# THE CENTRAL BANK
# OF THE REPUBLIC OF AZERBAIJAN

# 2013 ANNUAL REPORT

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# FOREWORD

**The year of 2013** was the tenth year of a decade long period of growth and development in the country. While the world's leading countries still struggled to overcome and alleviate the crisis they, had severely suffered from, Azerbaijan managed to keep its economy on a path of dynamic growth, thereby enhancing the nation's welfare, chiefly contributed to by non-oil industry growth. Azerbaijan won a top ten position among the world's countries in terms of macroeconomic sustainability.

In pursuit of its targets set for the reported year the Central Bank continued to provide the **necessary support** to macroeconomic and financial stability as well as economic growth. Within the scope of its mandate, the Central Bank worked to maintain a low, single-digit inflation rate, while ensuring a stable exchange rate for the manat, conducive to a sustainable growth pace of the banking and financial industry.

Seeking to realize an adequate monetary and exchange rate policy, the Central Bank worked to achieve its priority monetary policy target of **price stability**. The foreign exchange market was well-balanced, with the manat's exchange rate maintaining a stable variance range, which allowed to stabilize both the actual inflation and inflationary expectations. Endeavors were continued to further the growth of the institutional framework of the monetary policy with an aim to promoting its overall effectiveness, supported by applications of the outputs of empirical studies and econometric models.

**The banking sector moved further along the path of sustainable development** in 2013. This included consistent efforts and measures designed to keep the banking system from facing increased risks, while contributing to improved governance capacity and financial sustainability of banks. Improvements were made to the prudential supervision framework, in tune with the Basel III standards; the sector's capitalization gained on pace.

Efforts as such helped to preserve the banking system's **financial stability**, and even exceed best international practices as far as primary sustainability parameters are concerned. The reported year saw uninterrupted performance of liabilities and settlements, with asset quality ratios kept at acceptable levels and the banking industry's income increased against the previous year's rate.

As part of a measure package designed to enhance public confidence in the banking system, a stronger emphasis was placed on improving the viability of consumer finance protection. The Central Bank carried on with its financial awareness and education efforts in conjunction with banks, international institutions and government agencies.

The banking sector's **financial depth** increased, tagging along continued asset and deposit growth. As the banking system's regional network and non-bank credit institutions came to play a more active role, access to finance was improved for rural consumers. Mortgage lending went up compared to preceding years, with accessibility of discounted loans improving considerably. Serious efforts were taken to continue the automation of mortgage lending.

Stable and reliable operation of **payment systems** remained a top priority for the Central Bank. Non-cash electronic payments via the National Payment System exceeded the GDP twofold, and the card infrastructure demonstrated a faster development pace. Consistent endeavours were continued during the reported year to align the non-cash circulation with the levels of developed countries.

During the reported year the Central Bank worked to ensure that the national economy's cash supply needs are met in full and on time, with due consideration to the existing structure, and to formulate strategic reserves of bank notes and coins. This was done in parallel to significant efforts aimed at **ensuring effective cash management** in a consistent format throughout the country.

In 2013, the Central Bank further increased its **foreign exchange reserves**, while continually working to have these reserves managed in a most effective manner. As global financial markets continued to struggle with low yield rates, the Central Bank carried on with its efforts to expand the currency and geographic diversification of the reserves in order to maintain their absolute value and improve their management effeciency.

The Central Bank continued to build up its **strategic planning** capacity in 2013. The reported year saw the implementation of the 2011-2014 Strategic Plan successfully continued using new frameworks and instruments. This period also witnessed a quite successful application of best practice-based modern strategic program and project management practices. The Bank adopted a new operating plan and a reporting system, setting a multitude of operational targets for functional products, formulating a new risk management architecture and promulgating business process automation. The Central Bank ensured operational transparency and worked to improve dramatically its communication practices to enhance public awareness of its operations.

Elman Rustamov
Chairman of the
Central Bank of Azerbaijan

# I. GLOBAL ECONOMIC PROCESSES AND NATIONAL ECONOMY

## 1.1. Global economic trends

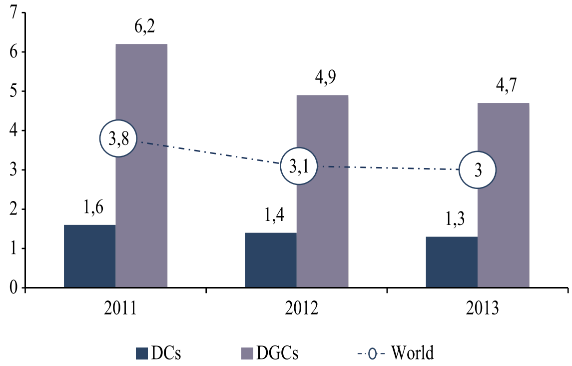
*The year of 2013 was characterized with the leading economies slightly picking up pace on the recovery path, the eurozone reducing sovereign dept volumes and capital flows getting rather volatile, while emerging economies experienced a setback of economic activity. The first positive outcomes of policy measures taken give sufficient grounds for presuming growth processes to continue in the short run. Still, unemployment, borrowing and budget deficits, coupled with financial market instability remain the major risks that just might keep global economic growth in check.*

In 2013, the **global economic growth rate** made 3%, which is only 0.1% below the previous year level. This growth was driven primarily by increase of economic activity that developed countries demonstrated in the latter half of the year. The Organization for Economic Co-operation and Development (OECD) early warning indicators characterize the month of July 2013 as a turning point of the global economic growth trend.

Most developed countries, including the eurozone experienced a relative revival of the economic activity. Benefiting from a successful fiscal policy, continued monetary support to the economy, partial abatement of uncertainty levels and trade revitalization, developed countries (DCs) greatly contributed to global recovery. The International Monetary Fund (IMF) reported the growth rate in DCs at 1.3%.

In parallel, developing countries (DGCs), being the principal driver behind the global recovery processes, had their economic growth rates sliding along a downward path. A number of DGCs displayed stable economic growth owing

Chart 1. Global economic growth rate, against previous year, %




*Source: IMF*

to external demand. However volatile capital revenues coupled with depreciating commodity prices across a number of product ranges had an adverse effect on DGCs economic growth.

Deferring application of more stringent fiscal policy measures up until 2015 supported economic growth by positively affecting private demand in the USA.

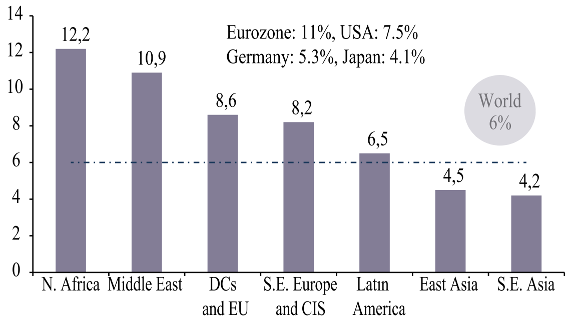
**The eurozone** demonstrated a somewhat slack pick-up in terms of economic recovery in late 2013. The recovery process is mainly contingent upon a successful fiscal policy, high external demand and loose internal lending terms. Economic growth trends were the strongest in the Union's leading countries, Germany and France, while southern countries that were the most susceptible to recession's adverse effects, demonstrated much lower levels. Overall, the eurozone experienced a recession of 0.4% in 2013 (0.7% in 2012).

The **Japan's** "abenomics" concept was a success in 2013. Thus, the IMF reports the concept to have had a percentage point increasing effect on economic growth.

The **China's** policy of shifting from external demand to internal demand with an aim to securing a well-balanced mid-term economic growth rate caused economic activity to have below its sustainable level in the first half of the year. High foreign investments in the latter half of the year had a positive effect on the economic activity. Although the economic growth rate made 7.7%, this rapid economic growth rate is only expected to cover a short-term period.

**High unemployment** levels are still a major consideration for the global economy. The year 2013 saw another rise in unemployment numbers, reaching 202 million people, with South and East Asia accounting for most part of the lot. Thus, around a half (5 million people) of the newly registered unemployed is this region's share.

Chart 2. Unemployment by regions, %

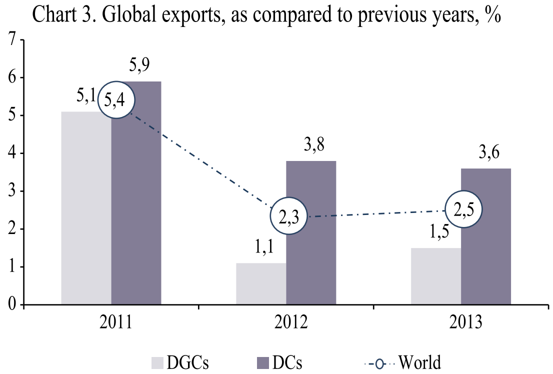



*Source: ILO*

74.5 million of the world's unemployed are 15-24 aged. Global youth unemployment reached 13.1%, which is three times higher than the unemployment level of people of the age (this ratio peaked in 2013). Middle East, North Africa, Latin America and Southern Europe have the highest youth unemployment levels.

While **global trade** displayed some weakening trends in the first half of 2013, it soared to a growth rate that outpaced even the IMF projections in the second half of the year. This rise was primarily driven by increased demand in DCs and China.

Chart 3. Global exports, as compared to previous years, %

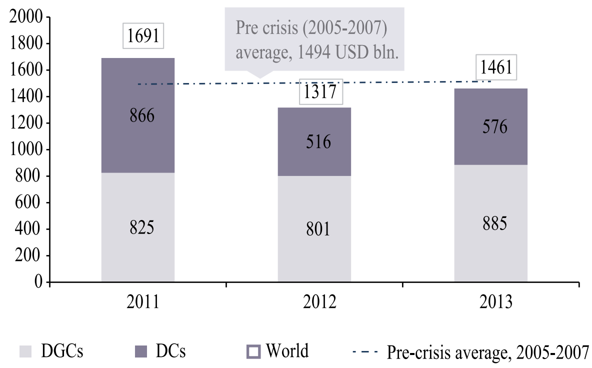



*Source: WTO*

In anticipation of the US Federal Reserve System's monetary austerity in Q2 2013, **global capital flows** were re-directed from DGCs to DCs.

