

State registration with the	Approved by
Ministry of Justice of The Republic of Azerbaijan	Resolution of December 29, 2003 by the Management Board of the Central Bank of The Republic of Azerbaijan
Registration No. 3035 February 19, 2004	Protocol No. 22
Minister _____ F.F.Mammadov	Governor of the Management Board _____ E.S.Rustamov

## **Regulations on financial reporting 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 activities in the Republic of Azerbaijan’, other legislative acts of the Republic of Azerbaijan, as well as regulations by the Central Bank of the Republic of Azerbaijan and requirements of the International Financial Reporting Standards (IFRS) and determine financial reporting procedures for the banking system of the Republic of Azerbaijan (hereinafter – banks).

- 1.2 The goal of these Regulations is to establish a special base of financial statements of a bank for past periods, as well as to allow peer comparisons. To this end, these Regulations reflect financial reporting principles, recommendations with respect to the structure of items presented in financial statements and minimum requirements with respect to the content of financial statements.
- 1.3 Provisions herein equally apply to financial statements of individual banks and consolidated financial statements of banking groups.
- 1.4 These Regulations do not apply to interim financial statements.
- 1.5 The format of prudential (regulatory) reports prepared for banking supervision purposes is determined by Regulations by the Central Bank of the Republic of Azerbaijan.

## **2. Purpose of financial statements**

- 2.1. The purpose of financial statements is to provide a fair presentation of the financial position, performance and changes in the financial position of a bank.
- 2.2. Financial statements present a structured view of bank's operations and performance, and enable users of financial statements to make informed economic decisions.

## **3. Financial statement development principles**

### **Accrual method**

- 3.1. Financial statements are developed using the accrual method. As per the accrual method, operations and events are recognized as they take place (not when cash or cash equivalents are received or to the extent of payment) and recorded in the financial statements of the relevant period. Accrual-based financial statements

inform readers not only of previous payment and cash receipt operations, but also proceeds from future payments and receivables. Thus, accrual-based financial statements inform readers of sufficiently significant past operations as well as future events to enable them to make informed economic decisions.

### **Ongoing concern**

3.2. Financial statements should be prepared on an ongoing concern basis, considering bank's current activities and expected continuation of business in future. That is, this principle implies that there is no intention or need to downsize or liquidate bank's operations. If there is such an intention or need, financial statements should be developed using a different approach, which should be disclosed.

### **Qualities of financial statements**

#### **Transparency (clarity)**

3.3. The primary quality indicator of financial statements is to be as clear as possible for readers. Financial statements developed using this principle give readers a fair view of the bank's financial position, performance results, cash flow.

#### **Appropriateness**

3.4. For information to be useful, it should be appropriate for readers who make economic decisions. If the information affects economic decisions by evaluating past, current and future events, as well as confirms or leads to removal of any past evaluations, it is considered appropriate.

#### **Significance/appropriateness**

3.5. Appropriateness of information is greatly affected by its nature and significance. According to this principle, each significant item should be disclosed separately in financial statements. Insignificant amounts should be combined with similar amounts and not presented separately.

### **Reliability**

3.6. To be appropriate, information should be reliable. Information is considered reliable if it is free of material errors, unbiased and credible for readers.

### **Proper presentation**

3.7. Operations and events should be presented properly to make sure that financial statements are reliable.

### **Substance over form**

3.8. For operations and events to be presented properly, they should be presented bearing in mind not only their legal form, but also be substantive and economically realistic.

### **Neutrality**

3.9. To ensure reliability information presented in financial statements should be neutral and objective. Financial statements are considered neutral if the choice of information or the form of presentation does not serve the purpose of accomplishing the objectives and does not affect decisions made.

### **Caution**

3.10. To prevent overstatement of asset values or revenues, while understating liabilities or expenses, caution should be exercised when evaluation decisions are made in uncertain circumstances. However, the principle of caution does not require establishing hidden (excessive) reserves, reducing assets (revenues) or increasing liabilities (costs) substantively, because financial statements would not be neutral, thereby failing to meet the reliability criteria.

