Central Bank of the Republic of Azerbaijan
Financial Statements

for the year ended 31 December 2018

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Independent Auditor's Report

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

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2018, 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 2018;
- the statement of profit and loss and other 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.

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).

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 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

22 April 2019

Baku, the Republic of Azerbaijan

In thousands of Azerbaijani Manats	Note	31 December 2018	31 December 2017
ASSETS			
Cash and cash equivalents	5	4,894,585	5,389,626
Special Drawing Rights with the IMF	6	361,778	370,827
Trading securities _[For comparatives only]_	7	-	6,250,456
Derivative financial instruments	8	421	123
Investment securities _[For comparatives only]_	9	-	10,063,245
Debt securities _[For current period only]_	10	16,337,898	-
Loans to banks	11	310,867	400,869
Property, plant and equipment	12	69,679	50,390
Intangible assets	13	51,174	44,433
Other financial assets	14	3,811	8,059
Other assets	15	38,766	57,526
TOTAL ASSETS		**22,068,979**	**22,635,554**
LIABILITIES			
Money issued in circulation	16	8,364,129	8,140,238
Short-term deposits of resident banks	17	3,378,509	4,389,826
Amounts due to government organisations	18	1,617,684	1,530,229
Amounts due to credit institutions	19	2,832,777	2,070,918
Amounts due to other organisations	20	35,758	36,576
Debt securities in issue	21	1,005,552	920,768
Liabilities on transactions with the IMF	6	364,503	373,299
Amounts due to international financial institutions	22	2,273	4,693
Derivative financial instruments	8	344	1,012
Other financial liabilities	23	6,774	653,531
Other liabilities	24	3,214	1,292
TOTAL LIABILITIES		**17,611,517**	**18,122,382**
EQUITY			
Charter capital	25	500,000	500,000
Capital reserves	25	500,000	500,000
Revaluation reserve for available-for-sale financial assets _[For comparatives only]_		-	(281)
Revaluation reserve for securities at FVOCI _[For current period only]_		9,122	-
Retained earnings		3,448,340	3,513,453
TOTAL EQUITY		**4,457,462**	**4,513,172**
TOTAL LIABILITIES AND EQUITY		**22,068,979**	**22,635,554**

The financial statements were approved by Management on 22 April 2019 and were signed on its behalf by:

Mr. Alim Guliyev
First Deputy Governor

Ms. Sevda Amirova
Director of Financial Management Department/
Chief Accountant

In thousands of Azerbaijani Manats	Note	2018	2017
Interest income	26	201,228	159,080
Interest expense	26	(301,045)	(282,126)
Net interest expense		**(99,817)**	**(123,046)**
Fee and commission income	27	16,378	14,126
Fee and commission expense	28	(4,765)	(3,871)
Transfers from the State Oil Fund of Azerbaijan	29	-	3,949,485
Losses on recognition of restructured loans at fair value		(3,080)	(29,848)
Net gains from trading securities _[For comparatives only]_		-	28,859
Net losses from debt securities at fair value through profit or loss _[For current period only]_		(2,729)	-
Net gains from disposals of securities measured at fair value through other comprehensive income _[For current period only]_		47,370	-
Net losses from disposals of available-for-sale assets _[For comparatives only]_		-	(3,403)
Net gains/(losses) from derivative financial instruments		23,492	(14,726)
Net gains from investments in money market funds at fair value through profit or loss		11,394	-
Net losses from foreign exchange translation	30	(52,334)	(204,006)
Impairment of debt securities at fair value through other comprehensive income _[For current period only]_		(153)	-
Net gains from trading in currencies		1,050	3,987
Other operating income		8,641	2,467
Recovery of/(provision for) credit loss allowance	11	60,347	(42,013)
Administrative and other operating expenses	31	(66,110)	(64,558)
(LOSS)/PROFIT FOR THE YEAR		**(60,316)**	**3,513,453**
Other comprehensive income / (loss):			
Items that may be reclassified subsequently to profit or loss:			
Revaluation of available-for-sale investments: _[For comparatives only]_	9		
- Net change in fair value		-	2,301
Debt securities at fair value through other comprehensive income: _[For current period only]_	10		
- Net gains arising during the year		59,875	-
- Gains reclassified to profit or loss upon disposal		(47,370)	-
Other comprehensive income for the year		**12,505**	**2,301**
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR		**(47,811)**	**3,515,754**

In thousands of Azerbaijani Manats	Note	Charter fund	Capital reserves	Revaluation reserve for available-for-sale financial assets *[For comparatives only]*	Revaluation reserve for securities at FVOCI	Retained earnings	Total equity
Balance at 1 January 2017		**500,000**	**500,000**	**(2,582)**	**-**	**4,875,051**	**5,872,469**
Profit for the year		-	-	-	-	3,513,453	3,513,453
Other comprehensive income							
Items that are or may be reclassified subsequently to profit or loss:							
Net change in fair value of available-for-sale financial assets		-	-	2,301	-	-	2,301
Total items that are or may be reclassified subsequently to profit or loss		-	-	2,301	-	-	2,301
Total other comprehensive income		**-**	**-**	**2,301**	**-**	**-**	**2,301**
Total comprehensive income for the year		**-**	**-**	**2,301**	**-**	**3,513,453**	**3,515,754**
Transfer to State Budget		-	-	-	-	(4,875,051)	(4,875,051)
Balance at 31 December 2017		**500,000**	**500,000**	**(281)**	**-**	**3,513,453**	**4,513,172**
Adoption of IFRS 9:							
- Reclassification of debt investment securities from available-for-sale to FVOCI	4	-	-	281	(281)	-	-
- Recognition of ECL under IFRS 9 for debt financial assets at FVOCI	4	-	-	-	-	(261)	(261)
- Remeasurement to fair value for reclassified financial instruments under IFRS 9	4	-	-	-	(3,102)	3,363	261
- Recognition of ECL under IFRS 9 for debt financial assets at amortized cost	4	-	-	-	-	(7,899)	(7,899)
Restated balance at 1 January 2018		**500,000**	**500,000**	**-**	**(3,383)**	**3,508,656**	**4,505,273**
Loss for the year		-	-	-	-	(60,316)	(60,316)
Other comprehensive income							
Items that are or may be reclassified subsequently to profit or loss:							
Net change in fair value of debt instruments at FVOCI		-	-	-	59,875	-	59,875
Net amount reclassified to the income statement on sale of debt instruments at FVOCI		-	-	-	(47,370)	-	(47,370)
Total items that are or may be reclassified subsequently to profit or loss		-	-		12,505	-	12,505
Total other comprehensive income		**-**	**-**	**-**	**12,505**	**-**	**12,505**
Total comprehensive income for the year		**-**	**-**	**-**	**12,505**	**(60,316)**	**(47,811)**
Balance as at 31 December 2018		**500,000**	**500,000**	**-**	**9,122**	**3,448,340**	**4,457,462**

In thousands of Azerbaijani Manats	Note	2018	2017
Cash flows from operating activities			
Interest receipts		158,182	227,308
Interest payments		(301,425)	(277,336)
Fee and commission receipts		16,378	14,126
Fee and commission payments		(4,765)	(3,871)
Net (payments)/receipts from trading in trading securities		(16,015)	49,945
Net receipts/(payments) from derivative financial instruments		22,525	(11,646)
Net receipts from trading in foreign currencies		1,050	3,987
Other operating income receipts		8,639	2,467
Net gains from investments in money market funds at fair value through profit or loss		11,393	-
Administrative and other operating expenses payments		(53,347)	(51,294)
Cash flows used in operating activities before changes in operating assets and liabilities		**(157,385)**	**(46,314)**
(Increase)/decrease in operating assets			
Debt securities at fair value through profit or _loss [For current period only]_		(901,737)	-
Trading securities _[For comparatives only]_	7	-	(1,837,423)
Special Drawing Rights with the IMF		149	89
Loans to banks		167,031	3,527,698
Other financial assets		(1,957)	106,467
Other assets		18,760	(5,657)
Increase/(decrease) in operating liabilities			
Money issued in circulation		223,891	1,179,460
Short-term deposits of resident banks		(1,011,317)	(1,532,452)
Amounts due to government organisations		91,175	(1,115,821)
Amounts due to credit institutions		768,413	(1,093,012)
Amounts due to other organisations		68	23,578
Debt securities in issue		85,161	807,023
Other financial liabilities		999	(117,987)
Other liabilities		1,870	8,618
Net cash used in operating activities		**(714,879)**	**(95,733)**
Cash flows from investing activities			
Acquisition of debt securities at fair value through other comprehensive income _[For current period only]_	10	(21,961,347)	-
Proceeds from disposal and redemption of debt securities at fair value through other comprehensive income _[For current period only]_	10	22,224,802	-
Proceeds from redemption of debt securities carried at amortised cost _[For current period only]_	10	12,986	-
Purchases of investment securities _[For comparatives only]_	9	-	(568,508)
Sale and repayment of investment securities _[For comparatives only]_	9	-	1,029,926
Purchases of property, equipment	12	(26,068)	(2,366)
Purchases of intangible assets	13	(12,725)	(7,008)
Cash flows from investing activities		**237,648**	**452,044**
Cash flows from financing activities			
Transfers from the "State Oil Fund of Azerbaijan"	29	-	3,949,485
Transfers to the State Budget		-	(4,630,064)
Proceeds from IMF borrowings		112	198
(Repayment of)/ proceeds from amounts due to international financial institutions		(2,416)	468
Cash flows used in financing activities		**(2,304)**	**(679,913)**
Net decrease in cash and cash equivalents		**(479,535)**	**(323,602)**
Effect of exchange rate changes on cash and cash equivalents		(15,506)	(171,985)
Cash and cash equivalents at the beginning of the year		5,389,626	5,885,213
Cash and cash equivalents at the end of the year	5	**4,894,585**	**5,389,626**

1 Background

These financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2018 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 organisations for the purpose of cooperation in monetary and foreign exchange policy.

At 31 December 2018, the Management Board (the "Board") of the Bank was composed of the following members:

Name	**Position**
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 (2017: six). Average number of employees in 2018 was 569 (2017: 562).

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

The monetary policy of the Central Bank of the Republic of Azerbaijan in 2018 was oriented towards achievement of price stability and shaping the favourable socio-economic environment for people and business activity by maintaining low and stable inflation.

During the year, inflation was stable at a low single-digit rate, the economic growth remained positively zoned, the exchange rate of the national currency was sustainable, positive trends emerged in the foreign sector, balance of payments surplus contributed to the increased strategic foreign currency reserves of the country.

As part of monetary policy implementation in 2018, the Central Bank sought to realize the issues described in the "Statement of the CBA on main directions of the monetary policy for 2018 and the medium term". In order to ensure price stability, which is the upmost monetary policy target, relevant measures were taken to maintain the inflation gap at 6-8%. During 2018, inflation fell at a higher than expected rate stabilizing at a single-digit rate of 2.3%. The main factors with a downward effect on inflation included a sustained exchange rate of Manat, money supply management at an optimal level and low inflation expectations..

Appropriate decisions have been made towards mitigation of monetary policy, by taking into account the significantly low inflation expectations throughout the year.