No substantive changes were made in the structure of global foreign direct investments (FDI) in 2013. Over the past two years DCs have maintained a 39% share of global FDI flows. Global FDIs rose by 11% in the reported year, reaching USD 1.5 trillion. However the FDI flows remain below the pre-crisis level (USD 2 trillion). DGCs revenues increased by 10%, peaking at USD885 billion. As of today the USA remains the world leader in terms of FDI inflows at 11%, followed by China at 9% and Russia first-time a third at 6%.

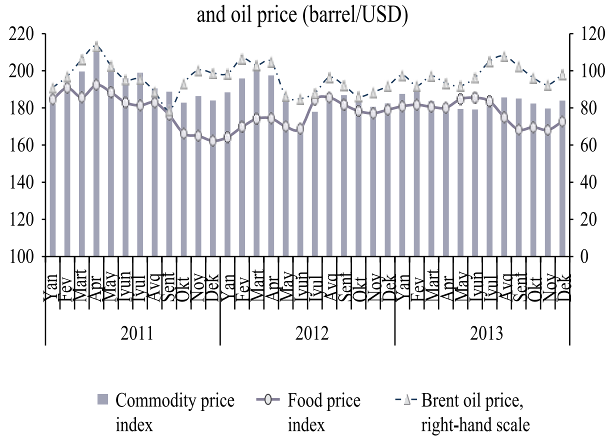
Chart 4. Foreign direct investments, USD billion




*Source: UNCTAD*

The DGCs economic activity below sustainability levels had a relatively stabilizing and

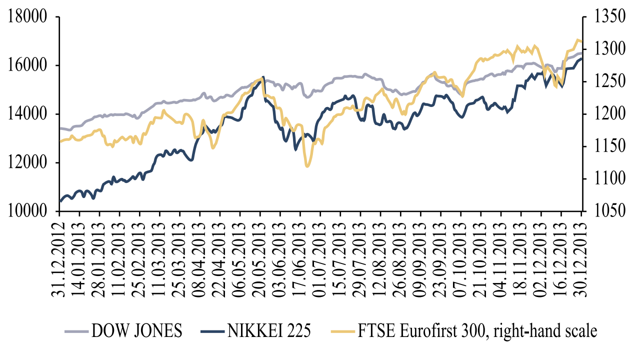
Chart 5. Commodity-food price index (2010=100) and oil price (barrel/USD)




*Source: IMF and EIU*

reducing effect on commodity prices. Thus, **the commodity prices** index increased 0.8%, food prices index went down by 3.5% during the reported year. During the reported year Brent oil was priced at an average of USD108.6, i.e., 2% below the preceding year. The price of gold dropped to its year's lowest in December (USD1196.9 per ounce).

Chart 6. Development path of global financial indices

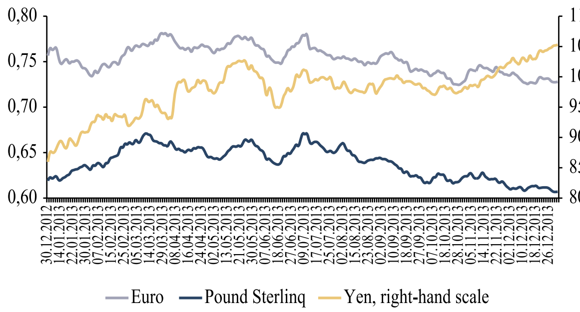



*Source: Bloomberg*

The world's leading **stock exchange indices** increased during 2013. Thus, the Dow Jones index went up by 23%, the FTSE Eurofirst 300 index by 13%.

Upon the US Federal Reserve System declaration of short-term targets in December 2013, the eurozone financial markets stabilized and the risk premium declined in crisis-torn countries.

Chart 7. Exchange rates against US Dollar



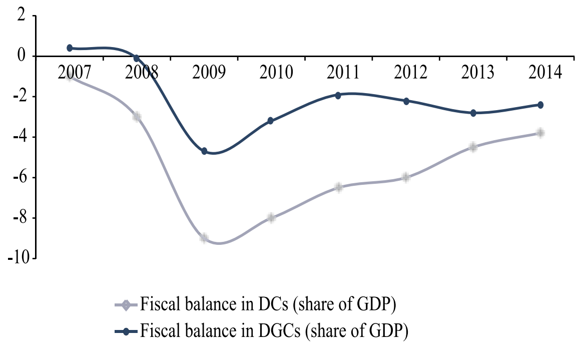

*Source: Reuters*

Some of the world's leading countries experienced a higher than usual volatility of **foreign exchange** rates in 2013. The euro appreciated by 3.8%, the pound sterling by 2% and the Chinese yuan by 2.7% against the US dollar, while the Japanese yen depreciated by 22.5%.

With inflationary pressures somewhat lowered, a number of countries carried on with a loose **monetary policy** with an aim to supporting their national economies. In 2013, central banks of 61 countries reduced their interest rates, 11 countries maintained the same levels and only 10 countries increased their rates. In November 2013, the European Central Bank reduced the re-financing rate by 0.25 percentage points down to 0.25%. The US Federal Reserve System did not modify its interest rate during the year, while reducing the monthly buyout of government securities from USD 85 billion to USD 75 billion, pursuing a gradual "austerity policy".

Most countries based their fiscal policies on **budget consolidation** in 2013. Fiscal consolidation measures allowed a room to reduce borrowing levels. Thus, the euro zone's sovereign debt to GDP ratio went down for the first time over the past 6 years, reaching 92.7%. The number of tax policy revisions decreased as compared to previous years. Many countries continued to shift the tax burden from production to consumption. Thus, 7 countries increased respective VAT rates, while 5 countries reduced corporate income tax rates.

Chart 8. Global fiscal consolidation, %




*Source: IMF*

Recent processes in the global economy and the consumer confidence index rising to its highest from early 2010 to the date, save the eurozone, paved the way to optimistic expectations with regards to global economic growth prospects for

2014. In its latest (April 2014) Global Economic Outlook the IMF projected the global economic growth rate at 3.6%, which is 0.6% higher than the 2013 level. The economic growth rates for DC and DGC are forecasted  2.2% and 4.9% respectively.

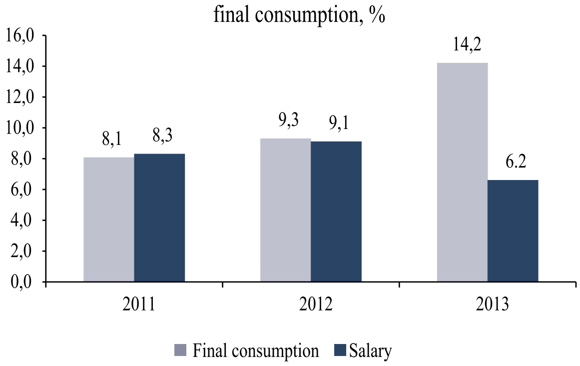
# II. ECONOMIC GROWTH IN AZERBAIJAN AND ITS SOURCES

## 2.1. Aggregate demand

*Just as in previous years, all components of aggregate demand had a positive effect on economic growth in 2013. High household income and domestic investments in the economy contributed to the vitalization of the GDP demand components.*

**Final consumption expenditures** represented the main demand factor of economic growth in 2013. In the reported year, nominal cash income per capita amounted to AZN4039.6, which is 6.6% higher than the previous year level. Approximately 64.3% of household income was spent on consumption of goods and services. Final consumption expenses rose by 14.2% in nominal terms to AZN24.2 billion or 49.1% of the GDP. Household income directed on savings and capital formation amounted to AZN9.6 million (below the 2012 level by 5.3%).

Chart 9. Average monthly salary and changes in household final consumption, %




*Source: State Statistics Committee (SSC)*

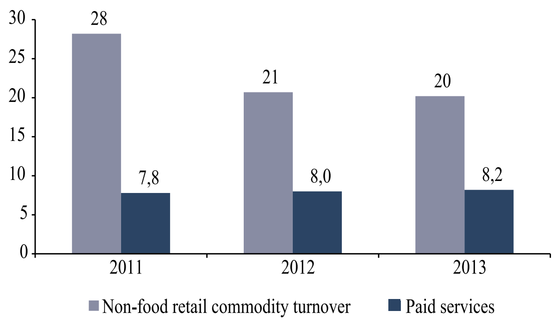
Salaries rose in most sectors of the economy in 2013, which also helped maintain a high share of final consumption in GDP. In 2013, the growth rate of average monthly salary increased by 7.6%, reaching AZN423.

The Central Bank's 2013 'Financial conducts, intentions and inflationary expectations of households' survey that covered 4250 households (families) showed the country's **Consumer Confidence Index** to be at a level recognized as quite high internationally. Respondents were classified by income levels, employment, work, education, age and gender, across all regions of the country. The survey findings indicate that households estimate country's overall economic prospects in the next 12 months as rather high, which translated to anticipation of improved financial well-being for families. The financial conducts and intentions of households survey found mid-term expectations to be optimistic and overall well-being and dispositions of consumers to be positive.

**Increased loans to households** also had a stimulating effect on demand in 2013.

The continuing growth of demand contributed to the increase of **retail turnover** and off-free services.

Chart 10. Non-food retail commodity turnover and paid services, %



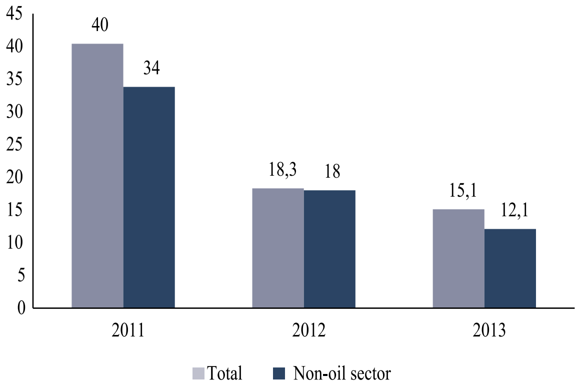

*Source: SSC*

Retail turnover increased by 9.9% during the year, whereas non-food retail went up by 20.2%. Off-free services increased by 8.2%. In 2013, retail turnover amounted to AZN19.7 billion.

