

Regulation on setting open currency position limits in banks

1. General provisions

This Regulation has been developed in accordance with Article 34.2.11 of the Law of the Republic of Azerbaijan on Banks and govern setting open currency position and its limits for banks and local branches of foreign banks operating in the Republic of Azerbaijan (hereinafter – the banks) to regulate exchange rate risk.

2. Definitions

2.1. The definitions used in this Regulation bear the following meanings:

2.1.1. currency position – bank claims and liabilities in foreign currency and bank metals.

2.1.2. open currency position – difference between the amounts of bank’s balance and off-balance sheet claims (hereinafter – claims) in individual currencies, as well as bank metals and balance and off-balance sheet liabilities (hereinafter – liabilities).

2.1.3. short open currency position – an open currency position where the amount of bank’s liabilities in any currency exceeds the amount of its claims.

2.1.4. long open currency position – an open currency position where the amount of bank’s any foreign currency claims exceeds the amount of its liabilities.

2.1.5. net open currency position – an indicator that is absolutely quantitatively large between the sum of all long open currency positions in manat equivalent and the sum of all short open currency positions in manat equivalent.

2.1.6. closed currency position – where the amount of bank’s claims in any foreign currency are equal to the amount of its liabilities.

2.1.7. open currency position limit – the limit set herein on the ratio of manat equivalent of the open currency position to bank's total regulatory capital.

2.1.8. freely convertible currency (FCC) – currencies specified in Annex 1 herein.

2.1.9. closed currencies – currencies other than those specified in Annex 1 herein.

2.1.10. exchange rate of the day - the official exchange rate of manat against foreign currencies set by the Central Bank of the Republic of Azerbaijan (hereinafter - the Central Bank) or the cross rate calculated on the official exchange rate on the date of calculation of the open currency position.

2.1.11. structural currency position – long-term currency positions adopted to minimize the impact of currency risks on bank capital. Such a position includes establishment of subsidiaries by banks abroad, issue and placement of shares in a foreign currency and positions opened on other non-speculative transactions, etc.

2.1.12. hedging – prevention of losses due to exchange rate fluctuations through derivative financial instruments, as well as forward contracts.

2.2. The definition 'foreign currency' used herein bears the meaning specified in the 'Law of the Republic of Azerbaijan on Currency Regulation' and the definition 'bank metals' the meaning specified in the 'Law of the Republic of Azerbaijan on Precious Metals and Stones'.

3. Open currency position: calculation requirements and limits

3.1. The following is considered when calculating open currency position for each currency:

3.1.1. net spot position (total liabilities (including accrued interest) are deducted from total assets in a relevant foreign currency).

3.1.2. net forward position (difference between amounts to be received and paid under forward contracts).

3.1.3. realizable and non-refundable guarantees (already claimed by the beneficiary) and similar instruments (e.g., credit lines, letters of credit, etc.).

3.2. When calculating the open currency position on credit lines, the following credit conversion factors (CCF) apply:

3.2.1. if maturity is up to 1 year – 20% (twenty) (CCF – 0,2).

3.2.2. if maturity is over 1 year– 50 % (fifty) (CCF – 0,5).

3.2.3. if the bank is granted the right unilaterally not to fulfill commitments in full on a contractual basis – 10% (ten) (CCF – 0,1).

3.3. When calculating the open currency position, assets written off at the expense of reserves from the balance sheet and recorded in off-balance sheet accounts are excluded.

3.4. When calculating the open currency position, balance sheet assets are recorded less relevant reserves (general and specific reserves).

3.5. All hedging contracts concluded by the bank are taken into account when calculating the open currency position. Within the next three (3) business days following the conclusion of a hedging contract, the bank submits electronic notification thereof to the Central Bank.

3.6. When calculating the open currency position, off-balance sheet liabilities (less the part secured with funds in deposit accounts and guarantees of banks with minimum investment rating issued by international rating agencies on long-term liabilities, as well as guarantees of the banks operating in the Republic of Azerbaijan whose credit rating issued by international rating agencies is maximum of 2 (two) points below the country's (sovereign) debt rating) are considered in net amount.

3.7. When calculating the open currency position, structural currency positions are excluded.

3.8. The open currency position is calculated by the bank daily at the exchange rate of the day for freely convertible and closed currencies.

3.9. To limit risks associated with changes in the exchange rate and the value of bank metals, the open currency position limit should not exceed the thresholds specified in Annex 3 herein.

3.10. Open currency position limits apply only to final indicators of the trading day, not taking into account the currency positions opened by banks during the trading day.

4. Report on the open currency position

4.1. Reports on the open currency position are prepared daily, weekly, and monthly in the form specified in Annex No. 2 to this Regulation. The reports include consolidated information on branches and divisions located both within and outside the country. Banks that have branches outside the territory of the Republic of Azerbaijan additionally submit a separate report reflecting information on branches and divisions located within the country.

4.2. Reports on the open currency position are developed electronically.

4.3. Daily reports are submitted by 10:00 a.m. on the next business day; weekly reports developed by days are submitted on the first business day of the following week; and monthly reports are submitted on the first business day of the following month, approved by the enhanced electronic signature of the Chairperson of the Management Board, the Chief Financial Officer, or the head of the bank's financial management function (for a local branch of a foreign bank — the branch manager or chief accountant (or the person acting in this capacity)) and submitted to the Central Bank via the Central Bank's Electronic Services Portal.

LIST
of freely convertible currencies used for the purposes of the
'Regulation on setting open currency position limits in banks'

Issuing country/institution	Currency	ISO code
United States of America	US dollar	USD
European Union	euro	EUR
Canada	Canadian dollar	CAD
Japan	Japanese yen	JPY
Great Britain	English pound	GBP
Switzerland	Swiss frank	CHF
International Monetary Fund	Special Drawing Rights	SDR
Currencies of countries with a minimum "AA-" (sovereign) debt rating (or another equivalent rating) issued by international rating agencies		

TRY														
NOK														
AED														
Currency	Central Bank exchange rate	Claims (in foreign currency)			Liabilities (in foreign currency)			In manat equivalent		Open currency position (OCP)				OCP ratio %
		on balance sheet	on off-balance sheet	Total	on balance sheet	on off-balance sheet	Total	Total claims	Total liabilities	Long		Short		
										Currency	AZN	Currency	AZN	
KZT														
UAH														
GEL														
IRR														
XAU														
XAG														
XPT														
XPD														
Other currencies														
TOTAL							Total							
							on FCCs							
							on closed currencies							
							on bank metals							
Total regulatory capital of the bank as of the reporting date:							Net on FCC							
Note: (Information on structural currency position)							Net OCP on closed currency							
							Net OCP							

Annex 3 to the 'Regulation on setting open
currency position limits in banks'

Open currency position limits

Open currency position	FCC	Closed currency	Bank metals
Long open currency position (for one currency)	10%	5%	
Short open currency position (for one currency)	10%	5%	
Net long open currency position	20%	10%	3 %
Net short open currency position	20%	10%	3 %