### **Integrity**

3.11. To ensure reliability information presented in financial statements should be complete and fully and fairly present the bank's financial position and financial performance. Any omission would result in misstatement of all information, thereby leading to unreliable and inefficient presentation in terms of integrity.

### **Comparability**

- 3.12. Information presented to readers should be comparable to allow evaluating financial position trends and performance over different periods. Readers should also be able to make comparisons to evaluate the financial position, performance and changes in the financial position of different banks.
- 3.13. An important requirement to the quality of comparability is to inform readers of the accounting policy used when developing financial statements, any changes in the accounting policy and the effects of such changes.

### **Restriction of information appropriateness and reliability**

#### **Timeliness**

- 3.14. Any unjustified delay in presentation may cause the information to lose its significance. Sometimes operations and other events need to be presented without a detailed scrutiny of all aspects to ensure that information is presented in a timely manner. This affects the reliability. On the other hand, if statements are retained for in-depth investigations of all aspects, the information would be sufficiently reliable, but of little use for users because it may be late for users to make economic decisions. A balance between appropriateness and reliability is the best way to ensure that the decision-making requirements of users are met. In this view, information should be presented in a timely manner to prevent any undesirable event from taking place or to allow making informed economic decisions.

#### **Cost effectiveness**

- 3.15. Cost effectiveness is not a quality but a principal limitation. Under this principle, benefits to be gained from information should exceed costs incurred to obtain this information.

### **Accurate and objective presentation**

3.16. Financial statements should provide an accurate and objective view of the financial position, performance and changes in the financial position of the bank.

## **4. Elements of financial statements**

4.1. Financial statements should present results of operations and events in appropriate categories combined by economic characteristics. These categories are referred to as elements of financial statements. Balance sheet elements directly related to evaluation of the financial position are assets, liabilities and capital. Income statement elements directly related to evaluation of the financial position are income and expenses.

4.2. These elements are classified in the balance sheet and income statement. The objective of this classification is to give more favorable grounds to make informed economic decisions for readers.

### **4.3. Financial position**

4.3.1. Elements directly related to evaluation of the financial position are assets, liabilities and capital. These elements are defined as follows:

- a) **Assets** are funds controlled by the bank as a result of past events and expected to generate economic benefits for the bank in future.
- b) **Liabilities** are current debts resulting from past events, regulation of which may result in an outflow of income generating instruments from the bank.
- c) **Capital** is bank's own funds and remaining share of assets after all of the bank's liabilities are deducted.

### **4.4. Assets**

4.4.1. Future economic benefit represented by an asset is gained as follows:

- a) the asset is used separately from services offered by the bank or in relation with other assets;
- b) the asset is traded for other assets;
- c) the asset is used to pay for liabilities;
- d) the asset is distributed among bank's owners.

4.4.2. Many assets, e.g., fixed assets have a physical form. However, the physical form does not constitute grounds for determining whether an asset exists; therefore, patents and copyrights do not have a physical form, but are considered assets because the bank expects economic benefit from, and controls such assets. Also, ownership is not a primary requirement for establishing existence of an asset. Thus, if the bank exercises control over expected revenues, leased property is also recognized as an asset.

4.4.3. Bank assets emerge from past operations and other events.

4.4.4. Costs incurred and assets generated are closely related, but may be inconsistent. Thus, when a bank incurs costs, it is expected that such costs are incurred for the purpose of generating future profits, however it does not necessarily mean that something recognizable as an asset has been created as a result of these costs. Also, exemption of appropriate costs does not prevent an item from being recognized as an asset and may be recognized in the balance sheet.

#### **4.5. Liabilities**

4.5.1. The main characteristic of a liability is the bank's debt. A liability is a debt or a commitment to perform certain work or take certain actions.

4.5.2. A liability can be fulfilled in any of the following ways:

- a) payment of money funds;
- b) delivery of other assets;
- c) provision of services;

- d) replacement of a liability with another one;
- e) transfer of a liability to the capital.

Liabilities may also be fulfilled by other means such as loss or waiver of ownership rights to any asset or funds by the creditor.

4.5.3. Liabilities arise as a result of past operations (events).

#### **4.6. Capital**

4.6.1. Although capital is provided as a balance, it should be classified in the balance sheet. This classification identifies the dividend entitlements or equity investment proportions of the bank's equity investors.