**Government's consumption expenditures** were formed primarily from public spending on goods and services during the reported year. 50.7% of the government's budget spending was directed at current and 45.5% at capital expenditures. Social expenditures funded from the state budget amounted to 32.6% of total expenditures, which is 10.6% higher than the 2012 level.

A total of AZN17.9 billion worth of **investments** were made in the economy in 2013 (31% of GDP), which exceeds the previous year level by 15.1%. Domestic sources financed 76.7% of investments.

Chart 11. Investments in the economy, %




*Source: SSC*

Investments in the non-oil sector exceeded the previous year level by 12.1%, amounting to 73% of total investments.

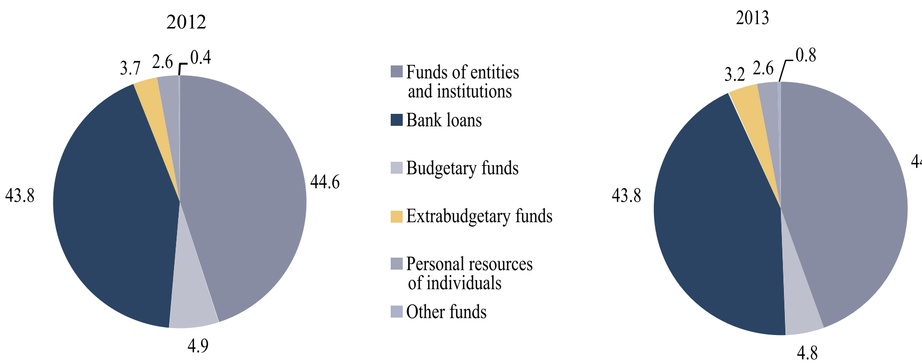
Investments in construction and transportation of the non-oil sector had an especially high growth rate.

Own funds of enterprises and institutions accounted for 44.8%, bank loans for 4.8%, budget funds for 43.8%, off-budget funds for 3.2% and personal savings for 2.6% of total investments.

### 2.2. Aggregate supply

*Aggregate supply continued to grow in 2013, with the non-oil sector being the main contributor to economic growth.*

Chart 12. Structure of investment, %




*Source: SSC*

***Table 1. Investments by economic sectors***

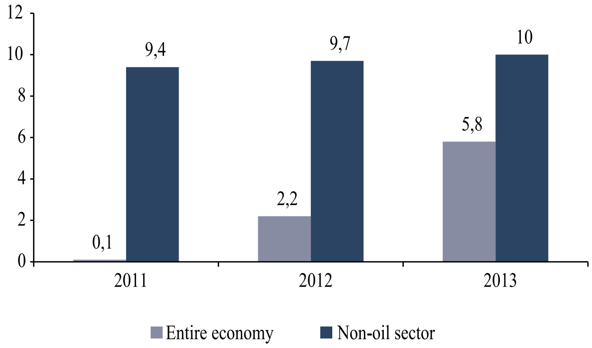
| Sector | 2013, million AZN | Share, % |
|---|---|---|
| **TOTAL** | **17872.1** | **100,0** |
| *including:* | | |
| Industry | 7082.4 | 39.6 |
| Agriculture | 573.4 | 3.2 |
| Construction | 979.9 | 5.5 |
| Trade | 456.2 | 2.6 |
| Transportation and warehousing | 3497.2 | 19.6 |
| Information and communication | 202.2 | 1.1 |
| Finance and insurance | 12 | 0.07 |
| Real estate | 1339.4 | 7.5 |
| Education | 789.8 | 4.4 |
| Other | 2939.6 | 16.4 |

*Source: SSC*

The real growth rate of the GDP was 5.8% in 2013, with the nominal GDP reaching AZN57.7 billion. The production sector accounted for 67% and the services sector for 33% of the added value generated.

The oil and gas sector had a 1% increase, while the non-oil sector posted 10% growth during the reported year.

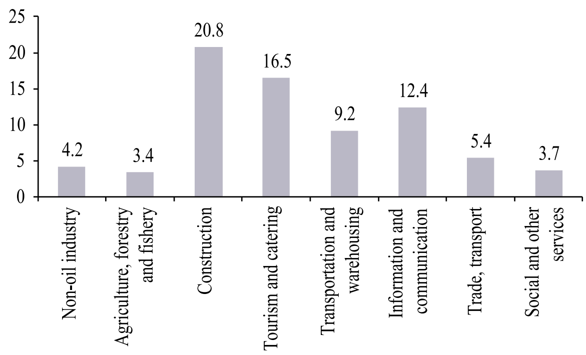
Chart 13. Economic growth rate in January-December, %




*Source: SSC*

In 2013, the non-oil sector registered highest growth rates in construction, tourism and catering, information and communication.

Chart 14. Non-oil sector growth by industries, %




*Source: SSC*

The non-oil industry increased by 4.2%, which is primarily attributable to food, machinery and equipment manufacturing, chemical industry and construction materials production.

The growth rate of agriculture (4.9%) was fostered by both plant cultivation (4.2%) and livestock production (5.5%).

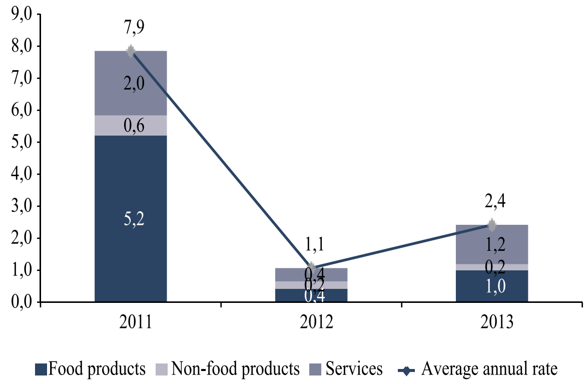
## 2.3. Inflation

*As a major pretext for macroeconomic sustainability, price stability was maintained in 2013, with inflation kept at bay within the projected ranges.*

**The average annual inflation rate** made 2.4% in the reported year. Average annual inflation rate on non-food products and services made 0.8% and 3.5% respectively, food prices went up by 2.2%.

Price rise on food products formed 1% percentage point of the average annual inflation rate, non-food products accounted for 0.2 percentage points and services for 1.2 percentage points in 2013.

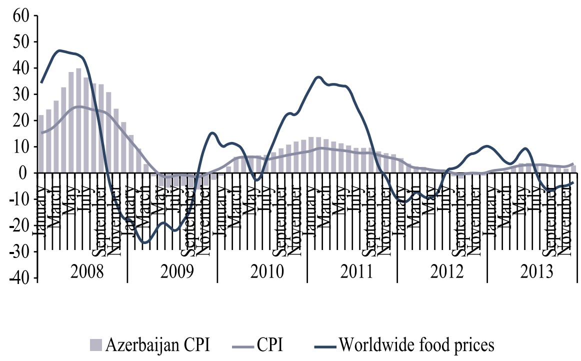
Chart 15. Average annual inflation rate, %




*Source: CBA estimates based on SSC data*

Global food prices did not have a substantive increasing effect on internal inflation in the reported year. Although world food prices went up in the first half of 2013, they were on a declining path starting from Q3.

Chart 16. Food CPI for Azerbaijan and the world (fluctuations in %)

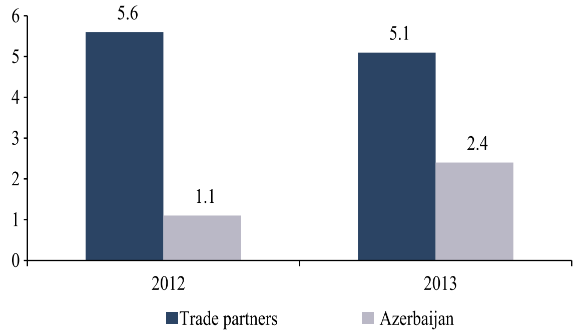



*Source: CBA estimates based on SSC and IMF data*

The average annual **core price index** – which is inflation adjusted from swings in prices for commodities regulated by the government and seasonal factors increased by 0.7. It should be noted that transportation and postal tariffs declined by 2.7% and communication charges by 1.4% in 2013. Also, during the reported year cargo transportation prices went down by 4.4%, while passenger transport prices had a slightest increase of only 0.1%. The decline in communications prices is due to a combined reduction of mobile phone charges by a measure of 0.6% and Internet access rates of 19.2%.

Trade partner countries registered an inflation rate of 5.1% in 2013, which is 2.7 percentage points higher than the inflation rate in Azerbaijan. In general, for the past 9 quarters Azerbaijan has had an inflation rate lower than that of foreign trade partner countries.

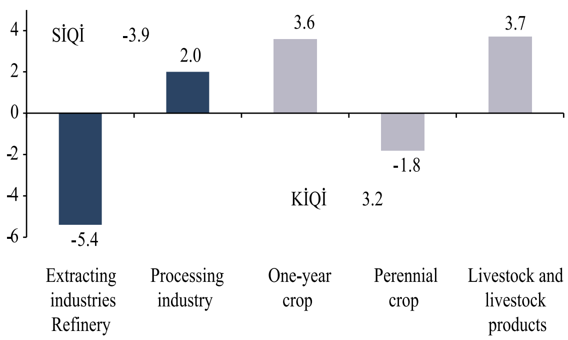
Chart 17. Consumer price index (domestic and foreign, average annual), %




*Source: SSC and foreign statistics*

The average **annual industrial producer price** index went down by 3.9% in 2013, primarily owing to a 5.4% price decline in extracting industries. Prices for processing industry went up by the annual average of 6.2% for metal works, for metal industry by 4.2% and for chemical industry by 10.1%. Price declines were also registered in machinery and equipment manufacturing, by a measure of 1.6%, paper and cardboard production by 8%, timber by 1.1%, electric equipment manufacturing by 0.3%.