In view of this, the Central Bank indirectly upheld social welfare, economic growth and employment by continuing its stabilizing monetary and exchange rate policy.

2 Basis of Preparation

Basis of measurement

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention, as modified by the initial recognition of financial instruments based on fair value and by the revaluation of investment properties, financial instruments categorised at fair value through profit or loss ("FVTPL") and at fair value through other comprehensive income ("FVOCI"). The principal accounting policies applied in the preparation of these financial statements are set out below. Apart from the accounting policy changes resulting from the adoption of IFRS 9 effective from 1 January 2018, these policies have been consistently applied to all the periods presented, unless otherwise stated. Refer to Notes 4 and 37. The principal accounting policies in respect of financial instruments applied until 31 December 2017 are presented in Note 37.

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. 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.

ECL measurement. Measurement of ECLs is a significant estimate that involves determination of relevant methodology, models and data inputs. Details of ECL measurement are disclosed in Note 32 . The following components have a major impact on credit loss allowance: definition of default, significant increase in credit risk ("SICR"), probability of default ("PD"), exposure at default ("EAD") and loss given default ("LGD"). The Bank regularly reviews and validates the models and inputs to the models to reduce any differences between expected credit loss estimates and actual credit loss experience.

2 Basis of Preparation (Continued)

Since the majority of financial instruments of the Bank are in Stage 1 (refer to Note 3) and maturity of the remaining instruments is below than 12 months, the Bank calculates only 12 months ECL for all financial assets.

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

Business model assessment. The Bank classifies financial assets on the basis of the business model for managing the financial assets and cash flow characteristics. The business model is assessed on the basis of actual performance of the Bank for holding and managing financial assets at a level of financial assets groups and portfolios (sub-portfolio), as well as Management's judgements. When assessing a business model, factors such as the purpose, strategic structure, risk parameters of financial assets, the relative significance of sources of income derived from the assets and the frequency and specific weight of purchase (sale) transactions to the portfolio are taken into account. In addition, future business expectations are also considered when determining the business model.

The Bank classifies financial assets as "hold to collect", "hold to collect and sell" and "other business" model which is not attributable to any of these models. Selling financial assets for i) monetary policy purposes, ii) re-balancing, iii) achieving higher returns; and iv) investment restrictions is an integral part of "hold to collect and sell" business model.

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

The Bank considered contractual terms that change the timing or amount of contractual cash flows. The SPPI criterion is met if a contract allows early settlement and the prepayment amount substantially represents principal and accrued interest.

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

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 2018, exchange rates for translation of foreign currency balances were as follows: US Dollar 1 = AZN 1.7000, Euro 1= AZN 1.9468, Pound Sterling 1 = AZN 2.1529 and Special Drawing Right 1 = AZN 2.3573 (31 December 2017: 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).

3 Significant Accounting Policies (Continued)

Financial instruments - definitions and principles of recognition of financial instruments

Financial instrument is any contract that gives rise to a financial asset of the Bank and a financial liability of another entity (bank).

Debt instrument is an instrument that meets the definition of a financial obligation from the issuer's point of view, such as loans and fixed income securities of the Bank..

Fair value is 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. The best evidence of fair value is price in an active market.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortised cost ("AC") is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any allowance for expected credit losses. Accrued interest includes amortisation of any premium or discount to maturity amount at initial recognition using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium, are not presented separately and are included in the carrying values of related items in the statement of financial position.

The effective interest method is a method of allocating interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the gross carrying amount of the financial instrument.

The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date.

Expected credit losses ("ECL") – the weighted average of credit losses with the respective risks of a default.

12-month expected credit losses – the portion of lifetime expected credit losses that represent the expected credit losses that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Lifetime expected credit losses – the expected credit losses that result from all possible default events over the expected life of a financial instrument.

Financial instruments – initial recognition.

Upon initial recognition, the Bank classifies its financial assets into the following categories:

At amortised cost (AC)
At fair value through other comprehensive income (FVOCI), and
At fair value through profit or loss (FVPL).

Financial assets at FVTPL are initially recorded at fair value. Financial assets at AC and at FVOCI are initially recorded at fair value adjusted for transaction costs.

Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price. After the initial recognition, an ECL allowance is recognised for financial assets measured at AC and debt instruments measured at FVOCI.

Financial assets – classification and subsequent measurement – measurement categories. The classification and subsequent measurement of debt financial assets depends on: (i) the Bank's business model for managing the related assets portfolio and (ii) the cash flow characteristics of the asset.

3 Significant Accounting Policies (Continued)

Financial assets – classification and subsequent measurement – cash flow characteristics. Where the business model is to hold assets to collect contractual cash flows or to hold contractual cash flows and sell, the Bank assesses whether the cash flows represent solely payments of principal and interest ("SPPI"). In making this assessment, the Bank considers whether the contractual cash flows are consistent with a basic lending arrangement, i.e. interest includes only consideration for credit risk, time value of money, other basic lending risks and profit margin.

The SPPI assessment is performed on initial recognition of an asset and it is not subsequently reassessed. Refer to Note 2 for critical judgements applied by the Bank in performing the SPPI test for its financial assets.

Financial assets – reclassification. Financial instruments are reclassified only when the business model for managing the portfolio as a whole changes. The reclassification has a prospective effect and takes place from the beginning of the first reporting period that follows after the change in the business model.

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

Debt instruments measured at AC are presented in the statement of financial position net of the allowance for ECL. For debt instruments at FVOCI, allowance for ECL is recognised in profit or loss and other changes in carrying value are recognised in OCI.

The Bank applies a three stage model for impairment, based on changes in credit quality since initial recognition. A financial instrument that is not credit-impaired on initial recognition is classified in Stage 1. Financial assets in Stage 1 have their ECL measured at an amount equal to the portion of lifetime ECL that results from default events possible within the next 12 months or until contractual maturity, if shorter ("12 Months ECL"). If the Bank identifies a significant increase in credit risk ("SICR") since initial recognition, the asset is transferred to Stage 2 and its ECL is measured based on ECL on a lifetime basis, that is, up until contractual maturity but considering expected prepayments, if any ("Lifetime ECL"). Refer to Note 32 for a description of how the Bank determines when a SICR has occurred. If the Bank determines that a financial asset is credit-impaired, the asset is transferred to Stage 3 and its ECL is measured as a Lifetime ECL. The Bank's definition of credit impaired assets and definition of default is explained in Note 32. Note 32 provides information about inputs, assumptions and estimation techniques used in measuring ECL, including an explanation of how the Bank incorporates forward-looking information in the ECL models.

Financial assets – write-off. Financial assets are written-off, in whole or in part, when the Bank exhausted all practical recovery efforts in accordance with legislation. The write-off represents a derecognition event.

Financial assets – derecognition. The Bank derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Bank has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership, but not retaining control. 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.

Financial assets – modification. The Bank modifies the contractual terms of the financial assets and assesses whether the modification of contractual cash flows is substantial considering, among other, the following factors: significant change in interest rate, credit enhancement that significantly affects the credit risk associated with the asset or a significant extension of a loan when the borrower is not in financial difficulties.

3 Significant Accounting Policies (Continued)

If the modified terms are substantially different, the rights to cash flows from the original asset expire and the Bank derecognises the original financial asset and recognises a new asset at its fair value. The date of renegotiation is considered to be the date of initial recognition for subsequent impairment calculation purposes, including determining whether a SICR has occurred. Any difference between the carrying amount of the original asset derecognised and fair value of the new substantially modified asset is recognised in profit or loss.

Financial liabilities – measurement categories. Other financial liabilities are classified at AC, except for financial liabilities at FVTPL (derivatives).

Financial liabilities – derecognition. The Bank 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 – i.e 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.

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 as well as investments on money market funds. Cash and cash equivalents other than investments on money market funds are carried at amortized cost because: (i) they are held for collection of contractual cash flows and those cash flows represent SPPI, and (ii) they are not designated at FVTPL. The investments on money market funds are required to be measured at FVTPL in accordance with IFRS 9 because the units give rise to cash flows that are not solely payments of principal and interest.

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

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

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

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.

3 Significant Accounting Policies (Continued)

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.

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.

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 organisations and other organisations

Amounts due to government organisations and other organisations 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.

3 Significant Accounting Policies (Continued)

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.

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

The International Monetary Fund ("IMF") is an international organisation 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 6 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.

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 recognized in profit or loss of the period in which it becomes receivable.

4 Adoption of New or Revised Standards and Interpretations

Adoption of IFRS 9 "Financial Instruments". The Bank adopted IFRS 9, *Financial Instruments*, from 1 January 2018. The Bank elected not to restate comparative figures and recognised any adjustments to the carrying amounts of financial assets and liabilities in the opening retained earnings as of the date of initial application of the standard, 1 January 2018. Consequently, the revised requirements of the IFRS 7, Financial Instruments: Disclosures, have only been applied to the current period. The comparative period disclosures repeat those disclosures made in the prior year.

The significant new accounting policies applied in the current period are described in Note 3. Accounting policies applied prior to 1 January 2018 and applicable to the comparative information are disclosed in Note 37.

The following table reconciles the carrying amounts of each class of financial assets as previously measured in accordance with IAS 39 and the new amounts determined upon adoption of IFRS 9 on 1 January 2018.

In thousands of Azerbaijani Manats	Measurement category		Carrying value under IAS 39 - 31 December 2017	Effect of adopting IFRS 9				Carrying value under IFRS 9 - 1 January 2018
	IAS 39	IFRS 9		Reclassification		Remeasurement		
				Mandatory	Voluntary	ECL	Other	
Cash and cash equivalents	L&R	AC	5,389,626	-	-	-	-	5,389,626
Debt securities								
- Mortgage and Credit Guarantee Fund of the Republic of Azerbaijan	AFS	FVOCI	-	528,145	-	-	-	528,145
- AqrarKredit	L&R	AC	-	9,482,145	-	-	-	9,482,145
- Ministry of finance	L&R	AC	-	52,955	-	-	-	52,955
- UK Treasury notes	Held for trading	FVOCI	-	37,124	-	(4)	4	37,124
- US Treasury notes	Held for trading	FVOCI	-	144,385	-	(10)	10	144,385
- Agency notes	Held for trading	FVOCI	-	3,093,196	-	(139)	139	3,093,196
- Notes issued by international financial institutions	Held for trading	FVOCI	-	801,942	-	(11)	11	801,942
- Corporate bonds	Held for trading	FVOCI	-	680,745	-	(69)	69	680,745
- Regional authorities and municipal bonds	Held for trading	FVOCI	-	189,612	-	(26)	26	189,612
- Government bonds	Held for trading	FVOCI	-	662,538	-	(2)	2	662,538
- UK Treasury notes	Held for trading	Mandatory at FVTPL	-	19,963	-	-	-	19,963
- US Treasury notes	Held for trading	Mandatory at FVTPL	-	271,259	-	-	-	271,259
- Agency notes	Held for trading	Mandatory at FVTPL	-	163,887	-	-	-	163,887
- Notes issued by international financial institutions	Held for trading	Mandatory at FVTPL	-	33,879	-	-	-	33,879
- Corporate bonds	Held for trading	Mandatory at FVTPL	-	93,619	-	-	-	93,619
- Regional authorities and municipal bonds	Held for trading	Mandatory at FVTPL	-	15,651	-	-	-	15,651
- Government bonds	Held for trading	Mandatory at FVTPL	-	42,656	-	-	-	42,656
Total debt securities				**16,313,701**	**-**	**(261)**	**261**	**16,313,701**

