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Board _____ E.S.Rustamov

Regulations

on accounting of off-balance sheet transactions in the banking system of the Republic of Azerbaijan

1. General provisions

- 1.1. These Regulations have been developed in accordance with the Laws of the Republic of Azerbaijan on the Central Bank of the Republic of Azerbaijan, on Banks and Banking Activity, and other legislative acts of the Republic of Azerbaijan and determine the principles of accounting of off-balance sheet operations in the banking system of the Republic of Azerbaijan (hereinafter – the Bank).
- 1.2. These Regulations govern accounting of off-balance sheet operations and are applied to record them in financial statements.

2. Definitions

- 2.1. **Off-balance sheet operations** – operations not recognized as assets or liabilities in accounting report (balance sheet) at the moment of occurrence.
- 2.2. **Uncertain event** – the event or situation the outcome of which (gain or loss) is only recognized by the fact of occurrence or non-occurrence of that event in future.
- 2.3. **Contractual (contingent) liabilities** – bank's consent on giving or taking liabilities for certain period in future under certain conditions.

3. Classification of off-balance sheet items

- 3.1. Off-balance sheet transactions are classified as follows in terms of risk availability:
 - contingencies and contingent off-balance sheet transactions
 - memorandum off-balance sheet transactions
- 3.2. **Contingencies and contingent off-balance sheet transactions** are transactions that may result in occurrence of uncertain events and contractual (contingent) liabilities in future, conducted on behalf of a customer or related to bank's own trade activities and risky for the bank.
- 3.3. **Memorandum off balance-sheet transactions** are not risky transactions for the bank unlike contingencies and contingent off-balance sheet transactions.

4. Accounting

- 4.1. Off-balance sheet transactions are recorded in off-balance accounts according to double entry accounting, under which a relevant account is debited, while contra-account is credited, or a relevant account is credited and a relevant contra-account is debited.
- 4.2. Contingencies and contingent off-balance sheet transactions are booked in relevant off-balance sheets at pre-set value from the date of signing of related documents and recorded at future unused balance amount. Unused amount is recorded in accounting (balance sheet) report.
- 4.3. Claims and liabilities related to contingencies and contingent off-balance sheet transactions are unrecorded from relevant off-balance sheets in the following cases:

- if paid;
 - if recalled;
 - if expired;
 - in other cases specified in the legislation.
- 4.4. Contingencies and contingent off-balance sheet transactions include contingencies and contingent off-balance sheet transactions on outstanding portion of declared authorized capital, outstanding portion of commercial banks' required reserves, contingencies and contingent liabilities on credit operations, capital investments, buy/sell of foreign currency, buy/sell of securities, and on buy/sell of other financial instruments and other risky transactions for the bank related to other exposures and are booked in relevant off-balance sheet accounts.
- 4.5. Memorandum off-balance sheet transactions are recorded in relevant off-balance sheet accounts based on the documents confirming the fact of their generation.
- 4.6. Memorandum off-balance sheet transactions are unrecorded from off-balance sheets on the basis of documents denying their availability.
- 4.7. Memorandum off-balance sheet transactions include collateral, payment transactions and documents, debt written-off from the balance sheet, rent and lease operations, transactions with low value and perishables and other transactions not risky for the bank and are recorded in relevant off-balance sheet accounts.

5. Revaluation

- 5.1. Revaluation on off-balance sheet accounts is maintained in the following cases:
- when the manat/foreign currency exchange rate changes;
 - when the price of collateral changes;
 - in other cases specified in the legislation.
- 5.2. Revaluation on off-balance sheet accounts is maintained via relevant contra-accounts.

6. Final provisions

- 6.1. These Regulations take effect from 01 June 2001.

Methodological instructions on accounting of off-balance sheet transactions:

- 1) When off-balance sheet transactions are recorded in off-balance sheet accounts the following accounting entry is made:

For off-balance sheet assets:

Dr relevant off-balance sheet asset account

Cr relevant off-balance sheet contra-account for assets

For off-balance sheet liabilities:

Dr off-balance sheet contra-account for liabilities

Cr relevant off-balance sheet liability account

- 2) When off-balance sheet transactions are unrecorded from off-balance sheet accounts the following accounting entry is made:

For off-balance sheet assets:

Dr off-balance sheet contra-account for assets

Cr relevant off-balance sheet asset account

For off-balance sheet liabilities:

Dr relevant off-balance sheet liability account

Cr off-balance sheet contra-account for liabilities