Chart 18. Change path of producer prices (average annual), %

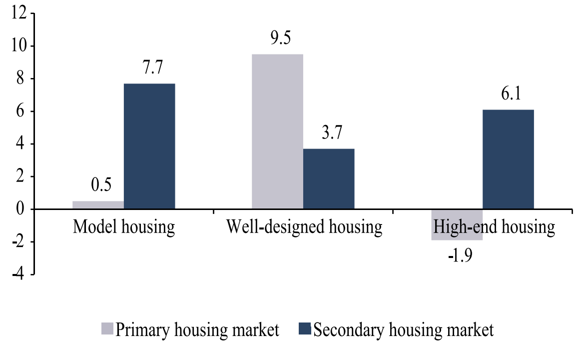



*Source: SSC*

The agricultural producers price index (APPI) changed by an average annual measure of 3.2% during the year, owing primarily to 3.6% and 3.7% price changes in one-year crop and livestock products respectively. Perennial crop had a 1.8% price decline.

According to the SSC, housing market prices went up by 6.5% in 2013. Secondary and primary housing markets had 6.5% and 3.8% price increases respectively. The highest price increase on the secondary housing market was registered for model housing (7.7%), while the primary market price growth was mostly driven by well-designed residences (9.5%).

Chart 19. Housing market price index, %




*Source: SSC*

The Central Bank surveys in enterprises on inflationary expectations as well as econometric model-based assessments clearly point to the country's ability to keep prices stable in the near term.

## 2.4. Employment

*The country's employment indicators continued to improve in 2013 as well.*

According to SSC, in 2013 the economically active population was numbering 4757.8 thousand persons, 95% of which was engaged in various segments of the economy and the social sector.

In 2013 1472.9 thousand hired workers was engaged in the non-oil sector, while 37.2 thousand in the oil sector.

A total of 109.9 thousand **new jobs** were created during the reported year, of which nearly 75.5% is full-time employment. Individuals accounted for 75.7% of full-time jobs, while existing and new or restored businesses and entities accounted for 13.1% and 11.2% respectively. Rural employment had a share of 72.2% of the total new jobs. New jobs were created mostly in processing, construction, retail and transport, as well as in public sector entities and institutions.

The Central Bank's real sector monitoring initiative also provides evidence of increased employment. Of the entities monitored, construction and service sector businesses had the most significant staff increases.

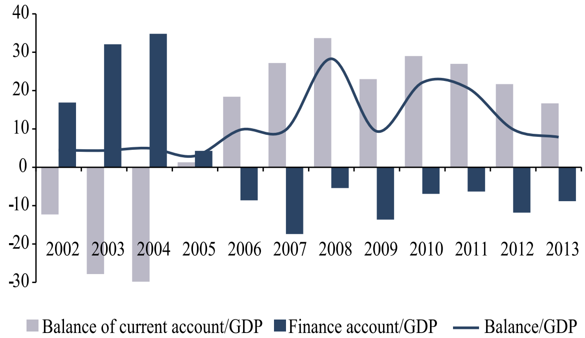
### 2.5. Balance of payments[1]

*Starting from 2013, the balance of payments has been prepared in a format consistent with the International Monetary Fund's New Regulation (6th edition). Changes under the New Regulation mainly cover the structural components of the balance of payments. Thus, in the balance of payments structure Capital and Financial Account transactions are no longer recommended to be recorded in credit/debit format but as "net financial assets" and "net financial liabilities". The new Regulation also contains a number of other changes.*

The country maintained its favorable external position in 2013, with a positive balance of payments. The oil and gas sector was instrumental in procuring a positive balance of foreign economic transactions during the year. Total proceeds of the oil-and-gas sector primarily stemmed from oil-and-gas exports and foreign capital attracted to the sector. Payments on this sector reflect repatriation of profit and investments, and imports of equipment and services. Total positive surplus on the oil-and-gas sector amounted to USD22.4 billion in 2013.

The capital and financial account deficit is fully covered by the surplus of the current account; the aggregate balance currently has a surplus of 1/6 of GDP.

Chart 20. Balance of payments parameters as percentage of GDP




*Source: CBA*

***Table 2. Key indicators of the balance of payments, USD million***

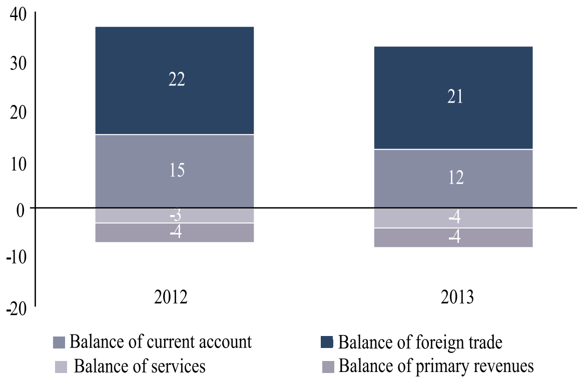
| | 2012 | 2013 |
|---|---|---|
| **Current operations and account balance** | **14874.3** | **12304.9** |
| Foreign trade balance | 22181.6 | 20620.8 |
| Services balance | -2923.8 | -4189.0 |
| - Primary income balance | -4326.5 | -4120.6 |
| - Investment income repatriation | -4518.9 | -4190.3 |
| Secondary income balance | -50.0 | -50.0 |
| Capital account | -7.0 | 6.6 |
| **Financial account** | **-8094.0** | **-6488.8** |
| Net financial assets | 11865.3 | 11759.3 |
| - direct investments abroad | 1192.4 | 1477.9 |
| - portfolio investments | 253.1 | 322.8 |
| - other investments | 10419.8 | 9958.6 |
| Net financial liabilities | 3771.3 | 5270.5 |
| - Direct investments attracted to Azerbaijan | 5289.4 | 6278.0 |
| - Attracted investment repatriation | -3286.6 | -3661.0 |
| - oil bonus | 2.0 | 2.4 |
| - portfolio investments | 521.2 | 1041.3 |
| - other investments | 1245.3 | 1609.8 |
| **Balancing items** | **-1824.7** | **-1975.1** |
| **Total surplus of the BOP (change in reserve assets of the country)** | **4955.6** | **3841.0** |

*Source: CBA*

[1] Details on the balance of payment methodology are available at http://cbar.az/assets/1186/final_metod.pdf .

In 2013 the **current account** surplus amounted to USD12.3 billion, including USD22.1 billion of current accounts surplus on the oil-and-gas sector. Surplus of the oil-and-gas sector fully covered USD9.8 billion deficit on the non-oil sector.

Chart 21. Balance of current account, USD billion




*Source: CBA*

External trade turnover made USD42.9 billion, while positive external trade surplus amounted to USD20.6 billion.

Over the year Azerbaijan maintained trade relations with up to 152 countries accross the world. CIS countries are reported to have had a 9.9% share in external trade, while other foreign countries accounted for the remaining 90.1%. Azerbaijan further intensified trade deals with Italy, the UK, Turkey, the USA, Russia, Indonesia, Germany, Thailand, France and Japan (these countries accounted for 68.9% of total trade).

The non-oil and gas sector's exports maintained growth dynamics. 2013 performance outputs report commodity exports at 30% and service exports at 70% of the non-oil and gas industry's total exports.

During the reporting year **commodity export** amounted to USD 31.8 billion. The share of oil-and-gas products in the export made up 94.4%.

Oil products exported to foreign countries accounted for USD28.5 billion, of which USD 1.6billion was oil processing products and USD26.9 billion – crude oil.

Out of total exported crude oil, USD 25.3 billion fell to the share of the oil produced by the Azerbaijan International Operating Company (AIOC). Remaining USD1.6 billion was delivered abroad by other entities, of which USD303.0 million falls to the share of Shahdeniz condensate and USD1.3 billion to the SOCAR.

Non-oil-and-gas export of the country in 2013 was USD1773 million, the y.o.y. increase being 6%. Total exports were 2.8 times as much as total imports during the year.

During the reporting year, **commodity import** constituted USD11.2 billion. Total value of consumer goods was USD4474.4 million, of which USD1380.6 million is the share of food products.

The share of vehicles, equipment and goods imported through investments comprised 9.5% and equaled USD1055.4 million. 82% of this amount was the share of goods imported by the oil-and-gas sector. Besides, USD5625.8 million worth vehicles, equipment, chemical, ferrous and non-ferrous metal products were imported to the country for production purposes.

One of the major items in economic relations of Azerbaijan with other countries in 2013 was mutually provided **services**, the volume of which was USD12.4 billion. Out of this amount USD 8.3 bln was rendered by non-residents for Azerbaijani residents, and

***Table 3. Export structure***

| | 2012 | | 2013 | |
|---|---|---|---|---|
| | Amount, USD million | Share, % | Amount, USD million | Share, % |
| Export - total | 32374.0 | 100.0 | 31776.4 | 100.0 |
| including: | | | | |
| 1. Fuel-raw materials | 31260.5 | 96.6 | 30503.8 | 96.0 |
| - oil and gas products | 30700.5 | 94.9 | 30003.3 | 94.4 |
| - other raw materials | 560.0 | 1.7 | 500.5 | 1.6 |
| 2. Machinery and equipment | 120.0 | 0.4 | 292.6 | 0.9 |
| 3. Consumer goods | 968.2 | 2.9 | 954.6 | 3.0 |
| 4. Other goods | 25.3 | 0.1 | 25.4 | 0.1 |

*Source: CBA*

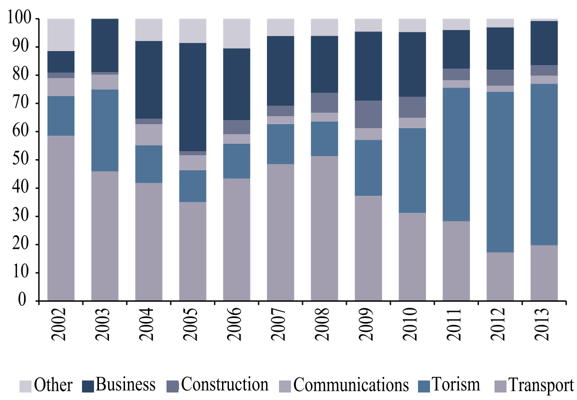
***Table 4. Import structure***

| | 2012 | | 2013 | |
|---|---|---|---|---|
| | Amount, USD million | Share, % | Amount, USD million | Share, % |
| Import - total | 10192.5 | 100.0 | 11155.6 | 100.0 |
| including: | | | | |
| 1. Consumer goods | 4375.9 | 42.9 | 4474.4 | 40.1 |
| - food products | 1303.6 | 12.8 | 1380.6 | 12.4 |
| - others | 3072.3 | 30.1 | 3093.8 | 27.7 |
| 2. Investment oriented goods | 961.8 | 9.4 | 1055.4 | 9.5 |
| - international oil and gas consortiums | 789.4 | 7.7 | 865.3 | 7.9 |
| - others | 172.4 | 1.7 | 190.1 | 1.6 |
| 3. Other goods | 4854.8 | 47.7 | 5625.8 | 50.4 |

*Source: CBA*

USD4.1 billion – services provided by Azerbaijani residents for residents of foreign countries.