4 Adoption of New or Revised Standards and Interpretations (Continued)

In thousands of Azerbaijani Manats	Measurement category IAS 39	Measurement category IFRS 9	Carrying value under IAS 39 - 31 December 2017	Effect of adopting IFRS 9: Reclassification Mandatory	Effect of adopting IFRS 9: Reclassification Voluntary	Effect of adopting IFRS 9: Remeasurement ECL	Effect of adopting IFRS 9: Remeasurement Other	Carrying value under IFRS 9 - 1 January 2018
Loans to banks								
- Refinancing loans	L&R	AC	398,883	-	-	(5,929)	-	392,954
- Lender of last resort loans	L&R	AC	1,986	-	-	(1,970)	-	16
Total loans to banks			**400,869**	**-**	**-**	**(7,899)**	**-**	**392,970**
- Investment securities AFS	AFS	FVOCI	528,145	(528,145)	-	-	-	-
- Investment securities L&R	L&R	AC	9,482,145	(9,482,145)	-	-	-	-
- Investment securities L&R	L&R	AC	52,955	(52,955)	-	-	-	-
Total investment securities AFS and L&R			**10,063,245**	**(10,063,245)**	**-**	**-**	**-**	**-**
- Investment securities HTM	Held for trading	FVTPL	640,913	(640,913)	-	-	-	-
- Investment securities HTM	Held for trading	FVOCI	5,609,543	(5,609,543)	-	-	-	-
Total trading securities			**6,250,456**	**(6,250,456)**	**-**	**-**	**-**	**-**
Other financial assets								
- Receivables from sale of foreign currencies	L&R	AC	51	-	-	-	-	51
- Receivables from trade securities disposed	L&R	AC	7,101	-	-	-	-	7,101
- Loans to employees	L&R	AC	789	-	-	-	-	789
- Amounts in the course of settlement	L&R	AC	118	-	-	-	-	118
Total other financial assets			**8,059**	**-**	**-**	**-**	**-**	**8,059**
Special Drawing Rights with the IMF	L&R	AC	370,827	-	-	-	-	370,827
Derivative financial instruments	Held for trading	FVTPL	123	-	-	-	-	123
Total financial assets			**22,483,205**	**-**	**-**	**(8,160)**	**261**	**22,475,306**

4 Adoption of New or Revised Standards and Interpretations (Continued)

Reason for reclassification of Financial Assets

- *Investments in debt securities previously recognized as Held for Trading.* The Bank holds financial assets in a portfolio of debt securities, which had previously been recognized as Trading Assets because these securities were managed on a fair value basis. As part of transition to IFRS 9, these securities are now part of "hold to collect and sell" business model and investments on these securities are required to be measured at FVOCI.
- *Reclassification from retired categories with no change in measurement.* In addition to the above, the other financial instruments have been reclassified to new categories under IFRS 9, as their previous categories under IAS 39 were retired, with no changes to their measurement basis

Assets reclassified out of FVTPL to FVOCI category. For the assets reclassified out of FVTPL to FVOCI category at the date of initial application of IFRS 9, the following table shows their fair value at 31 December 2018 and the fair value gain or loss that would have been recognised if these financial assets had not been reclassified as part of transition to IFRS 9:

In thousands of Azerbaijani Manats	**Fair value at 31 December 2018**	**Fair value loss that would have been recognised in profit or loss or in OCI during the year if the financial asset had not been reclassified**
Assets reclassified to FVOCI from Held for Trading		
- UK Treasury notes	109,729	-
- US Treasury notes	875,075	(33)
- Agency notes	2,539,059	(35)
- Notes issued by international financial institutions	358,237	(8)
- Corporate bonds	801,957	(46)
- Regional authorities and municipal bonds	422,623	(25)
- Non-resident government bonds	112,106	(6)

Reconciliation of provision for impairment at 31 December 2017 and credit loss allowance at 1 January 2018. The following table reconciles the prior period's closing provision for impairment measured in accordance with IAS 39 to the new credit loss allowance measured in accordance with IFRS 9 at 1 January 2018:

In thousands of Azerbaijani Manats	**Provision under IAS 39 at 31 December 2017**	**Effect**			**Credit loss allowance under IFRS 9 at 1 January 2018**
		Reclassification to FVTPL	**Reclassification to FVOCI**	**Remeasurement to expected loss**	
Trading securities	-	-	-	261	261
Loans to banks	511,861	-	-	7,899	519,760

At 31 December 2017, all of the Bank's financial liabilities except for derivatives were carried at AC. There were no changes to the classification and measurement of financial liabilities. The derivatives belonged to the FVTPL measurement category under IAS 39.

4 Adoption of New or Revised Standards and Interpretations (Continued)

The following table analyses the impact of transition to IFRS 9 on reserves and retained earnings as of 1 January 2018.

In thousands of Azerbaijani Manats	Charter fund	Capital reserves	Revaluation reserve for available-for-sale financial assets _[For comparatives only]_	Revaluation reserve for securities at FVOCI	Retained earnings	Total equity
Amounts at 31 December 2017 prior to adoption of IFRS 9	**500,000**	**500,000**	**(281)**	**-**	**3,513,453**	**4,513,172**
Reclassification of debt investment securities from available-for-sale to FVOCI	-	-	281	(281)	-	-
Recognition of ECL under IFRS 9 for debt financial assets at FVOCI	-	-	-	-	(261)	(261)
Remeasurement to fair value for reclassified financial instruments under IFRS 9	-	-	-	(3,102)	3,363	261
Recognition of ECL under IFRS 9 for debt financial assets at amortized cost	-	-	-	-	(7,899)	(7,899)
At 1 January 2018 (under IFRS 9)	**500,000**	**500,000**	**-**	**(3,383)**	**3,508,656**	**4,505,273**

The adoption of IFRS 15 has not resulted in any material changes in accounting policies or adjustments to the financial statements.

New accounting pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2019 or later, and which the Bank has not early adopted.

The following 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).
- IFRS 17 "Insurance Contracts" (issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2021).
- 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).
- Amendments to the Conceptual Framework for Financial Reporting (issued on 29 March 2018 and effective for annual periods beginning on or after 1 January 2020).
- Definition of materiality – Amendments to IAS 1 and IAS 8 (issued on 31 October 2018 and effective for annual periods beginning on or after 1 January 2020).

Unless otherwise described above, the new standards and interpretations are not expected to affect significantly the Bank's financial statements.

5 Cash and Cash Equivalents

In thousands of Azerbaijani Manats	2018	2017
Cash on hand	529,049	483,813
Nostro accounts with non-resident banks	3,065,819	4,224,417
Short-term deposits with non-resident banks	429,231	681,396
Investments in money market funds	870,486	-
Total cash and cash equivalents	**4,894,585**	**5,389,626**

Investments in money market funds are measured at FVTPL.

The table below discloses the credit quality of cash and cash equivalents balances based on credit risk grades at 31 December 2018. Refer to Note 32 for the description of the Bank's credit risk grading system.

In thousands of Azerbaijani Manats	Nostro accounts with non-resident banks	Short-term deposits with non-resident banks	Total
- Excellent	2,827,696	344,231	3,171,927
- Good	238,123	85,000	323,123
Total cash and cash equivalents, excluding cash on hand and investments in money market funds	**3,065,819**	**429,231**	**3,495,050**

The credit quality of cash and cash equivalents balances at 31 December 2017, was as follows:

In thousands of Azerbaijani Manats	31/12/2017
Cash on hand	**483,813**
Nostro accounts with non-resident banks	
- rated AAA	686,175
- rated AA- to AA+	3,508,985
- rated A- to A+	2,882
- rated BBB- to BBB+	26,375
Total nostro accounts with non-resident banks	**4,224,417**
Cash equivalents	
Term deposits with non-resident banks	
- rated AAA	340,020
- rated A- to A+	341,376
Total term deposits with non-resident banks	**681,396**
Total cash and cash equivalents	**5,389,626**

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

6 Balances with the International Monetary Fund

In thousands of Azerbaijani Manats	31/12/2018	31/12/2017
ASSETS		
Special Drawing Rights (SDR) holdings	361,778	370,827
Total assets with IMF	**361,778**	**370,827**
LIABILITIES		
Current accounts	2,478	2,366
SDR allocation:		
General allocation	281,171	288,089
Special allocation	80,854	82,844
Total SDR allocations	**362,025**	**370,933**
Total liabilities with IMF	**364,503**	**373,299**

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 923,354 thousand and AZN 946,073 thousand as at 31 December 2018 and 2017 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.

7 Trading Securities _[For comparatives only]_

Trading securities at 31 December 2017 were as follows:

In thousands of Azerbaijani Manats	**31/12/2017**
Agency notes	3,257,083
Notes issued by international financial institutions	835,821
Corporate bonds	774,364
Government bonds	705,194
US Treasury notes	415,644
Municipal bonds	205,263
UK Treasury notes	57,087
Total trading securities	**6,250,456**

No trading securities were 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.

7 Trading Securities *[For comparatives only]* (Continued)

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

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

8 Derivative Financial Instruments

The fair value of derivative financial instruments as at 31 December 2018 and 2017 are as follows:

In thousands of Azerbaijani Manats	Notional amount	31 December /2018 Fair value Assets	Liabilities	Notional amount	31 December 2017 Fair value Assets	Liabilities
Foreign exchange contracts	272,476	421	-	156,341	-	(1,012)
Future contracts	29,899	-	(344)	17,212	123	-
Total derivative financial instruments	**302,375**	**421**	**(344)**	**173,553**	**123**	**(1,012)**

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.

In thousands of Azerbaijani Manats	Notional amount 31/12/2018	Notional amount 31/12/2017	Weighted average contractual exchange rates 31/12/2018	Weighted average contractual exchange rates 31/12/2017
Buy USD sell EUR				
Less than 3 months	192,511	95,165	1.1435	1.2011
Sell USD buy EUR				
Less than 3 months	20,240	4,295	1.1435	1.2010
Buy USD sell GBP				
Less than 3 months	33,627	24,770	1.2739	1.3529
Buy USD sell CAD				
Less than 3 months	14,172	14,168	0.7322	0.7982
Buy USD sell other currencies				
Less than 3 months	11,926	13,494	0.5819	0.6836
Sell USD buy other currencies				
Less than 3 months	-	4,449	-	0.782

9 Investment Securities *[For comparatives only]*

In thousands of Azerbaijani Manats	31/12/2017
- Available-for-sale investments	
Mortgage and Credit Guarantee Fund of the Republic of Azerbaijan	528,145
Notes issued by international financial institutions	-
Ministry of Finance of the Republic of Azerbaijan	-
Total available-for-sale investments	**528,145**
- Loans and advances	
JSCO Aqrarkredit	9,482,145
Ministry of Finance of the Republic of Azerbaijan	52,955
Impairment allowance	-
Total loans and advances	**9,535,100**
Total investment securities	**10,063,245**

Included in loans and advances were securities of Joint-Stock Credit Organisation 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.

