**

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 organizations (e.g. IMF, World Bank), including payment of membership fees to such organizations.

The International Monetary Fund ("IMF") is an international organization established to promote international monetary cooperation, exchange stability and orderly exchange arrangements; to foster economic growth and high levels of employment; and to provide temporary financial assistance to countries to help ease the balance of payments adjustments. In accordance with the presidential decree issued in 1992, the Bank acts as a depository agent in relations of the Republic of Azerbaijan with the IMF and the role of fiscal agent is performed by the Ministry of Finance of the Republic of Azerbaijan.

Quotas (capital subscriptions) are the primary source of IMF resources. The IMF receives its resources from its member countries. Each country's subscription (quota) is determined broadly on the basis of the economic size of the country and taking into account quotas of similar countries. A member's quota delineates basic aspects of its financial and organisational relationship with the IMF.

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 Bank, but are disclosed in Note 5 to the financial statements.

General and special allocations received from the IMF to boost the liquidity of member countries are taken up by the Bank 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.

#### **Income and expense recognition**

Interest income and expense are recorded for all debt 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.

Loan origination fees, loan servicing fees and other fees that are considered to be integral to the overall profitability of a loan, together with the related transaction costs, are deferred and amortized to interest income over the estimated life of the financial instrument using the effective interest method.

Other fees, commissions and other income and expense items are recognized in profit or loss when the corresponding service is provided.

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease.

According to IAS 20, a government grant awarded unconditionally without regard to the Bank's future actions or the purpose of their spending and incurred immediately with regard to further costs shall be recognised in profit or loss of the period in which it becomes receivable.

### 3 Significant Accounting Policies (Continued)

#### New standards and interpretations not yet adopted

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2018 or later, and which the Bank has not early adopted.

**IFRS 9 “Financial Instruments: Classification and Measurement” (amended in July 2014 and effective for annual periods beginning on or after 1 January 2018). Key features of the new standard are:**

- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortized cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).
- Classification for debt instruments is driven by the entity’s business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortized cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets’ cash flows and sells assets may be classified as FVOCI. Financial assets that do not meet the requirement of principal and interest payments (SPPI) or intended to be sold within short period must be measured at FVPL (for example, derivatives, trading securities).

Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.

- IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a ‘three stage’ approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL.

The following table reconciles the carrying amounts of financial assets, from their previous measurement categories in accordance with IAS 39 into their new measurement categories upon transition to IFRS 9 on 1 January 2018:

### 3 Significant Accounting Policies (Continued)

In thousands of Azerbaijani manats	Measurement category		Carrying value per IAS 39 (closing balance at 31 December 2017)	Effect				Carrying value per IFRS 9 (opening balance at 1 January 2018)
	IAS 39	IFRS 9		Remeasurement		Reclassification		
				ECL	Other	Mandatory	Voluntary	
<b>Cash and cash equivalents</b>	Loans and Receivables	Amortised Cost	<b>5,389,626</b>	-	-	Mandatory	-	<b>5,389,626</b>
Investments in debt securities	Trading assets	FVOCI	5,609,543	-	-	Mandatory	-	5,609,543
Investments in debt securities	Trading assets	FVTPL	640,913	-	-	Mandatory	-	640,913
Investments in debt securities	AFS	FVOCI	528,145	-	-	Mandatory	-	528,145
Investments in debt securities	Loans and Receivables	Amortised Cost	9,535,100	-	-	Mandatory	-	9,535,100
<b>Total investments in debt securities</b>			<b>16,313,701</b>	-	-	Mandatory	-	<b>16,313,701</b>
<b>Special Drawing Rights with the IMF</b>	Loans and Receivables	Amortised Cost	<b>370,827</b>	-	-	Mandatory	-	<b>370,827</b>
<b>Derivative Financial instruments</b>	Trading assets	FVTPL	<b>123</b>	-	-	Mandatory	-	<b>123</b>
<b>Other financial assets</b>	Loans and Receivables	Amortised Cost	<b>8,059</b>	-	-	Mandatory	-	<b>8,059</b>

Under IFRS 9 “Loans to Banks” will be measured at amortized cost. The management of the Bank concluded that there is no significant deviation from IAS 39 in carrying value of “Loans to Banks” under IFRS 9 at 1 January 2018.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Bank’s disclosures about its financial instruments particularly in the year of the adoption of the new standard.

**IFRS 15, Revenue from Contracts with Customers (issued on 28 May 2014 and effective for the periods beginning on or after 1 January 2018).** The new standard introduces the core principle that revenue must be recognized when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognized, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognized if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalized and amortized over the period when the benefits of the contract are consumed.

Based on the preliminary analysis of the Bank’s revenue streams for the year ended 31 December 2017, individual contracts’ terms and the facts and circumstances that exist at that date, the management of the Bank is not expecting a significant impact on its financial statements from the adoption of the new standard on 1 January 2018.

### 3 Significant Accounting Policies (Continued)

**IFRIC 22 "Foreign currency transactions and advance consideration" (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).** This interpretation considers how to determine the date of the transaction when applying the standard on foreign currency transactions, IAS 21. The interpretation applies where an entity either pays or received consideration in advance for foreign currency-denominated contracts. The interpretation specifies that the date of transaction is the date on which the entity initially recognizes the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the Interpretation requires an entity to determine the date of transaction for each payment or receipt of advance consideration. The Bank is currently assessing the impact of the interpretation on its financial statements.

The following other new pronouncements are not expected to have any material impact on the Bank when adopted:

- IFRS 16, Leases (issued on 13 January 2016 and effective for annual periods beginning on or after 1 January 2019).
- Annual Improvements to IFRSs 2014-2016 cycle – Amendments to IFRS 1 and IAS 28 (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).
- Prepayment Features with Negative Compensation – Amendments to IFRS 9 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019).
- Transfers of Investment Property – Amendments to IAS 40 (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).

### 4 Cash and Cash Equivalents

<i>In thousands of Azerbaijani Manats</i>	<u>31/12/2017</u>	<u>31/12/2016</u>
<b>Cash on hand</b>	<b>483,813</b>	<b>340,024</b>
<b>Nostro accounts with non-resident banks</b>		
- rated AAA	686,175	394,333
- rated AA- to AA+	3,508,985	3,998,911
- rated A- to A+	2,882	-
- rated BBB- to BBB+	26,375	89,472
<b>Total nostro accounts with non-resident banks</b>	<b>4,224,417</b>	<b>4,482,716</b>
<b>Cash equivalents</b>		
<b>Term deposits with non-resident banks</b>		
- rated AAA	340,020	354,140
- rated A- to A+	341,376	708,333
<b>Total term deposits with non-resident banks</b>	<b>681,396</b>	<b>1,062,473</b>
<b>Total cash and cash equivalents</b>	<b>5,389,626</b>	<b>5,885,213</b>

No cash and cash equivalents are past due or impaired.

As at 31 December 2017 and 2016, ratings of Nostro accounts and deposits with non-resident banks are disclosed based on the lowest of ratings assigned by Fitch Ratings, Standard and Poor's and Moody's agencies.

## 5 Balances with the International Monetary Fund

<i>In thousands of Azerbaijani Manats</i>	<u>31/12/2017</u>	<u>31/12/2016</u>
<b>ASSETS</b>		
Special Drawing Rights (SDR) holdings	370,827	364,399
<b>Total assets with IMF</b>	<b><u>370,827</u></b>	<b><u>364,399</u></b>
<b>LIABILITIES</b>		
Current accounts	2,366	2,168
<b>SDR allocation:</b>		
General allocation	288,089	283,032
Special allocation	82,844	81,389
<b>Total SDR allocations</b>	<b><u>370,933</u></b>	<b><u>364,421</u></b>
<b>Total liabilities with IMF</b>	<b><u>373,299</u></b>	<b><u>366,589</u></b>

### **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.

### **Current accounts**

The Bank 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.

Members and prescribed holders may use their SDR holdings to conduct transactions with the IMF. The Bank treats the allocation as foreign exchange liability to the Government of the Republic of Azerbaijan.

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

The IMF Quota, in the amount of SDR 391.7 million (AZN 946,073 thousand and AZN 929,465 thousand as at 31 December 2017 and 2016 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 Bank for which IMF is acting as the beneficiary.



## **6 Trading Securities**

<i>In thousands of Azerbaijani Manats</i>	<b>31/12/2017</b>	<b>31/12/2016</b>
Agency notes	3,257,083	2,142,167
Notes issued by international financial institutions	835,821	222,522
Corporate bonds	774,364	579,873
Government bonds	705,194	434,022
US Treasury notes	415,644	450,673
Municipal bonds	205,263	338,580
UK Treasury notes	57,087	44,395
<b>Total trading securities</b>	<b>6,250,456</b>	<b>4,212,232</b>

No trading securities are past due or impaired.

The Bank uses reputable asset managers for the management of some of its trading securities per set investment guidelines which include the requirement that the issuers of such securities are all domiciled in OECD countries.