Chart 22. Structure of non-oil service exports, %




*Source: CBA*

Transportation services accounted for 14.4% of the total services turnover. 54.6% of the USD1798.3 million worth of transport services related to the use of foreign transportation systems by Azerbaijani residents.

The total value of transportation services provided by Azerbaijani residents to non-residents amounted to USD815.7 million.

The share of tourism revenues in total exports of services has been rapidly increasing. Over the reporting period the value of travelling services provided for non-residents was appraised to be USD2.4 billion, 36.6% of which relates to business visits of non-residents to Azerbaijan.

In its turn, y.o.y. increase in the value of travelling provided by foreign countries for Azerbaijani residents was 16.1% and made USD2.9 billion. 62.3% of this amount falls to the share of private expenditures of Azerbaijani citizens (funds for shuttle import excluding).

Non-oil sector's imports of services amounted to USD5754.4 million having increased by 12.7% in 2013. Overall, mutual services had a share of 22.5% of the total imports and exports turnover of goods and services involving foreign countries.

In the reported period the **total turnover of income receipts and payments** reached USD6.2 billion. Of this, 83.3% (USD5.1 billion) represented payments from Azerbaijan, while the core of that amount (USD4.1 billion) represents income repatriation of foreign investors in oil-and-gas consortiums (mainly as crude oil and gas), salaries paid to non-residents (USD222.9 million) and interest payments on foreign loans (USD419.3 million).

Total value of **secondary income** operations with foreign countries is estimated to equal USD3.3 billion, 50.1% of which was receipts by Azerbaijan.

95.8% of total receipts on secondary income is comprised of remittances of individuals from foreign countries, 1.9% – value of humanitarian import goods, and 2.3% – other receipts. In total, surplus of secondary income operations made up positive USD6.7 million.

During the year, net acquisition of financial assets equaled USD11.8 billion. This indicator is primarily comprised of FDIs (USD1477.9 million), portfolio investments (USD322.8 million) and other investments (USD9958.6 million).

***Table 5. Net financial assets and liabilities, USD million***

| | Assets | Liabilities |
|---|---|---|
| Direct investments | 1477.9 | 2617.1 |
| - oil and gas sector | 1039.0 | 1629.8 |
| - other sectors | 438.9 | 987.3 |
| Portfolio investments | 322.8 | 1041.3 |
| Other investments | 9958.6 | 1609.7 |
| - Trade credits and advances | 4832.3 | 180.0 |
| - Credits and loans | 256.0 | 408.9 |
| - Deposits and cash | 4870.3 | 1020.8 |
| Oil bonus | - | 2.4 |
| TOTAL | 11759.3 | 5270.5 |

*Source: CBA*

Total amount of **FDIs** was USD 6.3 billion. The share of the oil-and-gas sector in the structure of these investments was 82.4%. Attracted investments were channeled to the domestic economy to finance large-scale oil-and-gas projects, primarily the BP Exploration (Shahdeniz) Ltd. project and works provided by the AIOC in Azeri- Chiragh-Guneshli.

Net financial assets on **credits and loans** increased by USD256 million, while net financial liabilities went up by USD408.9 million. According to estimations, total amount of FDIs to the non-oil sector equaled to USD 1107.7 million, which comprises 17.6% of total FDIs. Whereas net financial liabilities rose against direct government and government guaranteed loans (USD 409.7 million.) and banks (USD 362.8 million), they went down against other entities and companies (USD 363.5 million).

Net financial assets on deposits and cash foreign exchange increased by USD4.9 million, while net financial liabilities went up by USD1020.8 million.

The country's **foreign exchange reserves** increased by USD3841 million in the reported year. The surplus in the balance of payments was the principal factor contributing to the country's huge strategic foreign exchange reserves. At the end of 2013, foreign exchange reserves to GDP ratio was 68%, sufficient to cover over 30 months of imports.

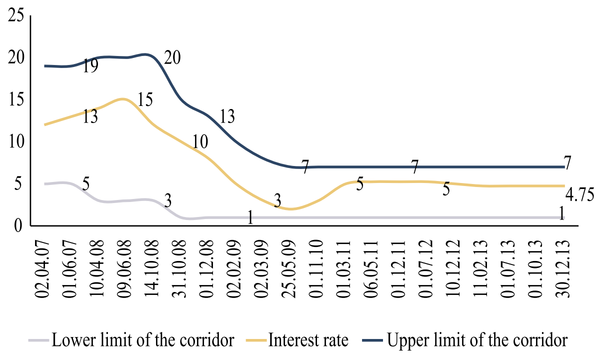
# III. MONETARY AND EXCHANGE RATE POLICY, MONETARY CONDITIONS

### 3.1. Monetary policy

*As in previous years, in 2013 the Central Bank's monetary policy aimed at securing macroeconomic stability in the country. While implementing the monetary policy, due consideration was given to the country's economic environment, the condition of financial markets and the monetary policy's transmission capacity.*

Given the optimal level of inflation, the Central Bank's Management Board decided to reduce the **refinancing rate** from 5% to 4.75% from February 11, 2013, in order to support the declining trend of interest rates. No changes were made to other parameters of the interest rate corridor.

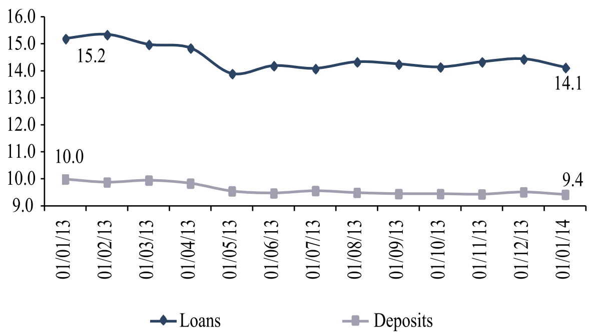
Chart 23. Parameters of interest rate corridor, %




*Source: CBA*

Central Bank's monetary policy decisions were a key factor that had a modifying effect on the banking sector's interest rates. During the year the interest rate on loans went down by 1.1 percentage

Chart 24. Nominal interest rates in manats (CBA)



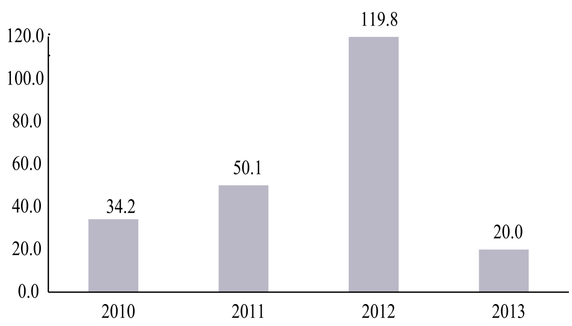

*Source: CBA*

points as a whole, including 1.8 percentage points for interest rates on legal entities loans and 0.6 percentage points on individual loans.

Interest rates on deposits went down by 0.6 percentage points during the year.

Open market operations and reserve requirements were used as a part of the overall effort to **regulate** growth rates of money supply and the **liquidity level** of the banking system.

Chart 25. Amount of notes issued by the CBA, AZN million




*Source: CBA*

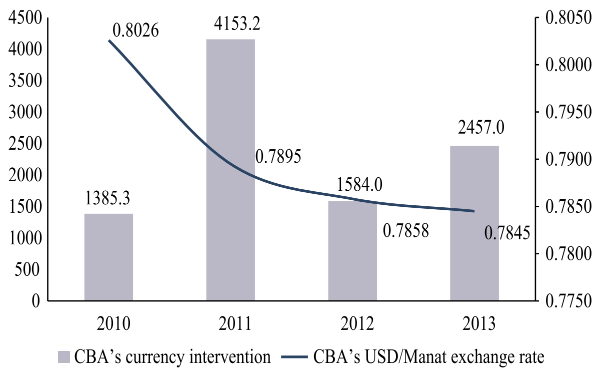
Notes in circulation made up AZN20 million as of the end-year, which is AZN99.8 million less than the early year level.

### 3.2. Exchange rate policy and international competitiveness

*A stable exchange rate for the manat was secured in 2013. The exchange rate policy was implemented taking into account maintenance of competitiveness of the non-oil sector and financial sustainability of the banking sector and.*

Amid huge surplus in the external sector (balance of payments) supply prevailed over demand in the FX market. However, to prevent considerable strengthening of the exchange rate and neutralize negative impacts on competitiveness of the non-oil sector the CBA sterilized USD2457 million worth currency over the period.