As at 31 December 2017, the outstanding balance of the securities in the portfolio of the Bank was 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 36 for fair value disclosures.

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

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

AqrarKredit securities are not traded in an active market.

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

In thousands of Azerbaijani Manats	2017
Carrying amount at 1 January	**456,639**
Fair value gains less losses	313
Interest income accrued	14,607
Interest income received	(3,240)
Purchases	568,508
Disposals of investment securities available for sale	(515,133)
Effect of translation to presentation currency	6,451
Carrying amount at 31 December	**528,145**

10 Debt Securities

In thousands of Azerbaijani Manats	2018
Debt securities mandatorily measured at FVTPL	909,563
Debt securities at FVOCI	5,906,221
Debt securities at AC	9,522,114
Total debt securities	**16,337,898**

The table below discloses debt securities at 31 December 2018 by measurement categories and classes:

In thousands of Azerbaijani Manats	Debt securities mandatorily measured at FVTPL	Debt securities at FVOCI	Debt securities at AC	Total
Agency notes	182,812	2,539,234	-	2,722,046
Notes issued by international financial institutions	36,126	358,255	-	394,381
Corporate bonds	123,355	802,073	-	925,428
Government bonds	135,652	112,112	-	247,764
US Treasury notes	381,464	875,118	-	1,256,582
Regional authorities and municipal bonds	22,358	422,673	-	445,031
UK Treasury notes	27,796	109,734	-	137,530
Mortgage and Credit Guarantee Fund of the Republic of Azerbaijan	-	687,435	-	687,435
JSCO Aqrarkredit	-		9,482,143	9,482,143
Ministry of Finance of the Republic of Azerbaijan	-		39,971	39,971
Total debt securities at 31 December 2018 (fair value or gross carrying value)	**909,563**	**5,906,634**	**9,522,114**	**16,338,311**
Credit loss allowance	-	(413)	-	(413)
Total debt securities at 31 December 2018 (carrying value)	**909,563**	**5,906,221**	**9,522,114**	**16,337,898**

(a) Debt securities at FVTPL

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

10 Debt Securities (Continued)

(b) Debt securities at FVOCI

The table below contains an analysis of the credit risk exposure of debt securities measured at FVOCI at 31 December 2018, for which an ECL allowance is recognised, based on credit risk grades. Refer to Note 32 for the description of credit risk grading system used by the Bank and the approach to ECL measurement, including the definition of default and SICR as applicable to debt securities at FVOCI:

In thousands of Azerbaijani Manats	Stage 1	Stage 2	Stage 3	Total
Mortgage and Credit Guarantee Fund of the Republic of Azerbaijan				
- Good	688,520	-	-	688,520
Total AC gross carrying amount	688,520	-	-	688,520
Less credit loss allowance	-	-	-	-
Less fair value adjustment from AC to FV	(1,085)	-	-	(1,085)
Carrying value (fair value)	687,435	-	-	687,435
Agency notes				
- Excellent	2,533,205	-	-	2,533,205
Total AC gross carrying amount	2,533,205	-	-	2,533,205
Less credit loss allowance	(175)	-	-	(175)
Less fair value adjustment from AC to FV	6,029	-	-	6,029
Carrying value (fair value)	2,539,059	-	-	2,539,059
Notes issued by international financial institutions				
- Excellent	357,676	-	-	357,676
Total AC gross carrying amount	357,676	-	-	357,676
Less credit loss allowance	(18)	-	-	(18)
Less fair value adjustment from AC to FV	579	-	-	579
Carrying value (fair value)	358,237	-	-	358,237

10 Debt Securities (Continued)

In thousands of Azerbaijani Manats	Stage 1	Stage 2	Stage 3	Total
Corporate bonds				
- Excellent	802,350	-	-	802,350
Total AC gross carrying amount	802,350	-	-	802,350
Less credit loss allowance	(116)	-	-	(116)
Less fair value adjustment from AC to FV	(277)	-	-	(277)
Carrying value (fair value)	801,957	-	-	801,957
Government bonds				
- Excellent	112,185	-	-	112,185
Total AC gross carrying amount	112,185	-	-	112,185
Less credit loss allowance	(6)	-	-	(6)
Less fair value adjustment from AC to FV	(73)	-	-	(73)
Carrying value (fair value)	112,106	-	-	112,106
US Treasury notes				
- Excellent	872,021	-	-	872,021
Total AC gross carrying amount	872,021	-	-	872,021
Less credit loss allowance	(43)	-	-	(43)
Less fair value adjustment from AC to FV	3,097	-	-	3,097
Carrying value (fair value)	875,075	-	-	875,075
Regional authorities and municipal bonds				
- Excellent	421,822	-	-	421,822
Total AC gross carrying amount	421,822	-	-	421,822
Less credit loss allowance	(50)	-	-	(50)
Less fair value adjustment from AC to FV	851	-	-	851
Carrying value (fair value)	422,623	-	-	422,623
UK Treasury notes				
- Excellent	109,733	-	-	109,733
Total AC gross carrying amount	109,733	-	-	109,733
Less credit loss allowance	(5)	-	-	(5)
Less fair value adjustment from AC to FV	1	-	-	1
Carrying value (fair value)	109,729	-	-	109,729
Total debt securities measured at FVOCI (fair value)	**5,906,221**	**-**	**-**	**5,906,221**

10 Debt Securities (Continued)

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

In thousands of Azerbaijani Manats	Credit loss allowance				Gross carrying amount			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Mortgage and Credit Guarantee Fund of the Republic of Azerbaijan								
At 1 January 2018	**-**	**-**	**-**	**-**	**528,145**	**-**	**-**	**528,145**
Movements with impact on credit loss allowance charge for the period:								
Purchased during the period	-	-	-	-	344,658	-	-	344,658
Derecognised during the period	-	-	-	-	(200,816)	-	-	(200,816)
Other movements	-	-	-	-	15,448	-	-	15,448
Total movements with impact on credit loss allowance charge for the period	**-**	**-**	**-**	**-**	**159,290**	**-**	**-**	**159,290**
At 31 December 2018	**-**	**-**	**-**	**-**	**687,435**	**-**	**-**	**687,435**

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

In thousands of Azerbaijani Manats	Credit loss allowance				Gross carrying amount			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Agency notes								
At 1 January 2018	**139**	**-**	**-**	**139**	**3,093,335**	**-**	**-**	**3,093,335**
Movements with impact on credit loss allowance charge for the period:								
Purchased during the period	124	-	-	124	2,637,328	-	-	2,637,328
Derecognised during the period	(87)	-	-	(87)	(3,189,763)	-	-	(3,189,763)
Other movements	(2)	-	-	(2)	(1,666)	-	-	(1,666)
Total movements with impact on credit loss allowance charge for the period	**35**	**-**	**-**	**35**	**(554,101)**	**-**	**-**	**(554,101)**
At 31 December 2018	**174**	**-**	**-**	**174**	**2,539,234**	**-**	**-**	**2,539,234**

10 Debt Securities (Continued)

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

In thousands of Azerbaijani Manats	Credit loss allowance				Gross carrying amount			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Corporate bonds								
At 1 January 2018	**69**	**-**	**-**	**69**	**680,814**	**-**	**-**	**680,814**
Movements with impact on credit loss allowance charge for the period:								
Purchased during the period	76	-	-	76	918,671	-	-	918,671
Derecognised during the period	(16)	-	-	(16)	(789,562)	-	-	(789,562)
Other movements	(14)	-	-	(14)	(7,850)	-	-	(7,850)
Total movements with impact on credit loss allowance charge for the period	**46**	**-**	**-**	**46**	**121,259**	**-**	**-**	**121,259**
At 31 December 2018	**115**	**-**	**-**	**115**	**802,073**	**-**	**-**	**802,073**

Movements in the credit loss allowance and in the gross carrying amount of Notes issued by international financial institutions at FVOCI were as follows.

In thousands of Azerbaijani Manats	Credit loss allowance				Gross carrying amount			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Notes issued by international financial institutions								
At 1 January 2018	**11**	**-**	**-**	**11**	**801,954**	**-**	**-**	**801,954**
Movements with impact on credit loss allowance charge for the period:								
Purchased during the period	13	-	-	13	1,206,276	-	-	1,206,276
Derecognised during the period	(6)	-	-	(6)	(1,650,033)	-	-	(1,650,033)
Other movements	1	-	-	1	58	-	-	58
Total movements with impact on credit loss allowance charge for the period	**8**	**-**	**-**	**8**	**(443,699)**	**-**	**-**	**(443,699)**
At 31 December 2018	**19**	**-**	**-**	**19**	**358,255**	**-**	**-**	**358,255**

10 Debt Securities (Continued)

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

In thousands of Azerbaijani Manats	Credit loss allowance Stage 1	Stage 2	Stage 3	Total	Gross carrying amount Stage 1	Stage 2	Stage 3	Total
Government bonds								
At 1 January 2018	**1**	**-**	**-**	**1**	**662,539**	**-**	**-**	**662,539**
Movements with impact on credit loss allowance charge for the period:								
Purchased during the period	4	-	-	4	2,785,345	-	-	2,785,345
Derecognised during the period	-	-	-	-	(3,335,889)	-	-	(3,335,889)
Other movements	2	-	-	2	117	-	-	117
Total movements with impact on credit loss allowance charge for the period	**6**	**-**	**-**	**6**	**(550,427)**	**-**	**-**	**(550,427)**
At 31 December 2018	**7**	**-**	**-**	**7**	**112,112**	**-**	**-**	**112,112**

Movements in the credit loss allowance and in the gross carrying amount of US Treasury notes at FVOCI were as follows.

In thousands of Azerbaijani Manats	Credit loss allowance Stage 1	Stage 2	Stage 3	Total	Gross carrying amount Stage 1	Stage 2	Stage 3	Total
US Treasury notes								
At 1 January 2018	**10**	**-**	**-**	**10**	**144,396**	**-**	**-**	**144,396**
Movements with impact on credit loss allowance charge for the period:								
Purchased during the period	40	-	-	40	13,449,475	-	-	13,449,475
Derecognised during the period	(8)	-	-	(8)	(12,718,884)	-	-	(12,718,884)
Other movements	1	-	-	1	131	-	-	131
Total movements with impact on credit loss allowance charge for the period	**33**	**-**	**-**	**33**	**730,722**	**-**	**-**	**730,722**
At 31 December 2018	**43**	**-**	**-**	**43**	**875,118**	**-**	**-**	**875,118**

10 Debt Securities (Continued)

Movements in the credit loss allowance and in the gross carrying amount of Regional authorities and municipal bonds at FVOCI were as follows.