4.6.2. The balance sheet amount of capital depends on the assets and liabilities.

#### **4.7. Financial performance**

4.7.1. Profit is used as a measure of bank's operating effectiveness or a measure of yield on investments (equities). Elements directly related to profit measurement are income and costs/expenses.

4.7.2. Income and cost elements are defined as follows:

- a) **Income** is a growth of economic benefits as inflow or growth of assets or not related to shareholder contributions, manifesting itself as reduction of liabilities resulting in the growth of capital, during the reported period.
- b) **Cost** is a reduction of economic benefits manifesting itself as a growth of liabilities resulting in reduction of capital not related to outflow or reduction of assets during the reported period.

#### **4.8. Income**

4.8.1. Income includes cash receipts and other revenues. Cash receipts arise in the normal course of business and have different definitions such as benefits, interest, dividends, royalties and rentals.

- 4.8.2. Other income represents other items meeting the definition of income and may or may not arise in normal course of business. Such income represents growth of economic benefits and does not differ from cash receipts by nature.
- 4.8.3. Other income consists of, for example, proceeds from sale of fixed assets. The definition of income also includes unrealized income, i.e., income from revaluation of marketable securities or increase of the book value of long-term assets. Such income is presented separately in the income statement because these income items are helpful in making informed economic decisions.
- 4.8.4. Different assets may be gained and increased on account of income. For instance, cash, receivables, goods and services in exchange for goods and services supplied. Income may be generated from regulation of liabilities.

#### **4.9. Costs**

- 4.9.1. Costs include losses and expenses incurred in the normal course of business. Costs arising in the normal course of business also include other costs, such as salary and depreciation charges.
- 4.9.2. Losses are costs that meet the definition of costs arising in the normal course of business and contingency costs. Losses represent a decline of economic benefits and therefore are not different from other costs by nature.
- 4.9.3. Losses are recognized in the income statement separately less relevant income because information about losses are helpful for making informed economic decisions.

#### **4.10. Adjustments to capital**

- 4.10.1. Revaluation and re-statement of assets and liabilities in the statement increase or reduce the capital. Such increases and reductions are not included in the income

statement. These items are included in the capital as adjustments to capital or revaluation reserves.

## **5. Recognition of elements of financial statements**

5.1. Recognition is the process of inclusion of an item meeting the definition of any element and recognition requirements set forth in Item 5.2 in the balance sheet or income statement. Recognition includes a verbal description, monetary representation of an item and inclusion of this amount in the balance sheet or income statement. Items meeting the recognition criteria should be recognized in the balance sheet or income statement. Failure to recognize such items is not compensated with the accounting policy used, notes or explanatory materials.

5.2. An item meeting the definition of an element should be recognized if:

- a) the bank is likely to earn or lose the anticipated economic benefit associated with the item;
- b) the item has a reliably measurable value or price.

5.3. When an item is verified for consistency with the above described criteria and the possibilities of recognizing it in the financial statements is assessed, the principle of significance should be taken into account. An interconnection between elements indicates that a specific element requires another element (*e.g., an item meeting the definition and recognition criteria of asset requires another element to be recognized, for example, income and liability*) to be recognized

### **5.4. Assumption of future economic benefits**

5.4.1. Assumption is used to identify the degree of uncertainty of the bank earning or losing future economic benefits from the underlying item in terms of recognition. This concept is related to the uncertainty characterizing the social and economic environment the bank operates in. When financial statements are developed, the

degree of uncertainty of future economic benefits is determined by evaluating the existing evidence. *For example, if there is a likelihood that a bank's debt will be recovered and the bank has no evidence of the opposite, it is justified to recognize such debt as an asset.*

## **5.5. Reliability of measurement**

5.5.1. The second criterion for recognition of an item is a value or price that can be reliably measured. The value or price is set by substantive calculations. Use of substantively calculated quantities is an important part of development of financial statements and does not affect their reliability. If the price of an item cannot be identified, the item is not recognized in the balance sheet and income statement. *For example, expected proceeds from a lawsuit are consistent with both assets and income, as well as assumptions for recognition purposes, however if the amount of the lawsuit cannot be reliably identified, such expected receipts are not recognized as an asset or income. In this case, existence of a lawsuit is disclosed in notes, explanations or attached schedules.*

5.5.2. If an item that does not meet recognition criteria at a point of time meets the recognition criteria as a result of subsequent events or new circumstances, it should be recognized in the financial statements.