Chart 26. CBA's currency intervention during the year, USD million



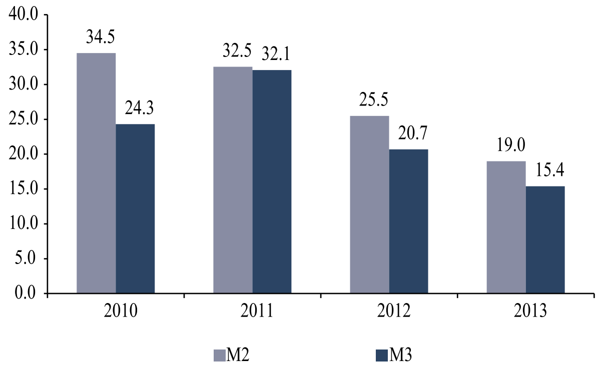

*Source: CBA*

As a result, the manat appreciated against the US dollar was as little as 0.06%. A stable national currency had a positive effect on the country's macroeconomic and financial stability.

*grow in consistency with the economy's demand, while its structure continued to improve.*

The broad money supply in manat increased by 19% during the reported year. The upward tendency

Chart 27. Changes of broad money, %




*Source: CBA*

***Table 6. Bilateral nominal and real exchange rate indices of manat in 2013, %***

| | relative to December 2012* | |
|---|---|---|
| | Nominal bilateral exchange rate index | Nominal bilateral exchange rate |
| USA | 100.1 | 102.1 |
| Euro zone | 95.8 | 98.3 |
| Great Britain | 98.6 | 99.9 |
| Turkey | 115.5 | 111.3 |
| Russia | 107.0 | 104.3 |
| Ukraine | 101.6 | 105.3 |
| Georgia | 103.3 | 104.3 |
| Iran | 201.5 | 160.0 |
| Kazakhstan | 102.5 | 101.1 |
| Japan | 123.7 | 126.4 |
| Israel | 92.8 | 94.3 |
| China | 97.5 | 98.6 |
| Belarus | 110.3 | 97.9 |
| South Korea | 98.3 | 100.0 |
| Switzerland | 97.1 | 104.8 |

**Over 100 is appreciation, below 100 is depreciation.*

*Source: CBA*

The difference between inflation in trade partner countries and in Azerbaijan had a downward effect on the real effective exchange rate (REER).

Consequently, the manat's REER on the non-oil sector appreciated by a measure of 4.7%. Overall, the non-oil sector's REER has depreciated by 0.9% since early 2012.

### 3.3. Money supply

*In 2013, the monetary aggregate continued to*

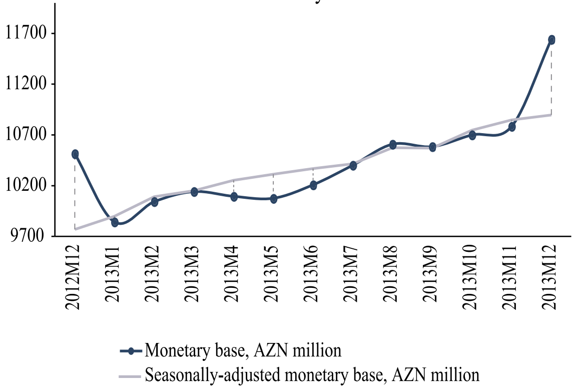
of the money multiplier, which expresses the banking system's ability to generate money (7.5% growth year-to-date), is attributable to expanding volumes of non-cash money.

The monetary base in manat increased by 10.7% during the year reaching AZN11.6 billion, showing no signs of volatility.

The seasonally-adjusted monetary base increased by 11.5% in 2013.

In 2013 broad money (M3) increased by 15.4% to AZN19360 million.

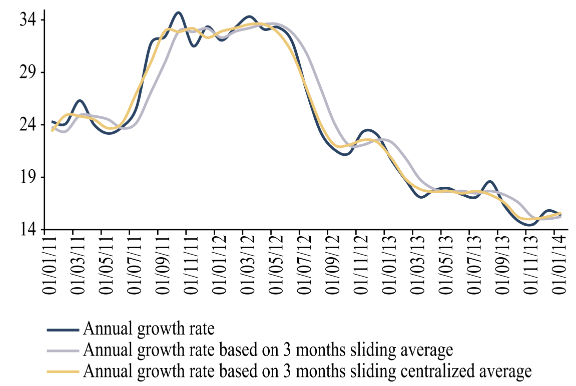
Chart 28. Manat monetary base and seasonal factors




*Source: CBA*

Dollarization levels continued to decline in 2013. Foreign exchange-denominated deposits went down by a measure of 6.6% as percentage of total deposits,

Chart 29. Change path of M3 money aggregate




*Source: CBA*

to 32.9%. Foreign exchange-denominated deposits as percentage of M3 broady money declined by 2.6% to 15.1%. Furthermore, foreign exchange-denominated deposits decreased by 1.5% during the year, while manat-denominated deposits, on the contrary, went up by 31.4%.

Non-cash money aggregate increased by 18.4% during 2013; consequently the share of the non-cash money aggregate in the broad money in manat went up by 3.4 percentage points.

### 3.4. Research and diagnostic framework of the monetary policy

*In 2013, the Central Bank carried on with its programmed efforts aimed at building on its analysis, research and forecasting capacities.*

The Central Bank's **Monetary Policy and Financial Stability Committee** (MPFSC) carried on with its work in the reported year. The MPFSC held 5 meetings during the year, to assess macroeconomic conditions, analyze external and domestic factors, and take adequate policy decisions in consistency with monetary policy framework and macroeconomic projection discussions for the upcoming period.

With an aim to enhancing the **financial stability assessment** capacity, international regulatory practices for credit institutions were reviewed and summarized, with a focus on exploring ways to employ micro- and macro-prudential policy instruments and components to handle systemic risks. The Bank studied methodologies employed by a number of DGCs, the findings of which were used to calculate the anticipated maximum credit growth and capital adequacy for the banking system. In parallel, factors, affecting the financial depth, were examined as a part of support to the development of financial intermediation in Azerbaijan.

The Bank carried out a number of inflation, economic growth and macroeconomic balance related studies and research efforts as part of an overall endeavour to **advance the econometric**

***Table 7. Money aggregates, AZN million***

| | 01.01.11 | 01.01.12 | 01.01.13 | 01.01.14 |
|---|---|---|---|---|
| M0 (Cash) | 5455.8 | 7158.2 | 9256.6 | 10458.7 |
| M1 (Cash, demand savings and deposits) | 6718.9 | 8824.8 | 11107.9 | 12736.9 |
| M2 (Cash, demand and term savings and deposits, in AZN ) | 8297.5 | 10997.2 | 13806.4 | 16434.8 |
| M3 (Cash, demand and term individual and corporate deposits, AZN and hard currency) | 10527.5 | 13903.2 | 16775.3 | 19359.8 |

*Source: CBA*

**research and forecasting capacity** - 'Monetary Policy and Global Challenges', 'Identifying an Optimal Threshold for Inflation', 'Manat Exchange Rate's Transmission to Inflation', 'Role of Economic Models in Monetary Policy', 'Inflation Target: Core or Headline Inflation', 'Exchange Rate Frameworks in Developed Countries and Azerbaijani experience', 'Azerbaijan's Advantages on the Way to a high income country'.

Public information became more proactive as regards the research findings. 2 issues of the "**Central Bank and Economy Journal: a series of articles and studies**" research journal and 4 issues of the "**Research Newsletter**" were published in 2013 that cover articles and studies addressing various aspects of the economy and economic growth.

Seeking to provide policy support to the banking and financial system in alignment with best practices for **statistics**, the Bank continued efforts to update regulations, develop and design reporting formats, and harmonize monetary and financial statistics with the IMF standards. Workshops were organized for representatives of the banking system, non-bank financial institutions, the CBA's regional offices and mass media to educate them on statistic innovations, policy and business transaction improvements. A range of analytical modules for macroeconomic statistics were upgraded in the ESAHS (Electron Statistic Database and Analytical Reporting System) system and disseminated to users, such as general statistics (SSC), banking and financial statistics, payment system statistics, cash and non-cash currency statistics, etc.

As part of the **public awareness** effort Azerbaijan had the second International Deposit Day, followed up by a financial awareness month in November. Approximately 10000 schoolchildren, young families, and general public were involved in discussions and given explanations on central banking, lending, deposits, credit cards, etc. Central Bank-developed "A pupil's guide to personal budget planning" and a "Money map" game were distributed to schoolchildren. Furthermore, an "Actual annual interest rate" calculator was developed in conjunction with the Savings Banks Foundation for International Cooperation, which was posted at play.google.com.

The number of companies and institutions covered by the real sector **monitoring** exercise, designed to generate and disseminate data, was increased to 400. The households monitoring initiative covered 4250 households across the country.

# IV. FINANCIAL MARKETS

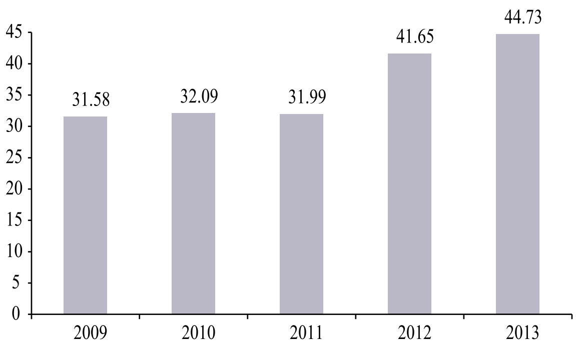
### 4.1. Foreign exchange market

*In 2013, the Central Bank's foreign exchange market operations were also oriented at sterilizing excessive foreign currency supply in order to maintain stable exchange rate of the manat in the domestic foreign exchange market.*

Central Bank interventions were executed using the Bloomberg-based unified electronic trading platform. 72% of interbank foreign exchange market transactions involving the USD/AZN currency pair was registered in the Bloomberg system in the reported year

**Year over year increase in FX market transactions** was about 7.4% or USD3.1 billion against the previous year, totaling to USD44.7 billion.