	Credit loss allowance				Gross carrying amount			
In thousands of Azerbaijani Manats	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Regional authorities and municipal bonds								
At 1 January 2018	**26**	**-**	**-**	**26**	**189,639**	**-**	**-**	**189,639**
Movements with impact on credit loss allowance charge for the period:								
Purchased during the period	39	-	-	39	380,209	-	-	380,209
Derecognised during the period	(13)	-	-	(13)	(147,109)	-	-	(147,109)
Other movements	(1)	-	-	(1)	(66)	-	-	(66)
Total movements with impact on credit loss allowance charge for the period	**25**	**-**	**-**	**25**	**233,034**	**-**	**-**	**233,034**
At 31 December 2018	**51**	**-**	**-**	**51**	**422,673**	**-**	**-**	**422,673**

Movements in the credit loss allowance and in the gross carrying amount of UK Treasury notes at FVOCI were as follows.

	Credit loss allowance				Gross carrying amount			
In thousands of Azerbaijani Manats	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
UK Treasury notes								
At 1 January 2018	**4**	**-**	**-**	**4**	**37,128**	**-**	**-**	**37,128**
Movements with impact on credit loss allowance charge for the period:								
Purchased during the period	3	-	-	3	239,385	-	-	239,385
Derecognised during the period	(3)	-	-	(3)	(166,776)	-	-	(166,776)
Other movements	-	-	-	-	(3)	-	-	(3)
Total movements with impact on credit loss allowance charge for the period	**-**	**-**	**-**	**-**	**72,606**	**-**	**-**	**72,606**
At 31 December 2018	**4**	**-**	**-**	**4**	**109,734**	**-**	**-**	**109,734**

10 Debt Securities (Continued)

(c) Debt securities at AC

The following table contains an analysis of debt securities at AC by credit quality at 31 December 2018 based on credit risk grades and discloses the balances by three stages for the purpose of ECL measurement. Refer to Note 32 for the description of credit risk grading system used by the Bank and the approach to ECL measurement, including the definition of default and SICR as applicable to debt securities at AC. The carrying amount of debt securities at AC at 31 December 2018 below also represents the Bank's maximum exposure to credit risk on these assets:

In thousands of Azerbaijani Manats	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Ministry of Finance of the Republic of Azerbaijan					
- Good	39,971	-	-	-	39,971
Gross carrying amount	**39,971**	**-**	**-**	**-**	**39,971**
Carrying amount	**39,971**	**-**	**-**	**-**	**39,971**

JSCO Aqrarkredit					
- Good	9,482,143	-	-	-	9,482,143
Gross carrying amount	**9,482,143**	**-**	**-**	**-**	**9,482,143**
Carrying amount	**9,482,143**	**-**	**-**	**-**	**9,482,143**
Total debt securities measured at AC (gross carrying amount)	**9,522,114**	**-**	**-**	**-**	**9,522,114**
Total debt securities measured at AC (carrying amount)	**9,522,114**	**-**	**-**	**-**	**9,522,114**

These securities are issued at local currency, Azerbaijani manats, and repayment is guaranteed by Government of Azerbaijan.

11 Loans to Banks

In thousands of Azerbaijani Manats	31 December 2018	31 December 2017
Gross carrying amount of loans to banks at AC	763,188	912,730
Credit loss allowance	(452,321)	(511,861)
Total loans to banks	**310,867**	**400,869**

Based on the decision of the Management Board of the Bank dated 28 April 2016, the matured 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 3,080 thousand (2017: AZN 29,848 thousand) has been recorded in profit or loss for the year.

Concentration of loans to banks

As at 31 December 2018, and 31 December 2017 there was no bank with aggregated gross balance exceeding 10% of CBAR's equity.

Gross carrying amount and credit loss allowance amount for loans to banks at AC by classes at 31 December 2018 and 31 December 2017 are disclosed in the table below:

	31 December 2018			31 December 2017		
In thousands of Azerbaijani Manats	Gross carrying amount	Credit loss allowance	Carrying amount	Gross carrying amount	Provision for loan impairment	Carrying amount
Loans to banks						
Refinancing loans	740,191	(429,528)	310,663	888,660	(489,777)	398,883
Lender of last resort loans	22,997	(22,793)	204	24,070	(22,084)	1,986
Total loans to banks at AC	**763,188**	**(452,321)**	**310,867**	**912,730**	**(511,861)**	**400,869**

More detailed explanation of classes of loans to legal entities is provided below:

- Refinancing loans - are provided as part of implementing CBAR's monetary policy;
- Lender of last resort loans - In case of short-term solvency and liquidity gap of the banks, the Central Bank may grant lender of last resort loans to the banks for a period not exceeding 6 (six) months based on the request of the Financial Markets Control Chamber of the Republic of Azerbaijan.

11 Loans to Banks (Continued)

The following table discloses the changes in the credit loss allowance and gross carrying amount for loans to banks carried at amortised cost between the beginning and the end of the reporting period

	Credit loss allowance				Gross carrying amount			
In thousands of Azerbaijani Manats	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Refinancing loans								
At 1 January 2018	**-**	**56,079**	**439,625**	**495,704**	**-**	**440,444**	**448,216**	**888,660**
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
Issued during the period	-	3,337	-	3,337	50,000	25,500	-	75,500
Derecognised during the period	-	(25,048)	(37,414)	(62,462)	41	(174,421)	(42,538)	(216,918)
Total movements with impact on credit loss allowance charge for the period	**-**	**(21,711)**	**(37,414)**	**(59,125)**	**50,041**	**(148,921)**	**(42,538)**	**(141,418)**
Movements without impact on credit loss allowance charge for the period:								
Write-offs	-	-	(7,051)	(7,051)	-	-	(7,051)	(7,051)
At 31 December 2018	**-**	**34,368**	**395,160**	**429,528**	**50,041**	**291,523**	**398,627**	**740,191**

11 Loans to Banks (Continued)

In thousands of Azerbaijani Manats	Credit loss allowance				Gross carrying amount			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Lender of last resort loans								
At 1 January 2018	-	-	**24,057**	**24,057**	-	-	**24,070**	**24,070**
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
Issued during the period	-	-	4,961	4,961	-	-	5,004	5,004
Derecognised during the period	-	-	(6,225)	(6,225)	-	-	(6,077)	(6,077)
Total movements with impact on credit loss allowance charge for the period	-	-	**(1,264)**	**(1,264)**	-	-	**(1,073)**	**(1,073)**
At 31 December 2018	-	-	**22,793**	**22,793**	-	-	**22,997**	**22,997**

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

In thousands of Azerbaijani Manats	**Refinancing loans**	**Lender of last resort loan**	**Subordinated loans**	**Total**
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)
Balance at the end of the year	**489,777**	**22,084**	**-**	**511,861**

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

- Additional allowances for loans issued during the period, as well as releases for loans repaid in the period;
- Write-offs of allowances related to assets that were written off during the period; and
- Other movements arising from update of inputs to ECL models.

11 Loans to Banks (Continued)

The credit quality of loans to banks carried at amortised cost is as follows at 31 December 2018:

In thousands of Azerbaijani Manats	Stage 1	Stage 2	Stage 3	Total
Refinancing loans				
- Satisfactory	-	46,705	-	46,705
- Special monitoring	50,041	244,818	-	294,859
- Default	-	-	398,627	398,627
Gross carrying amount	**50,041**	**291,523**	**398,627**	**740,191**
Credit loss allowance	-	(34,368)	(395,160)	(429,528)
Carrying amount	**50,041**	**257,155**	**3,467**	**310,663**
Lender of last resort loans				
- Default	-	-	22,997	22,997
Gross carrying amount	**-**	**-**	**22,997**	**22,997**
Credit loss allowance	-	-	(22,793)	(22,793)
Carrying amount	**-**	**-**	**204**	**204**

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

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

In thousands of Azerbaijani Manats	Refinancing loans	Lender of last resort loans	Total
Neither past due nor impaired			
BB-	10,003	-	10,003
CCC+	99,187	-	99,187
CCC-	20,006	-	20,006
Total neither past due nor impaired	**129,196**	**-**	**129,196**
Loans individually determined to be impaired (gross)			
- 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
Total individually impaired loans	**759,464**	**24,070**	**783,534**
Impairment provision	(489,777)	(22,084)	(511,861)
Total loans to banks	**398,883**	**1,986**	**400,869**

11 Loans to Banks (Continued)

As at 31 December 2017 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. 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 at 31 December 2017 was 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 made 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.

The Bank's policies regarding obtaining collateral have not significantly changed during the reporting period and there has been no significant change in the overall quality of the collateral held by the Bank since the prior period. Description of collateral held for loans to banks carried at amortised cost is as follows at 31 December 2018:

In thousands of Azerbaijani Manats	Refinancing loans	Lender of last resort loans	Total
Loans collateralised by:			
- residential real estate	12,524	-	12,524
- commercial real estate	97,108	204	97,312
- blocked deposits	199,457	-	199,457
Total	309,089	204	309,293
Unsecured exposures	1,574	-	1,574
Total carrying value of loans to banks at AC	**310,663**	**204**	**310,867**

Information about collateral for loans to banks is as follows at 31 December 2017:

In thousands of Azerbaijani Manats	Refinancing loans	Lender of last resort loans	Total
Loans collateralised by:			
- residential real estate	1,675	-	1,675
- commercial real estate	103,248	1,986	105,234
- blocked deposits	293,960	-	293,960
Total	398,883	1,986	400,869
Total carrying value of loans to banks at AC	**398,883**	**1,986**	**400,869**

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

12 Property and Equipment

The following table provides information on the movement of property and equipment for the year ended at 31 December 2018:

In thousands of Azerbaijani Manats	**Land**	**Buildings**	**Furniture and fixtures**	**Computers and communication equipment**	**Motor vehicles**	**Construction in progress**	**Total**
Cost							
Balance at 1 January 2018	15,726	43,874	49,905	18,049	2,393	-	129,947
Additions	-	5	2,519	7,562	893	14,293	25,272
Disposals	-	-	(490)	(837)	(129)	-	(1,456)
Balance at 31 December 2018	**15,726**	**43,879**	**51,934**	**24,774**	**3,157**	**14,293**	**153,763**
Depreciation							
Balance at 1 January 2018	-	(17,160)	(47,038)	(13,396)	(1,963)	-	(79,557)
Depreciation for the year	-	(1,316)	(2,060)	(2,430)	(177)	-	(5,983)
Disposals	-	-	490	837	129	-	1,456
Balance at 31 December 2018	**-**	**(18,476)**	**(48,608)**	**(14,989)**	**(2,011)**	**-**	**(84,084)**
Carrying amount							
At 31 December 2018	**15,726**	**25,403**	**3,326**	**9,785**	**1,146**	**14,293**	**69,679**

12 Property and Equipment (Continued)

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

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

13 Intangible Assets

The following table provides information on the movement of intangible assets for the year ended at 31 December 2018:

In thousands of Azerbaijani Manats	Total intangible assets
Cost	
Balance at 1 January 2018	70,902
Additions	13,465
Disposals	(4)
Balance at 31 December 2018	**84,363**
Amortization	
Balance at 1 January 2018	(26,469)
Amortization for the year	(6,724)
Disposals	4
Balance at 31 December 2018	**(33,189)**
Carrying amount	
At 31 December 2018	**51,174**

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

In thousands of Azerbaijani Manats	Total intangible assets
Cost	
Balance at 1 January 2017	67,520
Additions	7,008
Disposals	(3,626)
Balance at 31 December 2017	**70,902**
Amortization	
Balance at 1 January 2017	(23,881)
Amortization for the year	(6,214)
Disposals	3,626
Balance at 31 December 2017	**(26,469)**
Carrying amount	
At 31 December 2017	**44,433**

14 Other Financial Assets

In thousands of Azerbaijani Manats	2018	2017
Other financial assets at AC		
Receivables from trade securities disposed	2,865	7,101
Loans to employees	729	798
Amounts in the course of settlement	267	169
Credit loss allowance	(50)	(9)
Total other financial assets at AC	**3,811**	**8,059**
Total other financial assets	**3,811**	**8,059**

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

15 Other Assets

In thousands of Azerbaijani Manats	31/12/2018	31/12/2017
Prepayments to suppliers	33,986	52,981
Investment property	4,400	4,400
Other non-financial assets	380	145
Total other assets	**38,766**	**57,526**

16 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 from 1 January 2006, old Azerbaijani Manats ("AZM") issued into circulation since the introduction of the national currency in 1992 and commemorative coins. 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 2018 the Bank accepted new banknotes and coins amounting to AZN 6,420,451 thousand from printing and minting companies (2017: AZN 410,677 thousand) and destroyed banknotes and coins amounting to AZN 1,333,369 thousand (2017: AZN 1,307,505 thousand).