5.5.3. An item that meets the criteria of an element but does not meet the recognition criteria should be disclosed in notes, explanations or attached schedules

## **5.6. Recognition of assets**

5.6.1. If an asset is assumed to generate future economic benefits for the bank and has a value or a price that can be reliably measured, it should be recognized in the balance sheet.

## **5.7. Recognition of liabilities**

5.7.1. If there is a likelihood of outflow of funds constituting economic benefits as a result of payment of a current liability and the value of this payment can be reliably identified, the liability should be recognized in the balance sheet.

## **5.8. Recognition of income**

- 5.8.1. If future economic benefits increase in connection with a reliably measurable asset growth and liability reduction, the income is recognized in the income statement. It indicates that the income is recognized at the same time with recognition of asset growth or liability reduction. *For example, sale of services leads to a net growth of assets, while liabilities are reduced as repayment of a debt is rejected*

## **5.9. Recognition of costs**

- 5.9.1. If future economic benefits increase in connection with a reliably measurable asset reduction and liability growth, the costs are recognized in the income statement. It indicates that the costs are recognized at the same time as liability reduction or asset growth is recognized (*for example, salary or equipment depreciation arrears*).
- 5.9.2. Costs are recognized in the income statement through direct assessment of costs incurred on specific income items against benefits. This process is referred to as cost-benefit assessment. However, pursuant to the provisions herein, using this process does not allow items not meeting asset and liability criteria to be recognized in the balance sheet.
- 5.9.3. If economic benefits are expected to be gained in several accounting periods, costs are recognized in the income statement using the rational distribution method. This recognition method is required when costs associated with assets such as fixed assets, patents and trade marks are recognized, wherein costs are recognized as depreciation. This distribution method is designed for recognizing costs in the accounting periods when economic benefits are used or generated in association with these items.

- 5.9.4. If costs do not generate future economic benefits or future economic benefits do not meet the requirements for recognition as an asset in the balance sheet, the costs are immediately recognized in the income statement.
- 5.9.5. If costs generate a liability as well before the asset is recognized (e.g., commitment to supply goods), they should be recognized in the income statement.

## **6. Evaluation of elements of financial statements**

- 6.1. Evaluation is a process of identification of cash amounts that should be recognized as elements of financial statements and included in the balance sheet and income statements
- 6.2. A number of different evaluation methods are used in financial statements. These methods include:
- a) **Actual purchase value.** Assets are recognized at amounts of cash or cash equivalents paid for them or fair value offered for purchase of assets. Liabilities are recognized at the amount received in exchange for a debt liability or sometimes at expected receivables or their equivalents. *For example, income tax.*
  - b) **Recovery value.** Assets are recognized at amount of cash payable or its equivalents, if such assets or equivalent assets exist. Liabilities are recognized at the discounted amount of required cash or cash equivalents, if such liabilities exist.
  - c) **Possible sale price (payment).** Assets are recognized at amount of cash or cash equivalents that can be generated from sale in normal course of business. Liabilities are recognized at the amount paid for them, i.e., at the undiscounted

amounts of cash or cash equivalents to be incurred for payment of the liabilities in the normal course of business.

d) **Discounted value.** Assets are recognized at the discounted value of future net cash receipts expected to be generated from this asset in the normal course of business. Liabilities are recognized at the discounted value of future net payments of cash expected to be required to pay for the liabilities in the normal course of business

6.3. The primary measure most commonly used by banks is the actual value. Normally actual value is used in combination with other evaluation methods. *For example, inventories are usually booked at the possible net sale price below the prime cost, marketable securities are booked at the market value, while pension liabilities are recognized at a discounted amount.*