## 6 Trading Securities (Continued)

Analysis by credit quality of debt trading securities is as follows at 31 December 2017:

	Agency notes	Corporate bonds	US Treasury notes	UK Treasury notes	Government bonds	Municipal bonds	Notes issued by international financial institutions	Total
<i>In thousands of Azerbaijani Manats</i>								
<i>Neither past due nor impaired</i>								
- AAA rated	1,503,088	21,517	-	-	31,015	33,526	291,037	<b>1,880,183</b>
- AA- to AA+ rated	1,390,935	140,398	415,644	57,087	671,536	158,876	544,784	<b>3,379,260</b>
- A- to A+ rated	363,060	612,449			2,643	12,861	-	<b>991,013</b>
<b>Total neither past due nor impaired</b>	<b>3,257,083</b>	<b>774,364</b>	<b>415,644</b>	<b>57,087</b>	<b>705,194</b>	<b>205,263</b>	<b>835,821</b>	<b>6,250,456</b>

Analysis by credit quality of debt trading securities is as follows at 31 December 2016:

	Agency notes	Corporate bonds	US Treasury notes	UK Treasury notes	Government bonds	Municipal bonds	Notes issued by international financial institutions	Total
<i>In thousands of Azerbaijani Manats</i>								
<i>Neither past due nor impaired</i>								
- AAA rated	1,044,141	14,594	39,512	-	25,998	114,156	167,280	<b>1,405,681</b>
- AA- to AA+ rated	562,848	174,340	411,161	44,395	408,024	184,477	44,373	<b>1,829,618</b>
- A- to A+ rated	535,178	390,939	-	-	-	39,947	10,869	<b>976,933</b>
<b>Total neither past due nor impaired</b>	<b>2,142,167</b>	<b>579,873</b>	<b>450,673</b>	<b>44,395</b>	<b>434,022</b>	<b>338,580</b>	<b>222,522</b>	<b>4,212,232</b>

## 7 Derivative Financial Instruments

The fair value of derivative financial instruments as at 31 December 2017 and 2016 are as follows:

<i>In thousands of Azerbaijani Manats</i>	Notional amount	31 December /2017		Notional amount	31 December 2016	
		Fair value			Fair value	
		Assets	Liabilities		Assets	Liabilities
Foreign exchange contracts	156,341	-	(1,012)	283,446	2,191	-
Future contracts	17,212	123	-	28,125	-	-
<b>Total derivative financial instruments</b>	<b>173,553</b>	<b>123</b>	<b>(1,012)</b>	<b>311,571</b>	<b>2,191</b>	<b>-</b>

### Foreign currency contracts

The table below summarizes, by major currencies, the contractual amounts of forward 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.

<i>In thousands of Azerbaijani Manats</i>	Notional amount		Weighted average contractual exchange rates	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
<b>Buy USD sell EUR</b>				
Less than 3 months	95,165	136,657	1.2011	1.0557
<b>Sell USD buy EUR</b>				
Less than 3 months	4,295	50,517	1.2010	1.0549
<b>Buy USD sell GBP</b>				
Less than 3 months	24,770	32,780	1.3529	1.2362
<b>Sell USD buy GBP</b>				
Less than 3 months	-	11,283	-	1.2357
<b>Buy USD sell CAD</b>				
Less than 3 months	14,168	15,816	0.7982	0.7458
<b>Sell USD buy CAD</b>				
Less than 3 months	-	4,981	-	0.7457
<b>Buy USD sell other currencies</b>				
Less than 3 months	13,494	24,062	0.6836	0.6250
<b>Sell USD buy other currencies</b>				
Less than 3 months	4,449	7,350	0.782	0.6229

## 8 Investment Securities

<i>In thousands of Azerbaijani Manats</i>	<b>31/12/2017</b>	<b>31/12/2016</b>
<b>- Available-for-sale investments</b>		
Mortgage and Credit Guarantee Fund of the Republic of Azerbaijan	528,145	337,094
Notes issued by international financial institutions	-	91,376
Ministry of Finance of the Republic of Azerbaijan	-	28,169
<b>Total available-for-sale investments</b>	<b>528,145</b>	<b>456,639</b>
<b>- Loans and advances</b>		
JSCO Aqrarkredit	9,482,145	10,000,041
Ministry of Finance of the Republic of Azerbaijan	52,955	70,234
Impairment allowance	-	(4,295)
<b>Total loans and advances less impairment allowance</b>	<b>9,535,100</b>	<b>10,065,980</b>
<b>Total investment securities</b>	<b>10,063,245</b>	<b>10,522,619</b>

Due to the reason that the Bank sold a significant amount of portfolio of held-to-maturity investments on 20 February 2015, it was not able to classify any investment as held to maturity for the remainder of the financial year plus the two financial years after the financial year in which the event occurred. As a result, the held-to-maturity investments portfolio was reclassified to available-for-sale investments portfolio, and treated as such after 20 February 2015.

Included in loans and advances were securities of Joint-Stock Credit Organization Aqrarkredit (Aqrarkredit JSCO) purchased by the Bank 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 Aqrarkredit JSCO repurchased the securities in the amount of AZN 517,896 thousand from the Bank. At the moment, the outstanding balance of the securities in the portfolio of the Bank constitutes AZN 9,482,104 thousand. Repayment of these securities is guaranteed by the Government of 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 Aqrarkredit JSCO", respectively. Refer to note 34 for fair value disclosures.

Analysis by credit quality of investment securities outstanding at 31 December 2017 is as follows:

<i>In thousands of Azerbaijani Manats</i>	<b>Mortgage and Credit Guarantee Fund of the Republic of Azerbaijan</b>	<b>JSCO Aqrarkredit</b>	<b>Ministry of Finance of the Republic of Azerbaijan</b>	<b>Total</b>
<i>Neither past due nor impaired</i>				
- BB+	528,145	9,482,145	52,955	<b>10,063,245</b>
<b>Total neither past due nor impaired</b>	<b>528,145</b>	<b>9,482,145</b>	<b>52,955</b>	<b>10,063,245</b>

## 8 Investment Securities (Continued)

Analysis by credit quality of investment securities outstanding at 31 December 2016 is as follows:

<i>In thousands of Azerbaijani Manats</i>	<b>Notes issued by international financial institutions</b>	<b>Mortgage and Credit Guarantee Fund of the Republic of Azerbaijan</b>	<b>JSCO AqrarKredit</b>	<b>Ministry of Finance of the Republic of Azerbaijan</b>	<b>Total</b>
<i>Neither past due nor impaired</i>					
- AAA rated	91,376				91,376
- BB+		337,094	10,000,041	94,108	10,431,243
<b>Total neither past due nor impaired</b>	<b>91,376</b>	<b>337,094</b>	<b>10,000,041</b>	<b>94,108</b>	<b>10,522,619</b>

AqrarKredit securities are not traded in an active market.

The movements in investment securities available for sale are as follows:

<i>In thousands of Azerbaijani Manats</i>	<b>2017</b>	<b>2016</b>
<b>Carrying amount at 1 January</b>	456,639	1,191,876
Fair value gains less losses	313	(1,402)
Interest income accrued	14,607	17,845
Interest income received	(3,240)	(22,602)
Purchases	568,508	87,455
Disposals of investment securities available for sale	(515,133)	(844,731)
Effect of translation to presentation currency	6,451	28,198
<b>Carrying amount at 31 December</b>	<b>528,145</b>	<b>456,639</b>

## 9 Loans to Banks

<i>In thousands of Azerbaijani Manats</i>	<b>31/12/2017</b>	<b>31/12/2016</b>
Refinancing loans	888,660	1,517,242
Lender of last resort loans	24,070	36,150
Loans under government guarantee	-	2,406,515
Subordinated loans	-	600,410
<b>Gross loans to banks</b>	<b>912,730</b>	<b>4,560,317</b>
Impairment allowance	(511,861)	(498,955)
<b>Total loans to banks less impairment allowance</b>	<b>400,869</b>	<b>4,061,362</b>

Based on the decision of the Management Board of the Bank dated 28 April 2016, the loans are restructured without changing the terms of the original loan, resulted with the interest rate being lower than market rate (lower than the Central Bank's refinancing rate) for the purpose of ensuring the liquidity regulation and financial stability in the banking system. As a result, a loss on recognition of restructured loans in the amount of AZN 29,848 thousand (2016: no losses or gains) has been recorded in profit or loss for the year.

### Concentration of loans to banks

As at 31 December 2017, there was no bank with aggregated gross balance exceeding 10% of CBAR's equity. (2016: aggregated gross balance of 2 banks was 2,535,618 thousand).

Movements in the loan impairment allowance by classes of loans to customers for the year ended 31 December 2017 are as follows:

<i>In thousands of Azerbaijani Manats</i>	<b>Refinancing loans</b>	<b>Lender of last resort loan</b>	<b>Subordinated loans</b>	<b>Total</b>
Balance at the beginning of the year	417,090	15,033	66,832	498,955
Net charge (recovery)	101,805	7,051	(66,832)	42,024
Amounts netted off during the year through provision	(29,118)	-	-	(29,118)
<b>Balance at the end of the year</b>	<b>489,777</b>	<b>22,084</b>	<b>-</b>	<b>511,861</b>

Movements in the loan impairment allowance by classes of loans to customers for the year ended 31 December 2016 are as follows:

<i>In thousands of Azerbaijani Manats</i>	<b>Refinancing loans</b>	<b>Lender of last resort loan</b>	<b>Subordinated loans</b>	<b>Total</b>
Balance at the beginning of the year	483,243	25,109	-	508,352
Net charge	372,750	37,500	66,832	477,082
Amounts netted off during the year through provision	(438,903)	(47,576)	-	(486,479)
<b>Balance at the end of the year</b>	<b>417,090</b>	<b>15,033</b>	<b>66,832</b>	<b>498,955</b>



## 9 Loans to Banks (Continued)

### Credit quality

The following table provides information on the credit quality of loans to banks as at 31 December 2017:

<i>In thousands of Azerbaijani Manats</i>	<b>Refinancing loans</b>	<b>Lender of last resort loans</b>	<b>Total</b>
<i>Neither past due nor impaired</i>			
BB-	10,003	-	10,003
CCC+	99,187	-	99,187
CCC-	20,006	-	20,006
<b>Total neither past due nor impaired</b>	<b>129,196</b>	<b>-</b>	<b>129,196</b>
<i>Loans individually determined to be impaired (gross)</i>			
- not overdue	543,547	-	543,547
- overdue less than 30 days	179,773	24,070	203,843
- overdue 30-89 days	28,564	-	28,564
- overdue 90-179 days	-	-	-
- overdue 180-360 days	-	-	-
- overdue more than 360 days	7,580	-	7,580
<b>Total individually impaired loans</b>	<b>759,464</b>	<b>24,070</b>	<b>783,534</b>
Less impairment provision	(489,777)	(22,084)	(511,861)
<b>Total loans to banks</b>	<b>398,883</b>	<b>1,986</b>	<b>400,869</b>

## 9 Loans to Banks (Continued)

The following table provides information on the credit quality of loans to banks as at 31 December 2016:

<i>In thousands of Azerbaijani Manats</i>	<b>Loans under Government guarantee</b>	<b>Refinancing loans</b>	<b>Subordinated loans</b>	<b>Lender of last resort loans</b>	<b>Total</b>
<i>Neither past due nor impaired</i>					
BB+	545,043	37,345	-	-	582,388
BB	733,310	-	-	-	733,310
BB-	1,121,880	103,392	-	-	1,225,272
<i>Unrated</i>					
- Large	4,385	-	-	-	4,385
- Medium	1,897	256,555	-	-	258,452
- Small	-	375,318	-	-	375,318
<b>Total neither past due nor impaired</b>	<b>2,406,515</b>	<b>772,610</b>	<b>-</b>	<b>-</b>	<b>3,179,125</b>
<i>Loans individually determined to be impaired (gross)</i>					
- not overdue	-	708,547	600,410	36,150	1,345,107
- overdue less than 30 days	-	454	-	-	454
- overdue 30-89 days	-	2,586	-	-	2,586
- overdue 90-179 days	-	2,547	-	-	2,547
- overdue 180-360 days	-	600	-	-	600
- overdue more than 360 days	-	29,898	-	-	29,898
<b>Total individually impaired loans</b>	<b>-</b>	<b>744,632</b>	<b>600,410</b>	<b>36,150</b>	<b>1,381,192</b>
Less impairment provision		(417,090)	(66,832)	(15,033)	(498,955)
<b>Total loans to banks</b>	<b>2,406,515</b>	<b>1,100,152</b>	<b>533,578</b>	<b>21,117</b>	<b>4,061,362</b>

As at 31 December 2017 and 31 December 2016, there is no “overdue but not impaired” loans in the loan portfolio of CBAR.

As at 31 December 2017 included in the loan portfolio are renegotiated loans to banks in the amount of AZN 278,193 thousand (2016: AZN 433,148 thousand). The main reason for renegotiation is due to stabilization of short-term liquidity and protection of financial stability.

### Key assumptions and judgments for estimating the loan impairment

The Bank estimates loan impairment based on an analysis of the future cash flows for loans with individual signs of impairment and based on its past loss experience for portfolios of loans for which no individual signs of impairment has been identified.

In determining the impairment allowance, management makes the following key assumptions:

- a discount of between 20% and 50% to the originally appraised value if the property pledged is to be sold;
- Up to 10 years for the foreclosure of collateral.

## 9 Loans to Banks (Continued)

### Analysis of collateral and other credit enhancements

Loans to banks are subject to individual credit appraisal. The general creditworthiness of a bank tends to be the most relevant indicator of credit quality of the loan extended to it. However, collateral provides additional security and collateral requirement is stipulated in the legislation.

Information about collateral at 31 December 2017 is as follows:

<i>In thousands of Azerbaijani manats</i>	<b>Refinancing loans</b>	<b>Lender of last resort loans</b>	<b>Total</b>
Loans collateralised by:			
- blocked deposit accounts	293,960	-	<b>293,960</b>
- commercial real estate	103,248	1,986	<b>105,234</b>
- residential real estate	1,675	-	<b>1,675</b>
<b>Total loans to banks</b>	<b>398,883</b>	<b>1,986</b>	<b>400,869</b>

Information about collateral at 31 December 2016 is as follows:

<i>In thousands of Azerbaijani manats</i>	<b>Loans under government guarantee</b>	<b>Refinancing loans</b>	<b>Subordinated loans</b>	<b>Lender of last resort loans</b>	<b>Total</b>
Unsecured loans	-	46,320	533,578	-	<b>579,898</b>
Guarantee letters from government	2,406,515	-	-	-	<b>2,406,515</b>
Loans collateralised by:					
- blocked deposit accounts	-	755,772	-	-	<b>755,772</b>
- commercial real estate	-	294,751	-	21,117	<b>315,868</b>
- residential real estate	-	3,309	-	-	<b>3,309</b>
<b>Total loans to banks</b>	<b>2,406,515</b>	<b>1,100,152</b>	<b>533,578</b>	<b>21,117</b>	<b>4,061,362</b>

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

## 10 Property and Equipment

The following table provides information on the movement of property and equipment for the year ended at 31 December 2017:

	Land	Buildings	Furniture and fixtures	Computers and communication equipment	Motor vehicles	Total
<i>In thousands of Azerbaijani Manats</i>						
<b>Cost</b>						
<b>Balance at 1 January 2017</b>	<b>15,726</b>	<b>43,873</b>	<b>49,561</b>	<b>16,907</b>	<b>2,183</b>	<b>128,250</b>
Additions	-	1	595	1,487	283	2,366
Disposals	-	-	(458)	(138)	(73)	(669)
Transfers	-	-	207	(207)	-	-
<b>Balance at 31 December 2017</b>	<b>15,726</b>	<b>43,874</b>	<b>49,905</b>	<b>18,049</b>	<b>2,393</b>	<b>129,947</b>
<b>Depreciation and amortization</b>						
Balance at 1 January 2017	-	(15,843)	(44,138)	(11,287)	(1,907)	(73,175)
Depreciation and amortisation for the year	-	(1,317)	(3,151)	(2,454)	(129)	(7,051)
Disposals	-	-	458	138	73	669
Transfers	-	-	(207)	207	-	-
<b>Balance at 31 December 2017</b>	<b>-</b>	<b>(17,160)</b>	<b>(47,038)</b>	<b>(13,396)</b>	<b>(1,963)</b>	<b>(79,557)</b>
Carrying amount						
<b>At 31 December 2017</b>	<b>15,726</b>	<b>26,714</b>	<b>2,867</b>	<b>4,653</b>	<b>430</b>	<b>50,390</b>

## 10 Property and equipment ( Continued)

The following table provides information on the movement of property and equipment for the year ended at 31 December 2016:

	Land	Buildings	Furniture and fixtures	Computers and communication equipment	Motor vehicles	Construction in progress	Total
<i>In thousands of Azerbaijani Manats</i>							
<b>Cost</b>							
<b>Balance at 1 January 2016</b>	15,726	42,962	49,217	17,005	2,211	814	127,935
Additions	-	97	903	1,817	-	-	2,817
Transfers	-	814	-	-	-	(814)	-
Disposals	-	-	(559)	(1,915)	(28)	-	(2,502)
<b>Balance at 31 December 2016</b>	<b>15,726</b>	<b>43,873</b>	<b>49,561</b>	<b>16,907</b>	<b>2,183</b>	<b>-</b>	<b>128,250</b>
<b>Depreciation and amortization</b>							
Balance at 1 January 2016	-	(14,553)	(41,059)	(10,188)	(1,835)	-	(67,635)
Depreciation and amortisation for the year	-	(1,290)	(3,629)	(2,914)	(100)	-	(7,933)
Disposals	-	-	550	1,815	28	-	2,393
<b>Balance at 31 December 2016</b>	<b>-</b>	<b>(15,843)</b>	<b>(44,138)</b>	<b>(11,287)</b>	<b>(1,907)</b>	<b>-</b>	<b>(73,175)</b>
Carrying amount							
<b>At 31 December 2016</b>	<b>15,726</b>	<b>28,030</b>	<b>5,423</b>	<b>5,620</b>	<b>276</b>	<b>-</b>	<b>55,075</b>

## 11 Intangible Assets

The following table provides information on the movement of intangible assets for the year ended at 31 December 2017:

<i>In thousands of Azerbaijani Manats</i>	<u>Total intangible assets</u>
<b>Cost</b>	
Balance at 1 January 2017	67,520
Additions	7,008
Disposals	(3,626)
<b>Balance at 31 December 2017</b>	<u><b>70,902</b></u>
<b>Depreciation and amortization</b>	
Balance at 1 January 2017	(23,881)
Depreciation and amortization for the year	(6,214)
Disposals	3,626
<b>Balance at 31 December 2017</b>	<u><b>(26,469)</b></u>
Carrying amount	
<b>At 31 December 2017</b>	<u><b>44,433</b></u>

The following table provides information on the movement of intangible assets for the year ended at 31 December 2016:

<i>In thousands of Azerbaijani Manats</i>	<u>Total intangible assets</u>
<b>Cost</b>	
Balance at 1 January 2016	55,612
Additions	12,078
Disposals	(170)
<b>Balance at 31 December 2016</b>	<u><b>67,520</b></u>
<b>Depreciation and amortization</b>	
Balance at 1 January 2016	(18,430)
Depreciation and amortization for the year	(5,477)
Transfers	26
<b>Balance at 31 December 2016</b>	<u><b>(23,881)</b></u>
Carrying amount	
<b>At 31 December 2016</b>	<u><b>43,639</b></u>

## 12 Other Financial Assets

<i>In thousands of Azerbaijani Manats</i>	<u>31/12/2017</u>	<u>31/12/2016</u>
Receivables from trade securities disposed	7,101	16,243
Loans to employees	798	928
Amounts in the course of settlement	169	56
Impairment allowance	(9)	(20)
Receivables from sale of foreign currencies	-	104,016
<b>Total other financial assets</b>	<b><u>8,059</u></b>	<b><u>121,223</u></b>