In thousands of Azerbaijani Manats	31/12/2018	31/12/2017
Balance at the beginning of the year	8,140,238	6,960,778
Net amount of banknotes and coins put into circulation	223,891	1,179,460
Balance at the end of the year	**8,364,129**	**8,140,238**

17 Short-Term Deposits of Resident Banks

At 31 December 2018, included in short-term deposits of resident banks in the amount of AZN 3,378,509 thousand (31 December 2017: AZN 4,389,826 thousand) are deposits of AZN 350,694 thousand obtained through auctions as a part of monetary policy tools (31 December 2017: AZN 1,015,167 thousand) and deposits of AZN 3,027,815 thousand placed with the Bank out of auction (31 December 2017: AZN 3,374,659 thousand).

18 Amounts Due to Government Organisations

In thousands of Azerbaijani Manats	31/12/2018	31/12/2017
Amounts due to the Central Treasury of the Republic of Azerbaijan	1,448,633	1,370,465
Amounts due to State Oil Fund of the Republic of Azerbaijan	823	11,291
Other current/demand accounts	168,228	148,473
Total amounts due to government organisation	**1,617,684**	**1,530,229**

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

19 Amounts Due to Credit Institutions

In thousands of Azerbaijani Manats	31/12/2018	31/12/2017
Current accounts	2,341,422	1,555,538
Blocked accounts	237,928	375,068
Mandatory reserves	253,427	140,312
Total amounts due to credit institutions	**2,832,777**	**2,070,918**

20 Amounts Due to Other Organisations

In thousands of Azerbaijani Manats	31/12/2018	31/12/2017
Public organisations	22,636	26,026
Other financial institutions	13,122	10,550
Total amounts due to other organisations	**35,758**	**36,576**

21 Debt Securities in Issue

In thousands of Azerbaijani Manats	31/12/2018	31/12/2017
Short-term notes	1,005,552	920,768
Total debt securities in issue	**1,005,552**	**920,768**

22 Amounts Due to International Financial Institutions

In thousands of Azerbaijani Manats	31/12/2018	31/12/2017
Borrowings from International Development Association (IDA)	2,002	2,811
Amounts due to other international financial institutions	271	1,882
Total amounts due to international financial institutions	**2,273**	**4,693**

23 Other Financial Liabilities

In thousands of Azerbaijani Manats	31/12/2018	31/12/2017
Other financial liabilities at AC		
Amounts payable for trading securities purchased	6,373	652,778
Amounts in the course of settlement	390	673
Other financial liabilities	11	80
Total other financial liabilities at AC	**6,774**	**653,531**
Total other financial liabilities	**6,774**	**653,531**

24 Other Liabilities

In thousands of Azerbaijani Manats	31/12/2018	31/12/2017
Amounts in the course of settlement	57	26
Deferred income	28	16
Other	3,129	1,250
Total other liabilities	**3,214**	**1,292**

25 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.

26 Interest Income and Expense

In thousands of Azerbaijani Manats	2018	2017
Interest income		
Loans to banks	47,229	55,118
Placements with non-resident banks	52,293	42,424
Trading securities *[For comparatives only]*	-	30,057
Placements with liquidity fund	3,095	-
Investment securities:		
-Available-for-sale investments *[For comparatives only]*	-	14,607
-Loans and advances *[For comparatives only]*	-	14,516
Debt securities at FVOCI *[For current period only]*	66,500	-
Debt securities at AC *[For current period only]*	14,118	-
Debt securities at FVTPL *[For current period only]*	14,858	-
SDR holdings with the IMF	3,082	1,550
Promissory notes from government	-	747
Other assets	53	61
Total interest income	**201,228**	**159,080**
Interest expense		
Deposits of resident banks	215,604	240,661
Debt securities in issue	82,184	39,735
Liabilities on transactions with the IMF	3,230	1,640
Deposits and current account of SOFAZ	5	60
Amounts due to international financial institutions	22	30
Total interest	**301,045**	**282,126**
Net interest expense	**(99,817)**	**(123,046)**

Included within various line items under interest income for the year ended 31 December 2018 is a total of AZN 3,647 thousand (2017: AZN 16,856 thousand) accrued on impaired financial assets.

27 Fee and Commission Income

In thousands of Azerbaijani Manats	2018	2017
Cash withdrawal	9,334	7,365
Settlement	7,040	6,756
Other	4	5
Total fee and commission income	**16,378**	**14,126**

28 Fee and Commission Expense

In thousands of Azerbaijani Manats	2018	2017
Securities operations (management and custodian)	1,674	1,492
Cash withdrawal	1,359	-
Settlement	62	66
Other	1,670	2,313
Total fee and commission expenses	**4,765**	**3,871**

29 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 organisations 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.
There was no such transfer in 2018.

30 Net Losses from Foreign Exchange Translation

During 2018 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 52,334 thousand (2017: AZN 204,006 thousand) as a loss.

31 Administrative and Other Operating Expenses

In thousands of Azerbaijani Manats	**2018**	**2017**
Banknotes and coin production	22,665	21,826
Staff costs	14,159	12,080
Software maintenance	6,779	6,244
Amortisation of software and other intangible assets	6,724	6,214
Depreciation of premises and equipment	5,984	7,050
Contributions to Social Security Pension Fund	3,060	2,545
Security	1,353	1,393
Repair and maintenance	1,003	1,121
Regional construction and social	954	1,266
Communication	734	727
Heating and lighting	522	539
Office supplies	512	636
Insurance	348	335
Legal and consultancy	262	165
Business travel	208	200
Representation	121	36
Printing	59	46
Utilities	53	50
Occupancy and rent	8	47
Expenses for development of non-cash payment project	-	997
Other	602	1,041
Total administrative and other operating expenses	**66,110**	**64,558**

32 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

32 Risk Management (Continued)

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

Internal audit. Risk management processes throughout the 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" and "Instruction on operations for maintenance and management of currency reserves of the Central Bank of the Republic of Azerbaijan". Acceptable limits on managed risks are stipulated in the "Guidelines on Management of Foreign Currency Assets of the Central Bank of the Republic of Azerbaijan", "Main Directions of Management of Foreign Currency Assets of the Central Bank of the Republic of Azerbaijan", "Operational Investment Strategy for Management of Foreign Currency Assets of the Central Bank of the Republic of Azerbaijan" and "Investment Rules for Management of Assets by Foreign Managers". The respective documents are defined by the Investment Committee and approved by the Management Board.

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

In 2018 and 2017, 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 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.

32 Risk Management (Continued)

Credit risk grading system. For measuring credit risk and grading financial instruments by the amount of credit risk, the Bank applies two approaches – an Internal Risk-Based (IRB) rating system or risk grades estimated by external international rating agencies (Standard & Poor's - "S&P", Fitch, Moody's). Internal and external credit ratings are mapped on an internally defined master scale with a specified range of probabilities of default as disclosed in the table below:

Master scale credit risk grade	Corresponding ratings of external international rating agencies (S&P)	Corresponding PD interval
Excellent	AAA to A-	0,01% - 0,2%
Good	BBB+ to B+	0,21% - 3%
Satisfactory	B, B-	3,1% - 10%
Special monitoring	CCC+ to CC-	10,1% - 99,9%
Default	C, D-I, D-II	100%

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

- *Excellent* – strong credit quality with low expected credit risk;
- *Good* – adequate credit quality with a moderate credit risk;
- *Satisfactory* – moderate credit quality with a satisfactory credit risk;
- *Special monitoring* – facilities that require closer monitoring and remedial management; and
- *Default* – facilities in which a default has occurred.

If the borrower is not provided with credit ratings by the leading international rating agencies, a credit rating is assigned by the Bank using the Bloomberg Professional Services Bloomberg Default Risk function (DRSK) and these ratings are estimated by management. Relevant credit rating is estimated based on the borrower's financial ratios such as: the Tier 1 capital ratio, Non-Performing Loans Ratio, Return on Equity and Return on Assets. The Bank monitor adverse changes in economic and business conditions in the longer term that may impact the ability of borrowers to fulfil contractual cash flow obligations at each reporting date. If needed, PD figures available in Bloomberg screen is adjusted accordingly.

The Bank applies IRB systems for measuring credit risk for the Loans to Banks:

The method used in IRB system is regularly reviewed by Market Operations Department, back tested on actual default data and updated, if necessary.

External ratings are assigned to counterparties by independent international rating agencies, such as S&P, Moody's and Fitch. These ratings are publicly available. Such ratings and the corresponding range of probabilities of default ("PD") are applied for the following financial instruments: Term deposits with non-resident banks and debt securities subsequently measured at amortised cost and FVOCI.

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

32 Risk Management (Continued)

EAD is an estimate of exposure at a future default date, taking into account expected changes in the exposure after the reporting period, including repayments of principal and interest, and expected drawdowns on committed facilities. The EAD on credit related commitments is estimated using Credit Conversion Factor ("CCF"). CCF is a coefficient that shows the probability of conversion of the committed amounts to an on-balance sheet exposure within a defined period.

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

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

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

Forward looking macroeconomic information is used in the estimates of lifetime expected credit losses. For the financial instruments that remaining lifetime period is less than a year, long term macroeconomic development does not play significant role in shaping risk profiles and no forward looking adjustment is implemented.

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

- when financial assets are more than 30 days past due on its contractual payments
- when financial assets are downgraded by the leading international credit rating agencies of the long-term credit rating by 5 grades since initial recognition
- Significant breach of certain prudential ratios based on the most recent audit reports
- Cease of operations by the borrower due to forse-majeure and other events, as well as existence of information on significant financial loss
- Actual or expected significant adverse change in operating results of the borrower
- when the borrower's loans are restructured due to significant deterioration in the bank's position.

The Bank decided to use the low credit risk assessment exemption for the financial instruments which have "Excellent" credit risk grade.