## **7. Retention of financial capital concept and determination of profit**

7.1 Under the concept of retaining the financial capital, the portion of amount remaining after deduction of all assignments from the year-end net assets and payouts to owners during the period in excess of the year-start net assets is considered profits gained. Retention of financial capital is measured by nominal monetary units or permanent purchasing power

7.2 The capital retention concept considers how the bank identifies the capital it intends to retain. The capital retention concept identifies the connection between capital concepts and profit concepts and indicates the profit measurement objectives. This concept is used as the basis for identifying the difference between profit injections to the capital and returns from the capital. Asset flows in excess of the amount required to retain the capital are recognized as profits. Eventually, profit is the amount

remaining after deduction of costs from income (including the amount of adjustments required to retain the capital). If the costs exceed the income, the spread is recognized as losses.

## **8. Accounting policy**

- 8.1. Accounting policy is a set of specific principles, grounds, conditions, rules and practices accepted by the bank for development and presentation of financial statements
- 8.2. The bank's accounting policy should be consistent with all accounting Procedures used in financial reporting and should:
  - a) should be appropriate to decision-making needs of users;
  - b) be reliable as the policy:
    - fairly presents the bank's financial position and performance;
    - presents not only the legal form but also the economic substance of events and operations;
    - is neutral;
    - is comprehensive;
    - is complete in any respect.

## **9. Determination of forms of financial statements**

- 9.1. Forms of financial statements should be clearly established and separated from other published disclosures.
- 9.2. Every component of financial statements should be clearly identified. Also, the following information should be carefully selected and duplicated if necessary for better understanding of information presented:

- a) name or other requisites of the reporting bank;
- b) information on whether financial statements relate to an individual bank or a group of banks;
- c) reporting date of the appropriate part of financial statements (the most relevant one) or the period covered by the financial statements;
- d) reporting currency;
- e) degree of accuracy of presentation of information (numbers) in financial statements.

9.3. Amounts should be stated in thousands or millions of manats in financial statements.

#### **9.4. Reporting period**

9.4.1. Financial statements should be presented at least every year.

9.4.2. If in exceptional cases the bank's reporting date is changed and annual financial statements are presented at intervals longer or shorter than a year, the bank should disclose the following in addition to the period covered by financial statements:

- a) reason for using a period longer than one year;
- b) irreconcilability of comparable amounts and relevant notes stated in the income statement, statement of changes in equity, cash flow statement.

#### **9.5. Responsibility for financial statements**

9.5.1. The bank's Supervisory Board (Management Board) and/or other executive bodies are responsible for presentation of financial statements.

### **10. Composition of financial statements**

10.1. The full set of financial statements includes:

- a) balance sheet;
- b) income statement;

- c) statement of changes in equity;
  - d) cash flow statement;
  - e) accounting policy and explanatory notes.
- 10.2. In addition to financial statements bank may present management's financial commentaries describing the prevailing nature of financial performance, financial position and main uncertainties encountered.

## **11. Balance sheet**

### **11.1. Short-term and long-term itemization**

- 11.1.1. Every bank should classify and report short- and long-term assets separately in the balance sheet statement based on the nature of operations executed.

#### **Short-term assets**

- 11.1.2. Assets are classified as short-term assets if:

- a) the asset is held for sale or for use in the normal course of business;
- b) the asset is held primarily for commercial purposes or for a short period of time and is to be disposed of within twelve months from the reporting date;
- c) the asset is considered cash or cash equivalents without any limitations of use.

All other assets are classified as long-term assets.

#### **Short-term liabilities**

- 11.1.3. Liabilities are classified as short-term liabilities if:

- a) the liability is to be paid in the normal course of business;
- b) the liability is to be paid within twelve months from the reporting date.

All other liabilities are classified as long-term liabilities.

11.1.4. The bank should classify long-term liabilities, including interest payable, as long-term liabilities as follows, even if such liabilities are to be paid within twelve months from the reporting date:

- a) the original maturity of the liability is more than twelve months;
- b) the liability is to be refinanced on a long-term basis;
- c) these intentions are ascertained by a refinancing agreement or an agreement to modify the payment schedule before the financial statements are approved.

The amount of any liability removed from short-term liabilities should be disclosed in the notes to the balance sheet (together with supporting information).