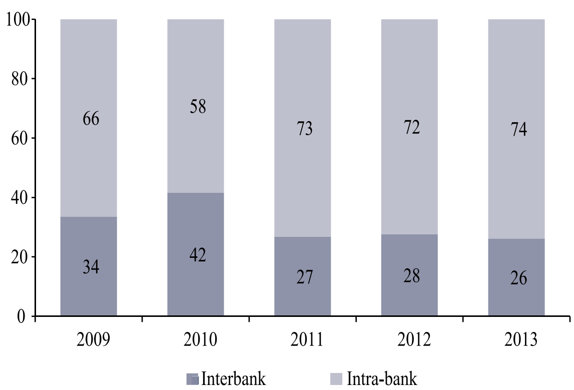
Chart 30. Total domestic currency market transactions, USD billion




*Source: CBA*

Interbank FX transactions accounted for 26% of the total domestic FX market transactions as of the year-end.

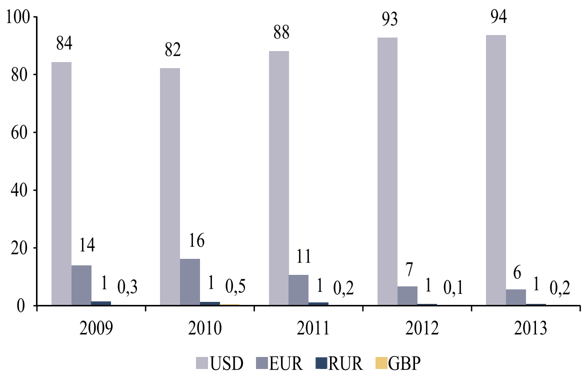
Chart 31. Domestic currency market by segments, %




*Source: CBA*

US dollar transactions dominated in the FX market during the reported year (94%).

Chart 32. Domestic currency market by currency, %

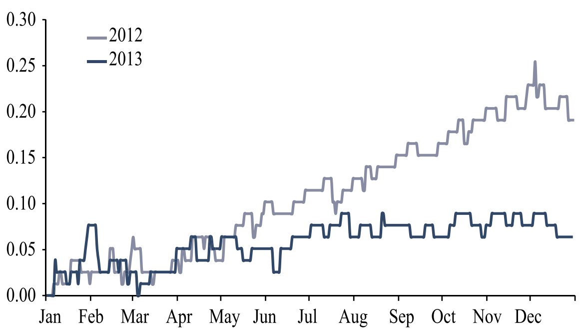



*Source: CBA*

The Central Bank conducted USD2.46 billion worth **net FX acquisition efforts** in order to prevent the excessive appreciation of the exchange rate.

The Central Bank carried on with its policy of USD/Manat bilateral exchange rate targeting. **The official nominal exchange rate** of manat against the US dollar changed by as little as 0.05 copecks, i.e., 0.06%.

Chart 33. Change path of the official exchange rate




*Source: CBA*

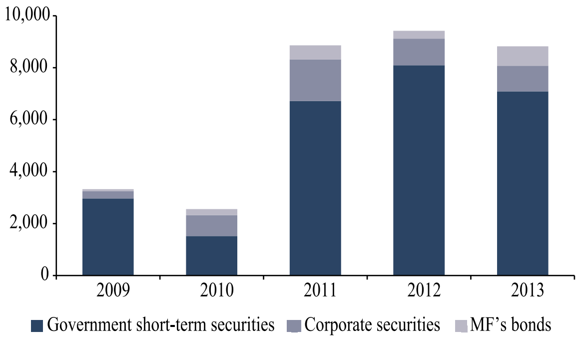
### 4.2. Money market

*As in preceding years, transactions with state treasury bills dominated the money market in 2013 as well.*

The securities market decreased by 6% against the previous year, totaling AZN8.8 billion. The decline was caused by a reduction in government securities transactions. .

The **government securities**[2] market accounted for 80% (of which 98% pertained to short-term notes), and the corporate securities market for 20% of the overall securities market (of which 43% pertained to the Mortgage Fund's bonds).

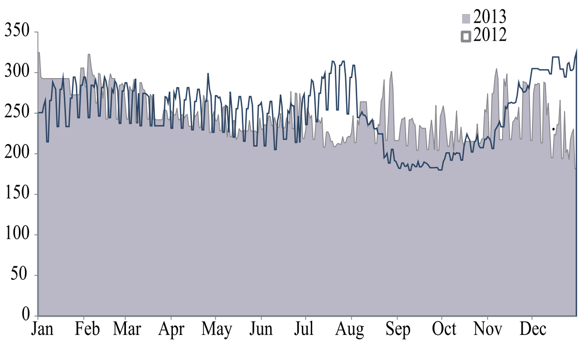
Chart 34. Organized securities market, AZN million




*Source: BSE*

By the year-end outstanding government securities decreased by AZN143.2 million or 44% relative to the previous year (AZN324.6 million), down to AZN181.4 million.

Chart 35. Outstanding government securities, AZN million



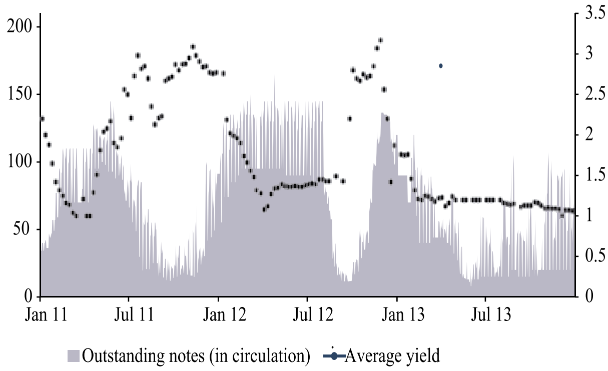

*Source: BSE*

At the year-end the share of notes amounted to 11%, while the share of state T-bills amounted to 83% within the total outstanding government securities.

During the reported year the **Central Bank** issued AZN1530 million worth **short-term notes**, of which AZN340 million were offered through auctions, 88% of which (AZN300 million) was sold. The average yield on notes at the last auction was 1.06%. This indicator made 1.87% early year.

Notes outstanding (in circulation) decreased by 38% (including repo transactions) against the previous year, totaling to AZN20 million at the year-end.

Chart 36. Outstanding notes, AZN million

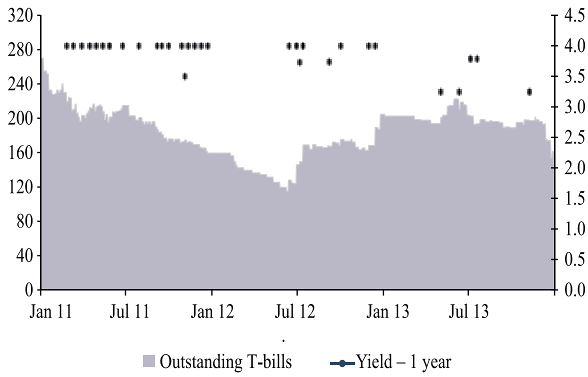



*Source: CBA*

Transactions involving framework instruments amounted to AZN6 595 million during the period, all of which were represented by repo transactions. The year-end interest rate on framework instruments equaled 1% for overnight repo transactions and 7% for overnight counter-repo transactions.

The year-end outstanding **government bonds** (GB's) decreased by AZN43 million or 21% against the year-start rate equaling AZN161.4 million. Average yield on one year maturity GB's resolved at 2.99%.

Chart 37. Outstanding T-bills, AZN million



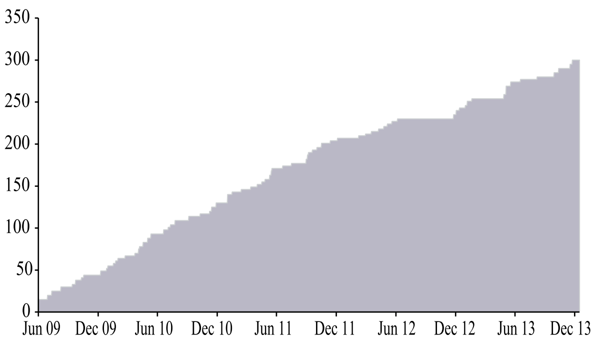

*Source: BSE*

In the reported year, the Azerbaijan Mortgage Fund registered the data sheet for the 7th issue of 10 year maturity unsecured bonds for a total of AZN20 million. 8 auctions were held to sell AZN37 million worth bonds under the 6th issue's data sheet, 4 auctions to sell AZN20 million worth bonds under the 7th issue's data sheet. Outstanding bonds at the year-end totaled to AZN300 million.

Secondary market transactions for mortgage backed securities totaled to AZN268.9 million (72 transactions).

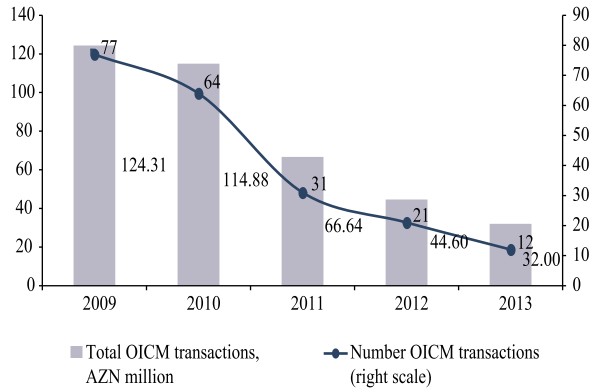
[2] This includes the Central Bank's short-term notes and the Finance Ministry's bonds..

Chart 38. Outstanding mortgage-backed securities, AZN million




*Source: AMF*

Chart 39. Organized interbank credit market




*Source: CBA*

### 4.3. Interbank market

*In 2013 the Central Bank continued to foster and promote the country's interbank market.*

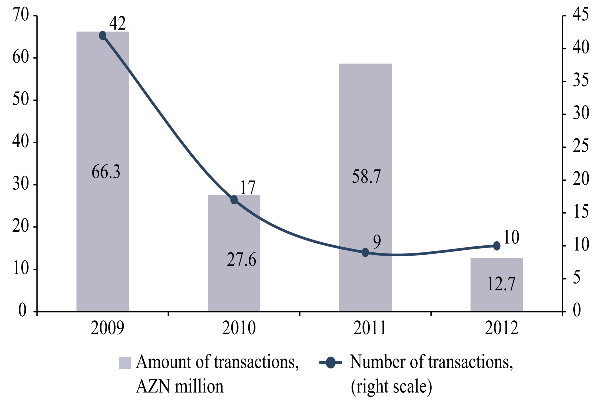
Banks actively used the Bloomberg-based international information and trading system functionalities, when closing interbank money market deals. Thus, **Bloomberg-based interbank money market deals** closed totaled AZN95.6 million, for 18 transactions (as opposed to the last year's AZN1 million worth of a single transaction). The transactions were closed on money market instruments with maturity of 1 to 180 days.