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

- the credit rating of a financial asset is downgraded to "D" (C) by leading international rating agencies
- licence of the borrower to operate in banking industry is revoked
- The payment of principal amount and interest on loans past due over 360 days
- The commercial bank that expected to be defaulted in a foreseeable future as "Material Uncertainty about Going Concern" issue has been indicated in the Audit Report of the Borrower.

32 Risk Management (Continued)

For purposes of disclosure, the Bank fully aligned the definition of default with the definition of credit-impaired assets. The default definition stated above is applied to all types of financial assets of the Bank.

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

The level of ECL that is recognised in these financial statements depends on whether the credit risk of the borrower has increased significantly since initial recognition. This is a three-stage model for ECL measurement. A financial instrument that is not credit-impaired on initial recognition and its credit risk has not increased significantly since initial recognition has a credit loss allowance based on 12-month ECLs (Stage 1). If a SICR since initial recognition is identified, the financial instrument is moved to Stage 2 but is not yet deemed to be credit-impaired and the loss allowance is based on lifetime ECLs. If a financial instrument is credit-impaired, the financial instrument is moved to Stage 3 and loss allowance is based on lifetime ECLs. The consequence of an asset being in Stage 3 is that the entity ceases to recognise interest income based on gross carrying value and applies the asset's effective interest rate to the carrying amount, net of ECL, when calculating interest income.

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

The Bank has two approaches for ECL measurement: (i) assessment on an individual basis; (ii) assessment based on external ratings. The Bank performs an assessment on an individual basis for the loans to banks and debt securities denominated in local currency, AZN. The Bank performs assessments based on external ratings for term deposits with non-resident banks and debt securities denominated in foreign currencies.

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

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

The financial instruments of the Bank are either in Stage 1 category or maturity of these instruments is below than 12 months. Therefore, 12-month PD is used for calculating ECLs. An assessment of a 12-month PD is based on the latest available historic default data.

LGD represents the Bank's expectation of the extent of loss on a defaulted exposure. LGD varies by the type of counterparty, type and seniority of the claim, and the availability of collateral or other credit support. The 12-month and lifetime LGDs are determined based on the factors that impact the expected recoveries after a default event. The approach to LGD measurement for AZN denominated financial assets is as follows:

- For the AZN denominated government guaranteed securities, LGD is taken as zero because the Central bank can not be declared bankrupt in accordance with Article 14.1 of the Law and any deficit in the Bank's capital have to be covered by the securities issued by the Government of Azerbaijan Republic.
- For the loans to banks, LGD is calculated based on the history of cash inflows from realisation of the collaterals pledged against licensed removed banks since 2010.

Principles of assessment based on external ratings. Certain exposures have external credit risk ratings and these are used to estimate credit risk parameters PD and LGD from the default and recovery statistics published by the respective rating agencies. This approach is applied for the debt securities in foreign currencies and short-term deposits.

32 Risk Management (Continued)

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

Market risk

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

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The 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.

32 Risk Management (Continued)

Interest rate gap analysis

Interest rate risk is managed principally through monitoring interest rate gaps. A summary of the interest gap position for major financial instruments as at 31 December 2018 is as follows:

In thousands of Azerbaijani Manats	Less than 3 months	3-6 months	6-12 months	More than 1 year	Non-interest bearing	Carrying amount
31 December 2018						
ASSETS						
Cash and cash equivalents	4,365,536	-	-	-	529,049	4,894,585
Special Drawing Rights with the IMF	361,778	-	-	-	-	361,778
Debt securities						
- Debt securities at AC	234	12,984	-	9,508,896	-	9,522,114
- Debt securities at FVOCI	5,218,786	-	75,287	612,148	-	5,906,221
- Debt securities mandatorily measured at FVTPL	909,563	-	-	-	-	909,563
Loans to banks	56,091	182,340	22,183	50,253	-	310,867
Derivative Financial Instruments	-	-	-	-	421	421
Other financial assets	3,093	7	61	650	-	3,811
Total Financial Assets	**10,915,081**	**195,331**	**97,531**	**10,171,947**	**529,470**	**21,909,360**
LIABILITIES						
Money issued in circulation	-	-	-	-	8,364,129	8,364,129
Amounts due to government organisations	1,617,684	-	-	-	-	1,617,684
Short-term deposits of resident banks	378,509	-	3,000,000	-	-	3,378,509
Amounts due to credit institutions	2,832,777	-	-	-	-	2,832,777
Amounts due to other organisations	35,758	-	-	-	-	35,758
Derivative financial instruments	-	-	-	-	344	344
Debt securities in issue	1,005,552	-	-	-	-	1,005,552
Liabilities on transactions with the IMF	364,503	-	-	-	-	364,503
Amounts due to international financial institutions	2,273	-	-	-	-	2,273
Other financial liabilities	6,774	-	-	-	-	6,774
Total Financial Liabilities	**6,243,830**	**-**	**3,000,000**	**-**	**8,364,473**	**17,608,303**

32 Risk Management (Continued)

Interest rate risk is managed principally through monitoring interest rate gaps. A summary of the interest gap position for major financial instruments as at 31 December 2017 is as follows:

In thousands of Azerbaijani Manats	Less than 3 months	3-6 months	6-12 months	More than 1 year	Non-interest bearing	Carrying amount
31 December 2017						
ASSETS						
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
Total Financial Assets	**11,563,259**	**55,538**	**228,489**	**10,151,983**	**483,936**	**22,483,205**
LIABILITIES						
Money issued in circulation	-	-	-	-	8,140,238	8,140,238
Amounts due to government organisations	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 organisations	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
Total Financial Liabilities	**6,676,994**	**-**	**3,302,846**	**-**	**8,141,250**	**18,121,090**

32 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 2018 and 2017 is as follows:

	31 December 2018		31 December 2017	
In thousands of Azerbaijani Manats	Impact on profit or loss	Impact on equity	Impact on profit or loss	Impact on equity
100 bp parallel fall	17,376	113,886	32,565	39,624
100 bp parallel rise	(17,376)	(113,886)	(32,565)	(39,624)

The table below displays average effective interest rates for interest bearing assets and liabilities as at 31 December 2018 and 2017. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	31/12/2018 Average effective interest rate, %				31/12/2017 Average effective interest rate, %			
	AZN	USD	EUR	Other currencies	AZN	USD	EUR	Other currencies
Interest bearing assets								
Cash and cash equivalents	-	2.61	(0.40)	-	-	1.74	(0.36)	-
Trading securities *[For comparatives only]*	-	-	-	-	-	1.32	0.75	1.35
Investment securities *[For comparatives only]*	-	-	-	-	0.30	-	-	-
Debt securities								
-Debt securities at AC [For current period only]	0.15	-	-	-	-	-	-	-
-Debt securities at FVOCI [For current period only]	3.02	1.35	0.51	0.64	-	-	-	-
-Debt securities mandatorily measured at FVTPL [For current period only]	-	0.31	-	-	-	-	-	-
Loans to banks	5.03	-	-	-	3.57	-	-	-
Other financial assets	6.54	-	-	-	6.94	-	-	-
Interest bearing liabilities								
Short-term deposits of resident banks	5.41	-	-	-	7.14	-	-	-
Debt securities in issue	8.35	-	-	-	12.51	-	-	-

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 2018:

In thousands of Azerbaijani Manats	**USD**	**EUR**	**Other foreign currencies**	**Total**
ASSETS				
Cash and cash equivalents	4,675,317	176,573	42,695	4,894,585
Special Drawing Rights with the IMF	-	-	361,778	361,778
Debt securities	5,467,611	453,397	207,341	6,128,349
Derivative financial instruments	421	-	-	421
Other financial assets	2,865	-	-	2,865
Total assets	**10,146,214**	**629,970**	**611,814**	**11,387,998**
LIABILITIES				
Amounts due to government organisations	435,941	27,980	11,264	475,185
Amounts due to credit institutions	1,181,449	125,137	11,717	1,318,303
Amounts due to other organisations	17,278	-	-	17,278
Derivative financial instruments	344	-	-	344
Liabilities on transactions with the IMF	-	-	362,025	362,025
Amounts due to international financial institutions	2,002	-	-	2,002
Other financial liabilities	6,533	10	-	6,543
Total liabilities	**1,643,547**	**153,127**	**385,006**	**2,181,680**
Net recognized position	**8,502,667**	**476,843**	**226,808**	**9,206,318**
The effect of derivatives	231,996	(172,271)	(59,725)	-
Net position	**8,734,663**	**304,572**	**167,083**	**9,206,318**

32 Risk Management (Continued)

The following table shows the foreign currency exposure structure of financial assets and liabilities as at 31 December 2017:

In thousands of Azerbaijani Manats	USD	EUR	Other foreign currencies	Total
ASSETS				
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
Total assets	**10,370,453**	**1,013,206**	**634,474**	**12,018,133**
LIABILITIES				
Amounts due to government organisations	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 organisations	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
Total liabilities	**2,475,309**	**448,329**	**399,761**	**3,323,399**
Net recognized position	**7,895,144**	**564,877**	**234,713**	**8,694,734**
The effect of derivatives	138,853	(90,870)	(47,983)	-
Net position	**8,033,997**	**474,007**	**186,730**	**8,694,734**

A weakening of the AZN, as indicated below, against the following currencies at 31 December 2018 and 2017 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.

In thousands of Azerbaijani Manats	31/12/2018	31/12/2017
10% appreciation of USD against AZN (2017: 10%)	873,466	803,400
10% appreciation of EUR against AZN (2017: 10%)	30,457	47,401

A strengthening of the AZN against the above currencies at 31 December 2018 and 2017 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.