Movement in the impairment allowance for the years ended 31 December 2017 and 2016 is as follows:

<i>In thousands of Azerbaijani Manats</i>	<u>31/12/2017</u>	<u>31/12/2016</u>
Balance at the beginning of the year	20	26
Net charge/ (recovery)	(11)	(6)
<b>Balance at the end of the year</b>	<b><u>9</u></b>	<b><u>20</u></b>

Analysis by credit quality of other financial assets outstanding at 31 December 2017 is as follows:

<i>In thousands of Azerbaijani manats</i>	<b>Receivables from trade securities disposed</b>	<b>Loans to employees</b>	<b>Amounts in the course of settlement</b>	<b>Total</b>
<i>Neither past due nor impaired</i>				
- Collected or settled after the end of the reporting period	7,101	-	71	7,172
- Not due at the date of authorisation of the financial statements for issue	-	789	98	887
<b>Total neither past due nor impaired</b>	<b><u>7,101</u></b>	<b><u>789</u></b>	<b><u>169</u></b>	<b><u>8,059</u></b>

Analysis by credit quality of other financial assets outstanding at 31 December 2016 is as follows:

<i>In thousands of Azerbaijani manats</i>	<b>Receivables from sale of foreign currencies</b>	<b>Receivables from trade securities disposed</b>	<b>Loans to employees</b>	<b>Amounts in the course of settlement</b>	<b>Total</b>
<i>Neither past due nor impaired</i>					
- Collected or settled after the end of the reporting period	104,016	16,243	-	4	120,263
- Not due at the date of authorisation of the financial statements for issue	-	-	908	52	960
<b>Total neither past due nor impaired</b>	<b><u>104,016</u></b>	<b><u>16,243</u></b>	<b><u>908</u></b>	<b><u>56</u></b>	<b><u>121,223</u></b>

### 13 Other Assets

<i>In thousands of Azerbaijani Manats</i>	<b>31/12/2017</b>	<b>31/12/2016</b>
Prepayments to suppliers	52,981	47,334
Investment property	4,400	4,400
Other non-financial assets	145	136
<b>Total other assets</b>	<b>57,526</b>	<b>51,870</b>

### 14 Money in Circulation

Money in circulation represents the amount of national currency of the Republic of Azerbaijan issued by the Bank. This comprises the AZN issued into circulation for 1 January 2006, and old Azerbaijani Manats ("AZM") issued into circulation since the introduction of the national currency in 1992. The Azerbaijani Manat was denominated on 1 January 2006 and, starting from that date, AZM 5,000 is equal to AZN 1.

During the year ended 31 December 2017 the Bank accepted new banknotes amounting to AZN 410,677 thousand from minting company (2016: AZN 9,432 thousand) and destroyed banknotes amounting to AZN 1,307,505 thousand (2016: AZN 702,666 thousand).

<i>In thousands of Azerbaijani Manats</i>	<b>31/12/2017</b>	<b>31/12/2016</b>
Balance at the beginning of the year	6,960,778	5,416,751
Net amount of banknotes and coins withdrawn from circulation	1,179,460	1,544,027
<b>Balance at the end of the year</b>	<b>8,140,238</b>	<b>6,960,778</b>

### 15 Short-term deposits of resident banks

At 31 December 2017, included in short-term deposits of resident banks in the amount of AZN 4,389,826 thousand (31 December 2016: AZN 5,922,278 thousand) are deposits of AZN 1,015,167 thousand obtained through auctions as a part of monetary policy tools (31 December 2016: AZN 80,329 thousand) and deposits of AZN 3,374,659 thousand placed with the Bank out of auction (31 December 2016: AZN 5,841,949 thousand).

### 16 Amounts Due to Government Organizations

<i>In thousands of Azerbaijani Manats</i>	<b>31/12/2017</b>	<b>31/12/2016</b>
Amounts due to the Central Treasury of the Republic of Azerbaijan	1,370,465	2,435,715
Amounts due to State Oil Fund of the Republic of Azerbaijan	11,291	207,180
Other current/demand accounts	148,473	54,374
<b>Total amounts due to government organisation</b>	<b>1,530,229</b>	<b>2,697,269</b>

Interest rate, currency and maturity analysis of amounts due to government organizations are disclosed in note 30.



## 17 Amounts Due to Credit Institutions

<i>In thousands of Azerbaijani Manats</i>	<u>31/12/2017</u>	<u>31/12/2016</u>
Current accounts	1,555,538	2,110,989
Blocked accounts	375,068	966,408
Mandatory reserves	140,312	147,707
<b>Total amounts due to credit institutions</b>	<b><u>2,070,918</u></b>	<b><u>3,225,104</u></b>

## 18 Amounts Due to Other Organizations

<i>In thousands of Azerbaijani Manats</i>	<u>31/12/2017</u>	<u>31/12/2016</u>
Public organizations	26,026	5,625
Other financial institutions	10,550	7,944
<b>Total amounts due to other organizations</b>	<b><u>36,576</u></b>	<b><u>13,569</u></b>

## 19 Debt Securities in Issue

<i>In thousands of Azerbaijani Manats</i>	<u>31/12/2017</u>	<u>31/12/2016</u>
Short-term notes	920,768	108,987
<b>Total debt securities in issue</b>	<b><u>920,768</u></b>	<b><u>108,987</u></b>

## 20 Amounts Due to International Financial Institutions

<i>In thousands of Azerbaijani Manats</i>	<u>31/12/2017</u>	<u>31/12/2016</u>
Borrowings from International Development Association (IDA)	2,811	3,771
Amounts due to other international financial institutions	1,882	555
<b>Total amounts due to international financial institutions</b>	<b><u>4,693</u></b>	<b><u>4,326</u></b>

## 21 Other Financial Liabilities

<i>In thousands of Azerbaijani Manats</i>	<u>31/12/2017</u>	<u>31/12/2016</u>
Amounts payable for trading securities purchased	652,778	286,011
Amounts in the course of settlement	673	1,186
Advances received for the sale of foreign currencies	-	104,238
Other financial liabilities	80	-
<b>Total other financial liabilities</b>	<b><u>653,531</u></b>	<b><u>391,435</u></b>

## 22 Other Liabilities

<i>In thousands of Azerbaijani Manats</i>	<b>31/12/2017</b>	<b>31/12/2016</b>
Deferred income	16	17
Amounts in the course of settlement	26	7
Other	1,250	1,235
<b>Total other liabilities</b>	<b>1,292</b>	<b>1,259</b>

## 23 Charter Fund and Reserves

The Charter fund of the Bank is AZN 500,000 thousand. On 20 October 2015, as a result of amendments to the Law on the Central Bank of Azerbaijan Republic, the charter fund of the Central Bank of Azerbaijan was determined to be AZN 500,000 thousand by transferring additional AZN 490,000 thousand from retained earnings.

On 20 October 2015, as a result of amendments to the Law on the Central Bank of Azerbaijan Republic, capital reserves of the Bank shall not fall below its charter fund, therefore, the capital reserves of the Bank were determined to be AZN 500,000 thousand by transferring additional amount of AZN 290,483 thousand from retained earnings.

## 24 Interest Income and Expenses

<i>In thousands of Azerbaijani Manats</i>	<b>2017</b>	<b>2016</b>
<b>Interest income</b>		
Loans to banks	55,118	212,108
Placements with non-resident banks	42,424	13,618
Trading securities	30,057	23,233
Investment securities:		
<i>Available-for-sale investments</i>	14,607	17,845
<i>Loans and advances</i>	14,516	10,630
SDR holdings with the IMF	1,550	184
Promissory notes from government	747	4,636
Other assets	61	61
<b>Total interest income</b>	<b>159,080</b>	<b>282,315</b>
<b>Interest expense</b>		
Deposits of resident banks	240,661	170,476
Debt securities in issue	39,735	2,463
Liabilities on transactions with the IMF	1,640	204
Deposits and current account of SOFAZ	60	84,716
Amounts due to international financial institutions	30	36
<b>Total interest expense</b>	<b>282,126</b>	<b>257,895</b>
<b>Net interest income/ (expense)</b>	<b>(123,046)</b>	<b>24,420</b>

Included within various line items under interest income for the year ended 31 December 2017 is a total of AZN 16,856 thousand (2016: AZN 26,395 thousand) accrued on impaired financial assets.

## 25 Fee and Commission Income

<i>In thousands of Azerbaijani Manats</i>	<b>2017</b>	<b>2016</b>
Cash withdrawal	7,365	3,334
Settlement	6,756	2,853
Other	5	5
<b>Total fee and commission income</b>	<b>14,126</b>	<b>6,192</b>

## 26 Fee and Commission Expense

<i>In thousands of Azerbaijani Manats</i>	<b>2017</b>	<b>2016</b>
Securities operations (management, custodian and brokerage)	1,492	1,352
Settlement	66	39
Cash withdrawal	-	718
Other	2,313	922
<b>Total fee and commission expenses</b>	<b>3,871</b>	<b>3,031</b>

## 27 Transfers from State Oil Fund of Azerbaijan

“During 2017 the State Oil Fund of Azerbaijan transferred 2,263 million USD to the Central Bank of Azerbaijan based on Presidential Decree about the “Budget of State Oil Fund of the Republic of Azerbaijan for 2017” in order to support macro-economic and financial stability. These funds were allocated to finance foreign public debt, as well as strategic projects and borrowings of large public organizations in foreign currency based on the “Action Plan on Maintaining Macroeconomic and Financial Stability during 2017 and for the mid-term” as adopted by the Financial Stability Board. As a result of exchange of USD funds to Azerbaijani Manats, income in the amount of AZN 3,949 million was recognized in profit or loss statement.