## **11.2. Disclosures in the balance sheet statement**

11.2.1. The bank should disclose assets and liabilities in an order of liquidity, grouped by nature.

11.2.2. The balance sheet statement should include the following items:

### **Assets**

- cash and other means of payment;
- gold and other precious metals;
- accounts held with the Central Bank;
- loans and advances to the financial sector;
- loans and advances to customers;
- investment securities;
- intangible assets;
- fixed assets;
- other assets.

### **Liabilities**

- due to the Central Bank;

- due to the financial sector;
- due to customers;
- other borrowings;
- other liabilities.

**Capital**

- paid-in capital;
- reserves;
- retained earnings.

11.2.3. The bank should disclose the fair value for each class of financial assets and liabilities in the balance sheet statement.

11.2.4. If additional clauses, headings and interim amounts are required or important for fair presentation of the bank's financial position, they should be included in the balance sheet statement.

11.2.5. Assets and liabilities should not be offset, unless otherwise required under other accounting Procedures.

**11.3. Information to be disclosed in or notes to the balance sheet the balance sheet**

11.3.1. The bank should disclose the classification of each item presented in the balance sheet or notes to the statement. Each balance sheet item should be classified in accordance with its nature and the classification of accounts payable and receivable of the parent bank, related subsidiary, associated entity and other related parties.

11.3.2. The bank should disclose the following details in the balance sheet or notes:

a) for each class of the shareholder capital:

- the number of shares authorized for issue;
- shares issued and fully paid in, and issued but not paid in fully;
- par value per share;
- year-start vs year-end number of outstanding shares;

- rights, privileges and limitations relating to each class, as well as dividend payout and capital payment limitations;
  - shares owned by the bank or a subsidiary or associated entities;
  - shares to be issued under option or sale contracts, including terms and amounts;
- b) nature and purpose of each reserve in owners' capital;
- c) when dividends are presented, but not officially approved for payout, amount included (or not included) in the liability;
- d) any unrecognized dividends on preferred cumulative shares.

## **12. Income statement**

12.1. The bank should group income and costs by nature and present them in income statement disclosing main types of income and costs.

12.2. The income statement should include the following income and cost items:

- interest income;
- interest expenses;
- loan loss provisioning;
- net revaluation income on gold and other precious metals;
- net revaluation income on securities;
- net revaluation income on currency position;
- net income from foreign exchange dealing operations;
- fees and commissioning income;
- fees and commissioning expenses;
- other operating income;
- personnel costs;

- depreciation charges on intangible assets and fixed assets;
  - repair and maintenance costs on fixed assets;
  - administrative costs;
  - other costs;
  - profit tax costs.
- 12.3. Every major income and cost arising from bank operations should be disclosed separately to enable users to evaluate effectiveness of the bank's performance.
- 12.4. The bank should provide an analysis of income and costs based on classification in the income statement or notes.
- 12.5. Income and cost items may be offset off only if:
- required by other accounting Regulations;
  - profit (loss) and associated costs from the same or similar operations and events are not significant. In this case, these amounts are combined and reported based on the significance principle.

### **13. Statement on changes in equity**

- 13.1. Information on changes in equity should be presented as a standalone form of bank's financial statements.
- 13.2. This statement classifies bank's capital items individually and discloses capital indicators at the beginning, during and at the end of the reported period.

### **14. Cash flow statement**

- 14.1. Cash flow in bank's financial statements is subject to the *Regulations on cash flow reporting for the banking system of the Republic of Azerbaijan*. The said Regulations enable

users to identify bank's cash flow and related requirements to evaluate the bank's overall performance.

### **15. Notes to financial statements**

15.1. Notes to bank's financial statements should disclose the following:

- a) grounds and accounting policy used in preparation of financial statements selected for relevant significant operations and events;
- b) additional information not disclosed in financial statements but required to give a fair view of the bank's performance.

15.2. Notes to financial statements should be presented in a certain order. Notes to financial statements should reference the information presented to each item of the balance sheet, income statement and cash flow statement.