32 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 2018 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 2018 is as follows:

In thousands of Azerbaijani Manats	**Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**From 1 to 5 years**	**More than 5 years**	**No maturity**	**Total**
LIABILITIES							
Money issued in circulation	-	-	-	-	-	8,364,129	8,364,129
Short-term deposits of resident banks	379,116	-	3,148,750	-	-	-	3,527,866
Amounts due to government organisations	1,617,684	-	-	-	-	-	1,617,684
Amounts due to credit institutions	2,832,777	-	-	-	-	-	2,832,777
Amounts due to other organisations	35,758	-	-	-	-	-	35,758
Debt securities in issue	1,008,268	-	-	-	-	-	1,008,268
Liabilities on transactions with the IMF	-	-	-	-	-	364,503	364,503
Amounts due to international financial institutions	2,273	-	-	-	-	-	2,273
Gross Settled Derivatives							
- Inflow	(29,898)	-	-	-	-	-	(29,898)
- Outflow	30,242	-	-	-	-	-	30,242
Other financial liabilities	6,774	-	-	-	-	-	6,774
Total potential future payments for financial obligations	**5,882,994**	**-**	**3,148,750**	**-**	**-**	**8,728,632**	**17,760,376**

32 Risk Management (Continued)

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

In thousands of Azerbaijani Manats	**Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**From 1 to 5 years**	**More than 5 years**	**No maturity**	**Total**
LIABILITIES							
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 organisations	1,530,229	-	-	-	-	-	1,530,229
Amounts due to credit institutions	2,070,918	-	-	-	-	-	2,070,918
Amounts due to other organisations	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
Total potential future payments for financial obligations	**6,313,193**	**-**	**3,465,067**	**-**	**-**	**8,513,537**	**18,291,797**

32 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 2018:

In thousands of Azerbaijani Manats	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Overdue	Total
ASSETS								
Cash and cash equivalents	4,894,585	-	-	-	-	-	-	4,894,585
Special Drawing Rights with the IMF	-	-	-	-	-	361,778	-	361,778
Debt securities	6,128,349	234	88,271	1,204,653	8,916,391	-	-	16,337,898
Derivative financial instruments	421	-	-	-	-	-	-	421
Loans to banks	7,028	36,078	204,523	50,253	-	-	12,985	310,867
Other financial assets	3,091	2	68	97	553	-	-	3,811
Total financial assets	**11,033,474**	**36,314**	**292,862**	**1,255,003**	**8,916,944**	**361,778**	**12,985**	**21,909,360**
LIABILITIES								
Money issued in circulation	-	-	-	-	-	8,364,129	-	8,364,129
Amounts due to government organisations	1,617,684	-	-	-	-	-	-	1,617,684
Short-term deposits of resident banks	378,509	-	3,000,000	-	-	-	-	3,378,509
Amounts due to credit institutions	2,832,777	-	-	-	-	-	-	2,832,777
Amounts due to other organisations	35,758	-	-	-	-	-	-	35,758
Derivative financial instruments	344	-	-	-	-	-	-	344
Debt securities in issue	1,005,552	-	-	-	-	-	-	1,005,552
Liabilities on transactions with the IMF	-	-	-	-	-	364,503		364,503
Amounts due to international financial institutions	2,273	-	-	-	-	-	-	2,273
Other financial liabilities	6,774	-	-	-	-	-	-	6,774
Total financial liabilities	**5,879,671**	**-**	**3,000,000**	**-**	**-**	**8,728,632**	**-**	**17,608,303**
Net position	**5,153,803**	**36,314**	**(2,707,138)**	**1,255,003**	**8,916,944**	**(8,366,854)**	**12,985**	**4,301,057**

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

32 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 2017:

In thousands of Azerbaijani Manats	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Overdue	Total
ASSETS								
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
Total financial assets	**11,651,570**	**3,491**	**284,027**	**975,565**	**9,176,417**	**370,827**	**21,308**	**22,483,205**
LIABILITIES								
Money issued in circulation	-	-	-	-	-	8,140,238	-	8,140,238
Amounts due to government organisations	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 organisations	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
Total financial liabilities	**6,304,707**	**-**	**3,302,846**	**-**	**-**	**8,513,537**	**-**	**18,121,090**
Net position	**5,346,863**	**3,491**	**(3,018,819)**	**975,565**	**9,176,417**	**(8,142,710)**	**21,308**	**4,362,115**

33 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 25, at 31 December 2018 the authorized and fully paid charter fund of the Bank was AZN 500,000 thousand (31 December 2017: AZN 500,000 thousand).

The Bank has made total loss in the amount of 60,316 AZN thousand (2017: AZN 3,513,453 thousand profit) for the year ended 31 December 2018. 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.

There was no transfer to the State Budget in 2018 (the Bank transferred AZN 4,630,064 thousands based on approval of relevant executive authority in 2017).

34 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.

35 Related Party Transactions

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

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

Main government entities operating with the 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.

35 Related Party Transactions (Continued)

Transactions with the members of the Management

Total remuneration included in personnel expenses for the years ended 31 December 2018 and 2017 is as follows:

In thousands of Azerbaijani Manats	2018	2017
Short-term employee benefits (salary)	847	836

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 2018 and related profit or loss amounts of transactions for the year ended 31 December 2018 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
Statement of financial position							
ASSETS							
Debt securities							
-Debt securities at AC	39,971	from 0.15 to 0.30	-	-	9,482,143	0.15	9,522,114
-Debt securities at FVOCI	-	-	-	-	687,435	from 3 to 3.20	687,435
LIABILITIES							
Amounts due to government organisations	1,455,011	-	-	-	162,673	-	1,617,684
Short-term deposits of resident banks	-	-	-	-	3,049,566	from 5 to 9.5	3,049,566
Amounts due to credit institutions	-	-	-	-	181,819	-	181,819
Amounts due to other organisations	13,114	-	-	-	22,636	-	35,750
Liabilities on transactions with the IMF	364,503	-	-	-	-	-	364,503
Amounts due to international financial institutions	2,273	-	-	-	-	-	2,273
Debt securities in issue	-	-	-	-	47,480	From 7.8 to 9.7	47,480
Profit (loss)							
Interest income	90	-	-	-	29,410	-	29,500
Interest expense	-	-	-	-	(162,734)	-	(162,734)

35 Related Party Transactions (Continued)

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
Statement of financial position							
ASSETS							
Investment securities	52,955	0.3	-	-	10,010,290	from 0.15 to 3.2	10,063,245
LIABILITIES							
Amounts due to government organisations	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 organisations	26,026	-	-	-	10,550	-	36,576
Liabilities on transactions with the IMF	373,299	-	-	-	-	-	373,299
Amounts due to international financial institutions	4,693	-	-	-	-	-	4,693
Profit (loss)							
Interest income	1,572	-	-	-	33,881	-	35,453
Interest expense	-	-	-	-	(167,701)	-	(167,701)
Fee and commission income	1,082	-	-	-	4,243	-	5,325

36 Financial Assets and Liabilities: Fair Values and Accounting Classifications

Accounting classifications and fair values

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

The following table provides a reconciliation of financial assets with these measurement categories as of 31 December 2018:

In thousands of Azerbaijani Manats	**Financial assets measured at AC**	**Financial assets measured at FVOCI**	**Financial assets measured at FVTPL**	**Total**
ASSETS				
Cash and cash equivalents	4,024,099	-	870,486	4,894,585
Debt securities				
- Agency notes	-	2,539,059	182,812	2,721,871
- Notes issued by international financial institutions	-	358,237	36,126	394,363
- Corporate bonds	-	801,957	123,355	925,312
- Government bonds	-	112,106	135,652	247,758
- US Treasury notes	-	875,075	381,464	1,256,539
- Regional authorities and municipal bonds	-	422,623	22,358	444,981
- UK Treasury notes	-	109,729	27,796	137,525
- Mortgage and Credit Guarantee Fund of the Republic of Azerbaijan	-	687,435	-	687,435
- Ministry of Finance of the Republic of Azerbaijan	39,971	-	-	39,971
- JSCO Aqrarkredit	9,482,143	-	-	9,482,143
Loans to banks				
- Refinancing loans	310,663	-	-	310,663
- Lender of last resort loans	204	-	-	204
Special Drawing Rights with the IMF	361,778	-	-	361,778
Derivative financial instruments	-	-	421	421
Other financial assets:				
- Receivables from trade securities disposed	2,865	-	-	2,865
- Loans to employees	720	-	-	720
- Amounts in course of settlement	226	-	-	226
TOTAL FINANCIAL ASSETS	**14,222,669**	**5,906,221**	**1,780,470**	**21,909,359**

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

For the purposes of measurement, IAS 39 "Financial Instruments: Recognition and Measurement", classified 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:

In thousands of Azerbaijani Manats	Loans and receivables	Available-for-sale assets	Trading assets	Total
ASSETS				
Cash and cash equivalents	5,389,626	-	-	5,389,626
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
Investment securities				
- 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
Loans to banks				
- Refinancing loans	398,883	-	-	398,883
- Lender of last resort loans	1,986	-	-	1,986
Special Drawing Rights with the IMF	370,827	-	-	370,827
Derivative financial instruments	-	-	123	123
Other financial assets:			-	
- Receivables from trade securities disposed	7,101			7,101
- Loans to employees	789	-	-	789
- Amounts in course of settlement	169	-	-	169
TOTAL FINANCIAL ASSETS	**15,704,481**	**528,145**	**6,250,579**	**22,483,205**

36 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 2018 (2017: none).

36 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.

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

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 2018, 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:

In thousands of Azerbaijani Manats	Level 1	Level 2	Total
Financial assets			
Cash and cash equivalents	-	870,486	870,486
Debt securities			
- Agency notes	2,721,871	-	2,721,871
- Notes issued by international financial institutions	394,362	-	394,362
- Corporate bonds	925,312	-	925,312
- Government bonds	247,758	-	247,758
- US Treasury notes	1,256,539	-	1,256,539
- Regional authorities and municipal bonds	444,982	-	444,982
- UK Treasury notes	137,526	-	137,526
- Mortgage and Credit Guarantee Fund of the Republic of Azerbaijan	687,435		687,435
Derivative financial instruments	-	421	421
	6,815,785	**870,907**	**7,686,692**
LIABILITIES AT FAIR VALUE			
FINANCIAL LIABILITIES			
Derivative financial instruments	-	344	344

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 categorized. The amounts are based on the values recognized in the statement of financial position:

In thousands of Azerbaijani Manats	Level 1	Level 2	Total
Financial assets			
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
	6,778,601	**123**	**6,778,724**
LIABILITIES AT FAIR VALUE			
FINANCIAL LIABILITIES			
Derivative financial instruments	-	1,012	1,012

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

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.

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 2018, by the level in the fair value hierarchy:

In thousands of Azerbaijani Manats	Level 1 fair value	Level 2 fair value	Level 3 fair value	Carrying value
ASSETS				
Cash and cash equivalents	-	4,024,099	-	4,024,099
SDRs with the IMF	-	361,778	-	361,778
Loans to banks	-	306,763	-	310,867
Debt securities				
- Ministry of Finance of the Republic of Azerbaijan	-	39,971	-	39,971
- JSCO Aqrarkredit	-	-	9,482,143	9,482,143
Other financial assets	-	3,811	-	3,811
LIABILITIES				
Money issued in circulation	8,364,129	-	-	8,364,129
Short-term deposits of resident banks	-	3,378,509	-	3,378,509
Amounts due to government organisations	-	1,617,684	-	1,617,684
Amounts due to credit institutions	-	2,832,777	-	2,832,777
Amounts due to other organisations	-	35,758	-	35,758
Debt securities in issue	-	1,005,552	-	1,005,552
Liabilities on transactions with the IMF	-	364,503	-	364,503
Amounts due to international financial institutions	-	2,273	-	2,273
Other financial liabilities	-	6,774	-	6,774

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

The table below analyses financial instruments not measured at fair value at 31 December 2017, by the level in the fair value hierarchy:

In thousands of Azerbaijani Manats	Level 1 fair value	Level 2 fair value	Level 3 fair value	Carrying value
ASSETS				
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
LIABILITIES			-	
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 organisations	-	1,530,229	-	1,530,229
Amounts due to credit institutions	-	2,070,918	-	2,070,918
Amounts due to other organisations	-	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

The fair values in level 2 and 3 fair value hierarchies were estimated using the discounted cash flows valuation technique. 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.

37 Accounting Policies Applicable before 1 January 2018

Accounting policies applicable to the comparative period ended 31 December 2017 that were amended by IFRS 9, are as follows.

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.

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. 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.

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.

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.

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.

37 Accounting Policies Applicable before 1 January 2018 (Continued)

Impairment of 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.

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.