## 28 Net gains/ (losses) from foreign exchange translation

During 2017 the excess of negative unrealized exchange rate differences which arose during daily revaluation of balance-sheet accounts in foreign currency over positive exchange rate differences constituted AZN 204,006 thousand (2016: AZN 899,713 thousand as a gain).

## **29 Administrative and Other Operating Expenses**

<i>In thousands of Azerbaijani Manats</i>	<b>2017</b>	<b>2016</b>
Banknotes and coin production	21,826	4,997
Staff costs	12,080	12,314
Depreciation of premises and equipment	7,050	7,933
Software maintenance	6,244	4,622
Amortisation of software and other intangible assets	6,214	5,477
Contributions to Social Security Pension Fund	2,545	2,564
Security	1,393	1,393
Regional construction and social	1,266	14,363
Repair and maintenance	1,121	898
Expenses for development of non-cash payment project	997	-
Communication	727	687
Office supplies	636	572
Heating and lighting	539	432
Insurance	335	310
Business travel	200	143
Legal and consultancy	165	164
Utilities	50	43
Occupancy and rent	47	167
Printing	46	55
Representation	36	27
Financing of Financial Monitoring Service	-	672
Other	1,041	1,270
<b>Total administrative and other operating expenses</b>	<b>64,558</b>	<b>59,103</b>

### 30 Risk Management

The activities of the Bank are exposed to various risks. Bank's risks are classified in the following four categories based on the "Framework Document on operational risk management of the Central Bank of Azerbaijan Republic" approved by the Management Board on 5 February 2014:

- *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 Bank's Management Board, Monetary Policy and Financial Stability Committee, as well as relevant units (Monetary Policy, Market operations, Strategic Management and other departments);
- *Financial risks* – is targeted at the identification, management of credit, market and liquidity risks. Financial Risk Management is performed by Management Board of the Bank, Investment Committee, Market Operations 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;
- *Operational risks* – are the risks arising out of the intentional or careless behavior of employees of Bank's units and Bank's project team, 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 Operational Risk Management, it is carried out on the basis of 3 lines of defense.

The first line of defense consists of the Bank's structural units of the model, the second and the third lines include the Risk Management Department and the Internal Audit Department, respectively. Functions of the Bank's risk management department include preparation, development, communication and training of the policy and methodology documents for of Bank's Operational Risks Management (ORM) and relevant supporting systems; coordination, facilitation, monitoring and reporting of the ORM and as well as the preparation of risk profile of the Bank's consolidated operations.

- *Reputational risks* – are the risks arising out of the personal life, behavior and communication of Bank's high-ranking officials (Members of the Management Board and General Directors), as well as discrepancy between the Bank's goals and activities and the public opinion. Bank's reputational risks are managed by the Management Board, General Directors and Communication Department. 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.

#### Financial risk management policies and procedures

Risk management is a critical component of its banking activities. Risk is inherent in the Bank'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.

Operations are allocated among members of the Management Board based on control principle. Each Board member must control the operations under his sector of responsibility.

*Investment Committee.* The Investment Committee is responsible for the preparation of "Key directions of Foreign Currency Assets management of the Central Bank of Azerbaijan Republic" in accordance with "Rules of Foreign Currency Assets management of the Central Bank of Azerbaijan Republic", and adoption of "Operational Investment Strategy on Foreign Currency Assets management of the Central Bank of Azerbaijan Republic", as well as control over foreign currency assets management.

### 30 Risk Management ( Continued)

*Risk Management Unit.* The Risk Management Unit of the Market Operations Department regularly controls the limits 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 Bank are audited annually by the Internal Audit that examines both the adequacy of the procedures and the Bank’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 Bank.

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

The risk related to the Bank’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”. 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”. These limits are defined by the Investment Committee and approved by the Management Board. Ongoing control over risks is exercised by Risk Management Division of the Market Operations Department.

#### **Credit risk**

The Bank 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 Bank’s lending and other transactions with counterparties giving rise to financial assets. 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 Bank, 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 Bank’s assets. At the same time, the maximum amount invested in one foreign commercial bank, except the government and other central banks, is defined as the equivalent of US Dollar 250 million. Subject to the terms of the investment instrument, minimal credit rating is defined as A- (Standard & Poor’s, Fitch) for investment instruments with a term of up to twelve months, and A+ (Standard & Poor’s, Fitch) 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 2017 and 2016, loans granted to credit institutions in monetary policy operations were secured by collaterals. Exposure to credit risk is also managed, in part, by obtaining collateral and corporate and personal guarantees. In order to monitor credit risk exposures, regular reports are produced by the Market Operation Department’s officers based on a structured analysis focusing on the customer’s business and financial performance. Any significant exposure to customers with deteriorating creditworthiness are reported to, and reviewed by, Management Board. Management monitors and follows up on past due balances.

### 30 Risk Management ( Continued)

The maximum exposure to credit risk from financial assets at the reporting date is as follows:

<i>In thousands of Azerbaijani Manats</i>	<b>31/12/2017</b>	<b>31/12/2016</b>
<b>ASSETS</b>		
Cash and cash equivalents		
- Nostro accounts with non-resident banks	4,224,417	4,482,716
- Short-term deposits with non-resident banks	681,396	1,062,473
Special Drawing Rights with the IMF	370,827	364,399
Trading securities	6,250,456	4,212,232
Derivative financial instruments	123	2,191
Investment securities	10,063,245	10,522,619
Loans to banks	400,869	4,061,362
Promissory notes from government	-	244,240
Other financial assets	8,059	121,223
<b>Total maximum exposure</b>	<b>21,999,392</b>	<b>25,073,455</b>

Collateral generally is not held against claims under derivative financial instruments and investments in securities, except when securities are held as part of reverse repurchase and securities borrowing activities.

For the analysis of collateral held against loans to banks and concentration of credit risk in respect of loans to banks refer to note 9.

#### 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 Bank 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.

### 30 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 2017 is as follows:

<i>In thousands of Azerbaijani Manats</i>	<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 2017</b>						
<b>ASSETS</b>						
Cash and cash equivalents	4,905,813	-	-	-	483,813	5,389,626
Special Drawing Rights with the IMF	370,827	-	-	-	-	370,827
Trading securities	6,250,456	-	-	-	-	6,250,456
Investment securities						
- Loans and receivables	236	12,984	-	9,521,880	-	9,535,100
- Securities available-for-sale	-	-	20,191	507,954	-	528,145
Loans to banks	28,654	42,544	208,238	121,433	-	400,869
Derivative Financial Instruments	-	-	-	-	123	123
Other financial assets	7,273	10	60	716	-	8,059
<b>Total Financial Assets</b>	<b>11,563,259</b>	<b>55,538</b>	<b>228,489</b>	<b>10,151,983</b>	<b>483,936</b>	<b>22,483,205</b>
<b>LIABILITIES</b>						
Money issued in circulation	-	-	-	-	8,140,238	8,140,238
Amounts due to government organizations	1,530,229	-	-	-	-	1,530,229
Short-term deposits of resident banks	1,086,980	-	3,302,846	-	-	4,389,826
Amounts due to credit institutions	2,070,918	-	-	-	-	2,070,918
Amounts due to other organizations	36,576	-	-	-	-	36,576
Derivative financial instruments	-	-	-	-	1,012	1,012
Debt securities in issue	920,768	-	-	-	-	920,768
Liabilities on transactions with the IMF	373,299	-	-	-	-	373,299
Amounts due to international financial institutions	4,693	-	-	-	-	4,693
Other financial liabilities	653,531	-	-	-	-	653,531
<b>Total Financial Liabilities</b>	<b>6,676,994</b>	<b>-</b>	<b>3,302,846</b>	<b>-</b>	<b>8,141,250</b>	<b>18,121,090</b>



### 30 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 2016 is as follows:

<i>In thousands of Azerbaijani Manats</i>	<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 2016</b>						
<b>ASSETS</b>						
Cash and cash equivalents	5,545,189	-	-	-	340,024	5,885,213
Special Drawing Rights with the IMF	364,399	-	-	-	-	364,399
Trading securities	4,212,232	-	-	-	-	4,212,232
Derivative financial instruments	-	-	-	-	2,191	2,191
Investment securities						
- Loans and receivables	-	12,984	236	10,052,760	-	10,065,980
- Securities available-for-sale	-	9,849	78,390	368,400	-	456,639
Loans to banks	303,753	244,432	217,364	3,295,813	-	4,061,362
Promissory notes from government	-	-	-	244,240	-	244,240
Other financial assets	120,315	6	66	836	-	121,223
<b>Total Financial Assets</b>	<b>10,545,888</b>	<b>267,271</b>	<b>296,056</b>	<b>13,962,049</b>	<b>342,215</b>	<b>25,413,479</b>
<b>LIABILITIES</b>						
Money issued in circulation	-	-	-	-	6,960,778	6,960,778
Amounts due to government organizations	2,697,269	-	-	-	-	2,697,269
Short-term deposits of resident banks	462,835	1,728,568	3,730,875	-	-	5,922,278
Amounts due to credit institutions	3,225,104	-	-	-	-	3,225,104
Amounts due to other organizations	13,569	-	-	-	-	13,569
Debt securities in issue	108,987	-	-	-	-	108,987
Liabilities on transactions with the IMF	366,589	-	-	-	-	366,589
Amounts due to international financial institutions	4,326	-	-	-	-	4,326
Other financial liabilities	391,435	-	-	-	-	391,435
<b>Total Financial Liabilities</b>	<b>7,270,114</b>	<b>1,728,568</b>	<b>3,730,875</b>	<b>-</b>	<b>6,960,778</b>	<b>19,690,335</b>