15.3. Notes to financial statements should contain narrative descriptions or broader analysis of amounts disclosed in the balance sheet, income and cash flow statements, including other additional information valuable to users.

### **16. Presentation of the accounting policy**

16.1. Notes to financial statements should provide the following information on the accounting policy:

- a) the evaluation method used when preparing financial statements;
- b) every specific element of the accounting policy essential for proper understanding of financial statements, including:
  - recognition of main types of income;
  - evaluation of investment and other securities;

- reconciliation of operations resulting in recognition of liabilities in the balance sheet statement only against other operations and events giving rise to potential liabilities and conditional events;
- identification of losses on loans and advances and the loss charge-off method.

### **17. Potential liabilities on off-balance sheet items and conditional events**

17.1. The bank should disclose the following potential liabilities and conditional events in financial statements:

- a) crediting nature and scope of liabilities deemed irrevocable without giving rise to material penalties or costs (irrevocable at the bank's own discretion);
- b) nature and scope of potential liabilities and conditional events generated by off-balance sheet items, including:
  - direct credit substitutes used as general debt guarantees, bank acceptance guarantees, financial guarantees on loans and securities, including letters of credit;
  - contractual guarantees, proposed collateral, proposed guarantees and letters of credit not related to certain operations;
  - revocable contracts not reported in the balance sheet statement;
  - interest rates, including swaps, options and futures, exchange rate items;
  - other liabilities.

## **18. Asset and liability maturities**

- 18.1. The bank should group and analyze assets and liabilities by maturity as of the balance sheet date.
- 18.2. Asset and liability maturities and ability to replace interest-bearing liabilities at an appropriate price upon maturity are an important factor in assessing the effect of changes in bank's liquidity, interest rates and exchange rates.
- 18.3. Assets and liabilities should be classified as follows in financial statements:
  - a) demand and up to 1 month;
  - b) from 1 to 3 months;
  - c) from 3 to 6 months;
  - d) from 6 months to 1 year;
  - e) over 1 year.
- 18.4. Maturities set by the bank for assets and liabilities should match.
- 18.5. Maturities should represent the time remaining to the payment (maturity) date. Maturity-based analysis of assets and liabilities is an important factor in assessing bank's liquidity.
- 18.6. If an asset does not have a contractual maturity, the maturity of the asset is determined as the period set for disposal of the asset.

## **19. Concentration of assets, liabilities and off-balance sheet items**

- 19.1. The bank should disclose every significant concentration of assets, liabilities and off-balance sheet items. Such disclosures should be presented by geographic regions, customers or economic sectors, or other sources of risk. The bank should also disclose significant amounts in foreign exchange.

## **20. Losses on loans and advances**

20.1. The bank should disclose the following details on loans and advances:

- a) the accounting policy reflecting the grounds for recognizing and charging-off unrecovered loans and advances as costs;
- b) a detailed description of changes made to special reserves for losses on loans and advances during the period, disclosing the following information individually:
  - amounts recognized as costs for losses on loans and advances during the period;
  - debit amount on loans and advances charged-off during the period;
  - credit amount to compensate the loans and advances previously charged-off during the period.
- c) total reserves for losses on loans and advances as of the reporting date;
- d) total non-accrual loans and advances included in the balance sheet statement, as well as the method used to identify the book value of these loans and advances.

20.2. Any amounts deferred to specially noted costs or in addition to potential costs on the loan portfolio based on previous experience should be recognized as distribution of retained earnings. Credit amounts resulting from reduction of these indicators lead to increase of profits and are not included in calculation of net profits or losses for the period

## **21. Other disclosures**

### **Major banking risks**

21.1. Any amount deferred for payment of the general banking risk, including future costs and other contingencies or conditional events should be disclosed separately as

distribution of retained earnings. Credited amounts resulting from a decrease of these indicators increase retained earnings and are not included in calculation of net profits and losses for the period.

**Pledged assets**

21.2. The bank should disclose total amount of liabilities paid as well as the nature and book value of pledged assets in financial statements.

**Related party transactions**

21.3. The bank should disclose the nature, type and other elements of related party transactions required for proper understanding of the financial statements

**22. Final provisions**

22.1. These Regulations take effect from the date of state registration.