### 30 Risk Management (Continued)

#### 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 net 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 2017 and 2016 is as follows:

	31 December 2017		31 December 2016	
	Impact on profit or loss	Impact on equity	Impact on profit or loss	Impact on equity
<i>In thousands of Azerbaijani Manats</i>				
100 bp parallel fall	32,565	39,624	42,133	16,350
100 bp parallel rise	(32,565)	(39,624)	(42,133)	(16,350)

The table below displays average effective interest rates for interest bearing assets and liabilities as at 31 December 2017 and 2016. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	31/12/2017				31/12/2016			
	Average effective interest rate, %				Average effective interest rate, %			
	AZN	USD	EUR	Other currencies	AZN	USD	EUR	Other currencies
<b>Interest bearing assets</b>								
Cash and cash equivalents	-	1.74	(0.36)	-	-	0.84	(0.40)	-
Special Drawing Rights with the IMF	-	-	-	-	-	-	-	0.05
Trading securities	-	1.32	0.75	1.35	-	1.10	0.93	1.63
Investment securities	0.30	-	-	-	0.26	-	0.25	-
Loans to banks	3.85	-	-	-	3.70	2.53	-	-
Promissory notes from government	-	-	-	-	2.0	-	-	-
Other financial assets	6.94	-	-	-	7.50	-	-	-
<b>Interest bearing liabilities</b>								
Short-term deposits of resident banks	7.14	-	-	-	5.13	-	-	-
Debt securities in issue	12.51	-	-	-	14.0	-	-	-

### 30 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 Bank is exposed to risk of changes in exchange rates of main foreign currencies.

The foreign currency assets of the Bank are primarily maintained in US Dollars, Euro 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 28 December 2017. This document is taken as a basis by the Market Operations Department of the Bank, 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 2017:

	USD	EUR	Other foreign currencies	Total
<i>In thousands of Azerbaijani Manats</i>				
<b>ASSETS</b>				
Cash and cash equivalents	4,654,191	702,937	32,498	5,389,626
Special Drawing Rights with the IMF	-	-	370,827	370,827
Trading securities	5,709,038	310,269	231,149	6,250,456
Derivative financial instruments	123	-	-	123
Investment securities	-	-	-	-
Loans to banks	-	-	-	-
Other financial assets	7,101	-	-	7,101
<b>Total assets</b>	<b>10,370,453</b>	<b>1,013,206</b>	<b>634,474</b>	<b>12,018,133</b>
<b>LIABILITIES</b>				
Amounts due to government organizations	519,081	48,441	23,879	591,401
Amounts due to credit institutions	1,295,335	399,865	4,949	1,700,149
Amounts due to other organizations	4,180	-	-	4,180
Derivative financial instruments	1,012	-	-	1,012
Liabilities on transactions with the IMF	-	-	370,933	370,933
Amounts due to international financial institutions	2,811	-	-	2,811
Other financial liabilities	652,890	23	-	652,913
<b>Total liabilities</b>	<b>2,475,309</b>	<b>448,329</b>	<b>399,761</b>	<b>3,323,399</b>
<b>Net recognized position</b>	<b>7,895,144</b>	<b>564,877</b>	<b>234,713</b>	<b>8,694,734</b>
The effect of derivatives	138,853	(90,870)	(47,983)	-
<b>Net position</b>	<b>8,033,997</b>	<b>474,007</b>	<b>186,730</b>	<b>8,694,734</b>

### 30 Risk Management ( Continued)

The following table shows the foreign currency exposure structure of financial assets and liabilities as at 31 December 2016:

	USD	EUR	Other foreign currencies	Total
<i>In thousands of Azerbaijani Manats</i>				
<b>ASSETS</b>				
Cash and cash equivalents	5,351,369	409,369	124,475	5,885,213
Special Drawing Rights with the IMF	-	-	364,399	364,399
Trading securities	3,717,404	356,414	138,414	4,212,232
Derivative financial instruments	2,191	-	-	2,191
Investment securities	-	91,376	-	91,376
Loans to banks	1,121,880	-	-	1,121,880
Other financial assets	19,210	74,682	26,316	120,208
<b>Total assets</b>	<b>10,212,054</b>	<b>931,841</b>	<b>653,604</b>	<b>11,797,499</b>
<b>LIABILITIES</b>				
Amounts due to government organizations	903,057	4,298	878	908,233
Amounts due to credit institutions	2,015,821	315,878	64	2,331,763
Amounts due to other organizations	7,177	19	-	7,196
Liabilities on transactions with the IMF	-	-	366,589	366,589
Amounts due to international financial institutions	3,771	-	-	3,771
Other financial liabilities	379,668	9,902	679	390,249
<b>Total liabilities</b>	<b>3,309,494</b>	<b>330,097</b>	<b>368,210</b>	<b>4,007,801</b>
<b>Net recognized position</b>	<b>6,902,560</b>	<b>601,744</b>	<b>285,394</b>	<b>7,789,698</b>
The effect of derivatives	135,184	(86,140)	(49,044)	-
<b>Net position</b>	<b>7,037,744</b>	<b>515,604</b>	<b>236,350</b>	<b>7,789,698</b>

A weakening of the AZN, as indicated below, against the following currencies at 31 December 2017 and 2016 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 Bank 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.

<i>In thousands of Azerbaijani Manats</i>	31/12/2017	31/12/2016
10% appreciation of USD against AZN (2016: 10%)	803,400	703,774
10% appreciation of EUR against AZN (2016: 10%)	47,401	51,560

A strengthening of the AZN against the above currencies at 31 December 2017 and 2016 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.

### 30 Risk Management ( Continued)

#### Liquidity risk

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

In order to implement the monetary policy, the Bank 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 2017 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.

The maturity analysis of financial instruments at 31 December 2017 is as follows:

<i>In thousands of Azerbaijani Manats</i>	<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>No maturity</b>	<b>Total</b>
<b>LIABILITIES</b>							
Money issued in circulation	-	-	-	-	-	8,140,238	8,140,238
Short-term deposits of resident banks	1,090,624	-	3,465,067	-	-	-	4,555,691
Amounts due to government organizations	1,530,229	-	-	-	-	-	1,530,229
Amounts due to credit institutions	2,070,918	-	-	-	-	-	2,070,918
Amounts due to other organizations	36,576	-	-	-	-	-	36,576
Debt securities in issue	925,610	-	-	-	-	-	925,610
Liabilities on transactions with the IMF	-	-	-	-	-	373,299	373,299
Amounts due to international financial institutions	4,693	-	-	-	-	-	4,693
Gross Settled Derivatives							
- Inflow	(156,164)	-	-	-	-	-	(156,164)
- Outflow	157,176	-	-	-	-	-	157,176
Other financial liabilities	653,531	-	-	-	-	-	653,531
<b>Total potential future payments for financial obligations</b>	<b>6,313,193</b>	<b>-</b>	<b>3,465,067</b>	<b>-</b>	<b>-</b>	<b>8,513,537</b>	<b>18,291,797</b>

### 30 Risk Management ( Continued)

The maturity analysis of financial instruments at 31 December 2016 is as follows:

<i>In thousands of Azerbaijani Manats</i>	<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>No maturity</b>	<b>Total</b>
<b>LIABILITIES</b>							
Money issued in circulation	-	-	-	-	-	6,960,778	6,960,778
Short-term deposits of resident banks	80,474	387,233	5,596,267	-	-	-	6,063,974
Amounts due to government organizations	2,697,269	-	-	-	-	-	2,697,269
Amounts due to credit institutions	3,225,104	-	-	-	-	-	3,225,104
Amounts due to other organizations	13,569	-	-	-	-	-	13,569
Debt securities in issue	109,621	-	-	-	-	-	109,621
Liabilities on transactions with the IMF	-	-	-	-	-	366,589	366,589
Amounts due to international financial institutions	4,326	-	-	-	-	-	4,326
Gross Settled Derivatives							
- Inflow	(213,332)	(70,112)	-	-	-	-	(283,444)
- Outflow	211,683	69,570	-	-	-	-	281,253
Other financial liabilities	391,435	-	-	-	-	-	391,435
<b>Total potential future payments for financial obligations</b>	<b>6,520,149</b>	<b>386,691</b>	<b>5,596,267</b>	<b>-</b>	<b>-</b>	<b>7,327,367</b>	<b>19,830,474</b>

### 30 Risk Management ( Continued)

The table below shows the maturity analysis of non-derivative financial assets at their carrying amounts and based on their contractual maturities, except for assets that 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 an analysis, by expected maturities, of the amounts recognized in the statement of financial position as at 31 December 2017:

<i>In thousands of Azerbaijani Manats</i>	<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>No maturity</b>	<b>Overdue</b>	<b>Total</b>
<b>ASSETS</b>								
Cash and cash equivalents	5,389,626	-	-	-	-	-	-	5,389,626
Special Drawing Rights with the IMF	-	-	-	-	-	370,827	-	370,827
Trading securities	6,250,456	-	-	-	-	-	-	6,250,456
Derivative financial instruments	123	-	-	-	-	-	-	123
Investment securities	-	236	33,175	854,061	9,175,773	-	-	10,063,245
Loans to banks	4,095	3,252	250,782	121,432	-	-	21,308	400,869
Other financial assets	7,270	3	70	72	644	-	-	8,059
<b>Total financial assets</b>	<b>11,651,570</b>	<b>3,491</b>	<b>284,027</b>	<b>975,565</b>	<b>9,176,417</b>	<b>370,827</b>	<b>21,308</b>	<b>22,483,205</b>
<b>LIABILITIES</b>								
Money issued in circulation	-	-	-	-	-	8,140,238	-	8,140,238
Amounts due to government organizations	1,530,229	-	-	-	-	-	-	1,530,229
Short-term deposits of resident banks	1,086,980	-	3,302,846	-	-	-	-	4,389,826
Amounts due to credit institutions	2,070,918	-	-	-	-	-	-	2,070,918
Amounts due to other organizations	36,576	-	-	-	-	-	-	36,576
Derivative financial instruments	1,012	-	-	-	-	-	-	1,012
Debt securities in issue	920,768	-	-	-	-	-	-	920,768
Liabilities on transactions with the IMF	-	-	-	-	-	373,299	-	373,299
Amounts due to international financial institutions	4,693	-	-	-	-	-	-	4,693
Other financial liabilities	653,531	-	-	-	-	-	-	653,531
<b>Total financial liabilities</b>	<b>6,304,707</b>	<b>-</b>	<b>3,302,846</b>	<b>-</b>	<b>-</b>	<b>8,513,537</b>	<b>-</b>	<b>18,121,090</b>
<b>Net position</b>	<b>5,346,863</b>	<b>3,491</b>	<b>(3,018,819)</b>	<b>975,565</b>	<b>9,176,417</b>	<b>(8,142,710)</b>	<b>21,308</b>	<b>4,362,115</b>

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

### 30 Risk Management ( Continued)

The table below shows an analysis, by expected maturities, of the amounts recognized in the statement of financial position as at 31 December 2016:

<i>In thousands of Azerbaijani Manats</i>	<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>No maturity</b>	<b>Overdue</b>	<b>Total</b>
<b>ASSETS</b>								
Cash and cash equivalents	5,885,213	-	-	-	-	-	-	5,885,213
Special Drawing Rights with the IMF	-	-	-	-	-	364,399	-	364,399
Trading securities	4,212,232	-	-	-	-	-	-	4,212,232
Derivative financial instruments	1,989	202	-	-	-	-	-	2,191
Investment securities	-	-	101,459	465,783	9,955,377	-	-	10,522,619
Loans to banks	34,192	253,195	461,796	987,230	2,308,583	-	16,366	4,061,362
Promissory notes from government	-	-	-	244,240	-	-	-	244,240
Other financial assets	120,315	-	72	102	734	-	-	121,223
<b>Total financial assets</b>	<b>10,253,941</b>	<b>253,397</b>	<b>563,327</b>	<b>1,697,355</b>	<b>12,264,694</b>	<b>364,399</b>	<b>16,366</b>	<b>25,413,479</b>
<b>LIABILITIES</b>								
Money issued in circulation	-	-	-	-	-	6,960,778	-	6,960,778
Amounts due to government organizations	2,697,269	-	-	-	-	-	-	2,697,269
Short-term deposits of resident banks	80,329	382,506	5,459,443	-	-	-	-	5,922,278
Amounts due to credit institutions	3,225,104	-	-	-	-	-	-	3,225,104
Amounts due to other organizations	13,569	-	-	-	-	-	-	13,569
Debt securities in issue	108,987	-	-	-	-	-	-	108,987
Liabilities on transactions with the IMF	-	-	-	-	-	366,589	-	366,589
Amounts due to international financial institutions	4,326	-	-	-	-	-	-	4,326
Other financial liabilities	391,435	-	-	-	-	-	-	391,435
<b>Total financial liabilities</b>	<b>6,521,019</b>	<b>382,506</b>	<b>5,459,443</b>	<b>-</b>	<b>-</b>	<b>7,327,367</b>	<b>-</b>	<b>19,690,335</b>
<b>Net position</b>	<b>3,732,922</b>	<b>(129,109)</b>	<b>(4,896,116)</b>	<b>1,697,355</b>	<b>12,264,694</b>	<b>(6,962,968)</b>	<b>16,366</b>	<b>5,723,144</b>



### **31 Management of Capital**

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

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

No external capital requirements exist for the Bank 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").

As disclosed in Note 23, at 31 December 2017 the authorized and fully paid charter fund of the Bank was AZN 500,000 thousand (31 December 2016: AZN 500,000 thousand).

The Bank has made total profit in the amount of AZN 3,513,453 thousand (2016: AZN 401,664 thousand) for the year ended 31 December 2017. Based on the article 12 of the Law of the Republic of Azerbaijan on the Central Bank, reporting year profit shall, in the first place, be directed to formation of capital reserves of the Central Bank. Upon formation of capital reserves and based on approved Central Bank's annual financial statements by the auditor's opinion, clear balance of the realized profit shall be transferred to the targeted budget fund established pursuant to the Law of the Republic of Azerbaijan "On Budget System" to ensure the fulfillment of government guaranteed debt obligations by coordinating with the relevant executive authority based upon an appeal by the relevant executive authority.

During 2017, the Bank transferred AZN 4,630,064 thousands to the State Budget based on approval of relevant executive authority.

Promissory notes (debt securities) issued by the Ministry of Finance for the purpose of covering the capital shortfall of the Central Bank as of 31 December 2008 have been recalled from 1 March 2017, and debt securities at the fair value of AZN 244,987 thousand were discharged.

### **32 Contingencies**

#### **Litigations**

In the ordinary course of business, the Bank 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.

### **33 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 Bank includes the Mortgage and Credit Guarantee Fund of the Republic of Azerbaijan, Ministry of Finance, International Bank of Azerbaijan, State Oil Fund of Azerbaijan, Aqrarkredit JSCO, Azerbaijan Deposit Insurance Fund and AzerTurk Bank.

### 33 Related Party Transactions (Continued)

#### Transactions with the members of the Management

Total remuneration included in personnel expenses for the years ended 31 December 2017 and 2016 is as follows:

<i>In thousands of Azerbaijani Manats</i>	<b>2017</b>	<b>2016</b>
Short-term employee benefits (salary)	836	869

#### 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.

The outstanding balances and the related average effective interest rates as at 31 December 2017 and related profit or loss amounts of transactions for the year ended 31 December 2017 with other related parties are as follows:

	Government bodies of Azerbaijan		Management Board		Entities under government control		Total
	In thousands of Azerbaijani Manats	Effective interest rate, %	In thousands of Azerbaijani Manats	Effective interest rate, %	In thousands of Azerbaijani Manats	Effective interest rate, %	In thousands of Azerbaijani Manats
<b>Statement of financial position</b>							
<b>ASSETS</b>							
Investment securities	52,955	0.3	-	-	10,010,290	from 0.15 to 3.2	10,063,245
<b>LIABILITIES</b>							
Amounts due to government organizations	1,382,601	-	-	-	147,628	-	1,530,229
Short-term deposits of resident banks		-	-	-	3,349,311	From 5.0 to 15.0	3,349,311
Amounts due to credit institutions		-	-	-	150,636	-	150,636
Amounts due to other organizations	26,027	-	-	-	10,550	-	36,577
Liabilities on transactions with the IMF	373,299	-	-	-	-	-	373,299
Amounts due to international financial institutions	4,693	-	-	-	-	-	4,693
<b>Profit (loss)</b>							
Interest income	1,572	-	-	-	33,881	-	35,453
Interest expense	-	-	-	-	(167,701)	-	(167,701)
Fee and commission income	1,082	-	-	-	4,243	-	5,325

### 33 Related Party Transactions (Continued)

The outstanding balances and the related average effective interest rates as at 31 December 2016 and related profit or loss amounts of transactions for the year ended 31 December 2016 with other related parties are as follows:

	Government bodies of Azerbaijan		Management Board		Entities under government control		Total
	In thousands of Azerbaijani Manats	Effective interest rate, %	In thousands of Azerbaijani Manats	Effective interest rate, %	In thousands of Azerbaijani Manats	Effective interest rate, %	In thousands of Azerbaijani Manats
<b>Statement of financial position</b>							
<b>ASSETS</b>							
Investment securities	94,108	from 0.15 to 4.25	-	-	10,337,135	from 0.15 to 3	10,431,243
Loans to banks	-	-	-	-	-	-	-
Principal balance	-	-	-	-	1,989,335	from 0.15 to 7	1,989,335
Allowance for impairment	-	-	-	-	(109,762)	-	(109,762)
Promissory notes from government	244,240	2.00	-	-	-	-	244,240
<b>LIABILITIES</b>							
Amounts due to government organizations	2,480,049	-	-	-	217,220	-	2,697,269
Short-term deposits of resident banks	-	-	-	-	4,878,950	5	4,878,950
Amounts due to credit institutions	-	-	-	-	274,790	-	274,790
Amounts due to other organizations	5,625	-	-	-	7,944	-	13,569
Liabilities on transactions with the IMF	366,589	-	-	-	-	-	366,589
Amounts due to international financial institutions	4,326	-	-	-	-	-	4,326
<b>Profit (loss)</b>							
Interest income	5,022	-	-	-	104,769	-	109,791
Interest expense	-	-	-	-	(234,711)	-	(234,711)
Fee and commission income	328	-	-	-	2,218	-	2,546
Other general and administrative expenses	-	-	-	-	(672)	-	(672)

### 34 Financial Assets and Liabilities: Fair Values and Accounting Classifications

#### Accounting classifications and fair values

For the purposes of measurement, IAS 39 “Financial Instruments: Recognition and Measurement”, classifies financial assets into the following categories: (a) loans and receivables; (b) available-for-sale financial assets; (c) financial assets held to maturity and (d) financial assets at fair value through profit or loss (“FVTPL”). Financial assets at fair value through profit or loss have two sub-categories: (i) assets designated as such upon initial recognition, and (ii) those classified as held for trading. The following table provides a reconciliation of financial assets with these measurement categories as of 31 December 2017:

<i>In thousands of Azerbaijani Manats</i>	<b>Loans and receivables</b>	<b>Available-for-sale assets</b>	<b>Trading assets</b>	<b>Total</b>
<b>ASSETS</b>				
<b>Cash and cash equivalents</b>	5,389,626	-	-	5,389,626
<b>Trading securities</b>				
- Agency notes	-	-	3,257,083	3,257,083
- Corporate bonds	-	-	774,364	774,364
- US Treasury notes	-	-	415,644	415,644
- Government bonds	-	-	705,194	705,194
- Municipal bonds	-	-	205,263	205,263
- Notes issued by international financial institutions	-	-	835,821	835,821
- UK Treasury notes	-	-	57,087	57,087
<b>Investment securities</b>				
- Mortgage and Credit Guarantee Fund of the Republic of Azerbaijan	-	528,145	-	528,145
- Ministry of Finance of the Republic of Azerbaijan	52,955	-	-	52,955
- JSCO Aqrarkredit	9,482,145	-	-	9,482,145
<b>Loans to banks</b>				
- Refinancing loans	398,883	-	-	398,883
- Lender of last resort loans	1,986	-	-	1,986
<b>Special Drawing Rights with the IMF</b>	370,827	-	-	370,827
<b>Derivative financial instruments</b>	-	-	123	123
<b>Other financial assets:</b>			-	
- Receivables from trade securities disposed	7,101	-	-	7,101
- Loans to employees	789	-	-	789
- Amounts in course of settlement	169	-	-	169
<b>TOTAL FINANCIAL ASSETS</b>	<b>15,704,481</b>	<b>528,145</b>	<b>6,250,579</b>	<b>22,483,205</b>

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

The following table provides a reconciliation of financial assets with measurement categories at 31 December 2016:

<i>In thousands of Azerbaijani Manats</i>	<b>Loans and receivables</b>	<b>Available-for- sale assets</b>	<b>Trading assets</b>	<b>Total</b>
<b>ASSETS</b>				
<b>Cash and cash equivalents</b>	5,885,213	-	-	5,885,213
<b>Trading securities</b>				
- Agency notes	-	-	2,142,167	2,142,167
- Corporate bonds	-	-	579,873	579,873
- US Treasury notes	-	-	450,673	450,673
- Government bonds	-	-	434,022	434,022
- Municipal bonds	-	-	338,580	338,580
- Notes issued by international financial institutions	-	-	222,522	222,522
- UK Treasury notes	-	-	44,395	44,395
<b>Investment securities</b>				
- Notes issued by international financial institutions	-	91,376	-	91,376
- Mortgage and Credit Guarantee Fund of the Republic of Azerbaijan	-	337,094	-	337,094
- Ministry of Finance of the Republic of Azerbaijan	65,939	28,169	-	94,108
- JSCO Aqrarkredit	10,000,041	-	-	10,000,041
<b>Derivative financial instruments</b>				
<b>Loans to banks</b>	-	-	2,191	2,191
- Loans under government guarantee	2,406,515	-	-	2,406,515
- Refinancing loans	1,100,152	-	-	1,100,152
- Subordinated loans	533,578	-	-	533,578
- Lender of last resort loans	21,117	-	-	21,117
Promissory notes from government	244,240	-	-	244,240
<b>Special Drawing Rights with the IMF</b>				
	364,399	-	-	364,399
<b>Other financial assets:</b>				
- Receivables from sale of foreign currencies	104,016	-	-	104,016
- Receivables from trade securities disposed	16,243	-	-	16,243
- Loans to employees	908	-	-	908
- Amounts in course of settlement	56	-	-	56
<b>TOTAL FINANCIAL ASSETS</b>	<b>20,742,417</b>	<b>456,639</b>	<b>4,214,423</b>	<b>25,413,479</b>

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

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 Bank 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.

The Bank plays a unique role in providing concessionary loans to banks and other financial institutions in order to fund socio-economic projects, as well as providing financial support for the real sector of the economy, balancing macroeconomic and structural policies with the considerations for the economy of Azerbaijan. Management considers that concessionary loans are issued in a special market segment in which commercial lenders do not operate. Issued loans are backed by government guarantees and have unique characteristics in terms of interest rates and maturities. Taking these particular circumstances into account management believes that the carrying amount of concessionary loans that are accounted for at amortized cost represents a reasonable estimate of their fair value.

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 Bank 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.

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 Bank 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.

For more complex instruments, the Bank uses proprietary valuation models. Some or all of the significant inputs into these models may not be observable in the market, and are derived from market prices or rates or are estimated based on assumptions. Example of instruments involving significant unobservable inputs include certain loans and securities for which there is no active market, certain over the counter structured derivatives, and retained interests in securitizations.

There were no changes in valuation techniques during the year ended 31 December 2017 (2016: none).

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

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 Bank 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 Bank 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 Bank 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;
- 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 2017, 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:

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

<i>In thousands of Azerbaijani Manats</i>	<b>Level 1</b>	<b>Level 2</b>	<b>Total</b>
<b>Financial assets</b>			
Trading securities			
- Agency notes	3,257,083	-	3,257,083
- Corporate bonds	774,364	-	774,364
- US Treasury notes	415,644	-	415,644
- Government bonds	705,194	-	705,194
- Municipal bonds	205,263	-	205,263
- Notes issued by international financial institutions	835,821	-	835,821
- UK Treasury notes	57,087	-	57,087
Derivative financial instruments	-	123	123
Available-for-sale financial assets			
- Mortgage and Credit Guarantee Fund of the Republic of Azerbaijan	528,145	-	528,145
	<b>6,778,601</b>	<b>123</b>	<b>6,778,724</b>

#### LIABILITIES AT FAIR VALUE

##### FINANCIAL LIABILITIES

Derivative financial instruments	-	1,012	1,012
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The table below analyses financial instruments measured at fair value at 31 December 2016, 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:

<i>In thousands of Azerbaijani Manats</i>	<b>Level 1</b>	<b>Level 2</b>	<b>Total</b>
<b>Financial assets</b>			
Trading securities			
- Agency notes	2,142,167	-	2,142,167
- Corporate bonds	579,873	-	579,873
- US Treasury notes	450,673	-	450,673
- Government bonds	434,022	-	434,022
- Municipal bonds	338,580	-	338,580
- Notes issued by international financial institutions	222,522	-	222,522
- UK Treasury notes	44,395	-	44,395
Derivative financial instruments	-	2,191	2,191
Available-for-sale financial assets			
- Notes issued by international financial institutions	91,376	-	91,376
- Mortgage and Credit Guarantee Fund of the Republic of Azerbaijan	337,094	-	337,094
- Ministry of Finance of the Republic of Azerbaijan	28,169	-	28,169
	<b>4,668,871</b>	<b>2,191</b>	<b>4,671,062</b>

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

Derivative products valued using a valuation technique with market-observable inputs are mainly currency foreign exchange contracts. The fair value of forward foreign exchange 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.



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

#### 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 2017, by the level in the fair value hierarchy:

<i>In thousands of Azerbaijani Manats</i>	<u>Level 1 fair value</u>	<u>Level 2 fair value</u>	<u>Level 3 fair value</u>	<u>Carrying value</u>
<b>ASSETS</b>				
Cash and cash equivalents	-	5,389,626	-	5,389,626
SDRs with the IMF	-	370,827	-	370,827
Loans to banks	-	356,215	-	400,869
Investment securities				
- Loans and advances	-	52,955	9,482,145	9,535,100
Other financial assets	-	8,059	-	8,059
<b>LIABILITIES</b>				
Money issued in circulation	8,140,238	-	-	8,140,238
Short-term deposits of resident banks	-	4,389,826	-	4,389,826
Amounts due to government organizations	-	1,530,229	-	1,530,229
Amounts due to credit institutions	-	2,070,918	-	2,070,918
Amounts due to other organizations	-	36,576	-	36,576
Debt securities in issue	-	920,768	-	920,768
Liabilities on transactions with the IMF	-	373,299	-	373,299
Amounts due to international financial institutions	-	4,693	-	4,693
Other financial liabilities	-	653,531	-	653,531

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

The table below analyses financial instruments not measured at fair value at 31 December 2016, by the level in the fair value hierarchy:

<i>In thousands of Azerbaijani Manats</i>	<b>Level 1 fair value</b>	<b>Level 2 fair value</b>	<b>Level 3 fair value</b>	<b>Carrying value</b>
<b>ASSETS</b>				
Cash and cash equivalents	--	5,885,213	-	5,885,213
SDRs with the IMF	-	364,399	-	364,399
Loans to banks	-	2,389,877	-	4,061,362
Investment securities			-	
- Loans and advances	-	65,939	10,000,041	10,065,980
Promissory notes from government	-	229,847	-	244,240
Other financial assets	-	121,223	-	121,223
<b>LIABILITIES</b>				
			-	
Money issued in circulation	6,960,778	-	-	6,960,778
Short-term deposits of resident banks	-	5,922,278	-	5,922,278
Amounts due to government organizations	-	2,697,269	-	2,697,269
Amounts due to credit institutions	-	3,225,104	-	3,225,104
Amounts due to other organizations	-	13,569	-	13,569
Debt securities in issue	-	108,987	-	108,987
Liabilities on transactions with the IMF	-	366,589	-	366,589
Amounts due to international financial institutions	-	4,326	-	4,326
Other financial liabilities	-	391,435	-	391,435

The fair values in level 2 and 3 fair value hierarchies were estimated using the discounted cash flows valuation technique. Significant valuation inputs are presented in Note 8. 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.