During the reported year AZN32 million worth 12 transactions were closed at the **Organized Interbank Credit Market (OICM)**.

The Secured Money Market, a segment of the Organized Interbank Credit Market established with the Central Bank support in 2010 with an aim to revitalize the money markets, amounted to AZN13 million (7 transactions).

**The Interbank Repo Market** closed AZN11 million worth of 8 transactions.

Chart 40. Interbank repo market AZN million




*Source: BSE*

# V. FOREIGN EXCHANGE RESERVES MANAGEMENT

*The Central Bank managed its foreign exchange reserves maneuvering safely out of the turmoil of a deepening debt crisis and the reign of low yield rates ensuing from the poor economic performance of developed financial markets in the reported year. Given the global financial market uncertainties, the Central Bank's investment policy with respect to the reserves primarily sought to preserve its assets as a top priority during the reported year.*

The Central Bank managed its foreign exchange reserves based on an operating investment strategy grounded in the founding principles of security and liquidity. Per the strategy, the reserves were managed by a division to investment tranches that served as operating and collection instruments designed to support current operations.

The **operating tranche** maintained with an objective of sustaining the existing FX framework and enhancing stability in order to preclude any potential FX crisis amounted to USD4000 million. 95% of these reserves was maintained in the US dollar, the dominant currency of foreign trade and the country's foreign liabilities, while the remaining 5% was maintained in the euro.

Management of the investment tranche had the principal objective of preserving the absolute value of the reserves. To achieve this target, the tranche was maintained in currencies composing a modified SDR basket, excluding the Japanese yen (48% in USD, 40% in euro and 12% in GBP).

During the reported year **internal capacity building** continued to improve with respect to foreign exchange reserves management. The Central Bank carried on with the installation of the Wall Street Suite portfolio management system that covers all areas of management in order to improve the overall effectiveness and security of foreign exchange reserves management.

The World Bank Treasury continued its technical assistance under the Reserves management and advisory program developed for central banks.

As Asia has been increasingly becoming a key player in global trade and economy, the Central Bank is planning on investing a portion of its foreign exchange reserves in investment portfolios consisting of high quality and stable yield securities of the region's countries. **Geographic diversification** of investments through this region will serve the purpose of alleviating the investment portfolio's geo-economic and regional dependency while preserving its absolute value and increasing return on assets.

The foreign exchange reserves of the Central Bank increased by USD2 457.3 million or 21.01% during the reported year, owing to the FX market sterilization measures and management returns and reached USD14 152.0 million. Management return on strategic financial assets amounted to 0.19%.

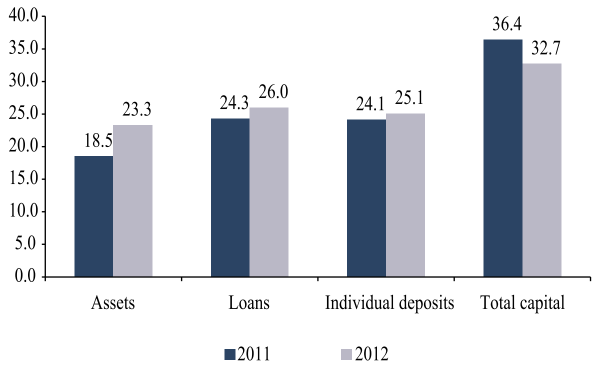
# VI. BANKING SYSTEM AND FINANCIAL STABILITY

## 6.1. Change path and institutional development of the banking system

*In 2013, the Azerbaijani banking system operated in a sensitive global economic environment in parallel to the domestic uplift of non-oil industries. The Central Bank's financial stability policy aimed at preserving the banking system's financial sustainability and expanding its financial intermediary function. This policy was instrumental in ensuring that the banking sector's risks are managed efficiently while its financial stability is secured. The banking system's capital adequacy and liquidity ratios were maintained at acceptable levels. The sector continued to enhance its financilal depth while expanding access to financial services.*

The ratio of bank assets to the non-oil GDP amounted to 68% in 2013, the ratio of equity to the non-oil GDP to 11%, loans to economic sectors to 51.4%, while deposits of individuals to 21.3%.

Chart 41. Growth rates of core banking indicators, %

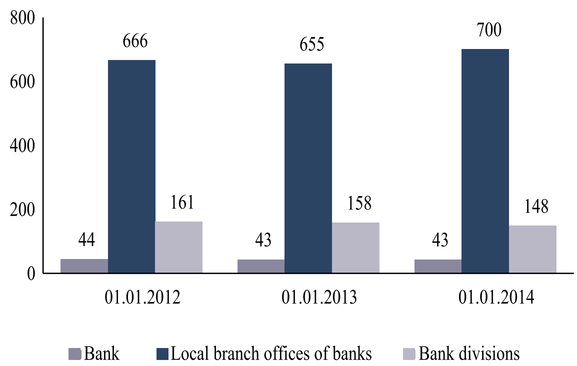



*Source: CBA*

Institutional and infrastructural efforts continued as part of the banking system's development had an increasing effect on the **banks' attractiveness for foreign investors** in 2013. The number of banks with foreign capital was 22, while total foreign equity investments in banks reached AZN468.1 million through an AZN137.8 million (42%) gain.

Local banks managed to maintain their international ratings intact, while the world's leading rating agencies downgraded a number of banks in DCs.

Chart 42. Structural network of banks, units

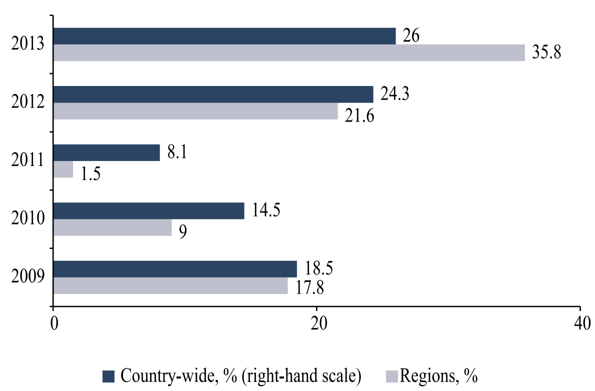



*Source: CBA*

Banks continued **to expand their branch network and other structural divisions** in order to address the economy's needs for financial services and improve customer access to financial services in the reported year. Banks launched 50 new branches in 2013 and the number of bank branches totaled to 700. With the launch of 18 new bank divisions the number of bank divisions reached 148.

19 of the new branch offices were established in different regions. As at 01.01.2014, 346 bank branches (49.4% of the total) operate in regions.

Chart 43. Annual growth rate of loans, %



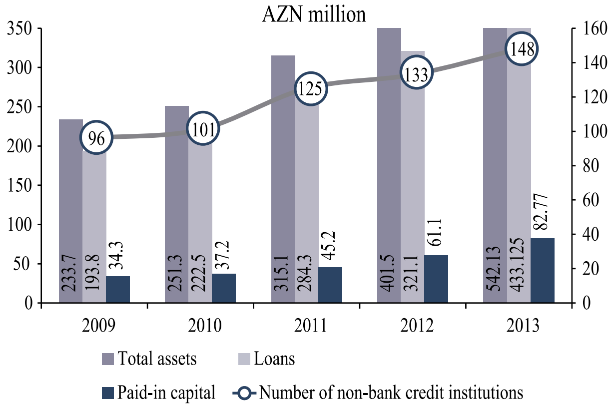

*Source: CBA*

Credit institutions continued regional lending expansion in 2013, raising their regional loan portfolio by 35.8% during the year.

The number of other financial institutions that provide limited banking services also increased in parallel to the banking system development. **Non-bank credit institutions**, including credit unions, non-bank credit institutions and other kinds of financial institutions rose to 148 in number (133 early year), while their branch offices increased up to 194 (114 early year). The Central Bank issued licenses to 8 new NBCIs, and 10 new credit unions during the reported year.

In parallel to the increasing number of NBCIs, their transactions also gained on in terms of volume. Thus, total assets of such institutions increased by 35%, while their lending increased by 34.9% during the year.

Chart 44. Basic performance indicators of non-bank credit institutions, AZN million




*Source: CBA*

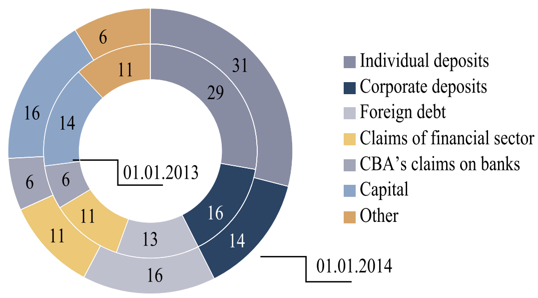
The expanded geographic coverage of the banking infrastructure enhanced the access of economic agents, especially **individuals to banking services**. Presently, 7.5 banks and NBCIs and their divisions provide financial services to every 100000 m2 and 16.5 to every 100.000 individuals of age.

### 6.2. Liabilities of the banking system

*In 2013, the resource base of the banking system increased due primarily to funds attracted from the domestic market.*

In 2013, total bank liabilities reached AZN16996.5 million, having increased by 21.6% (AZN3021.4 million). In the reported year, funds (deposits) drawn from legal entities (financial and non-financial institutions) and individuals traditionally had a large share in the set up of the banks' resource base. Individual and corporate deposits (including deposits of financial institutions) increased by 16.6% to AZN12475.8 million during the reported year, thus constituting 73.4% of total liabilities and 61.2% of total assets. This growth was largely attributable to individual deposits.

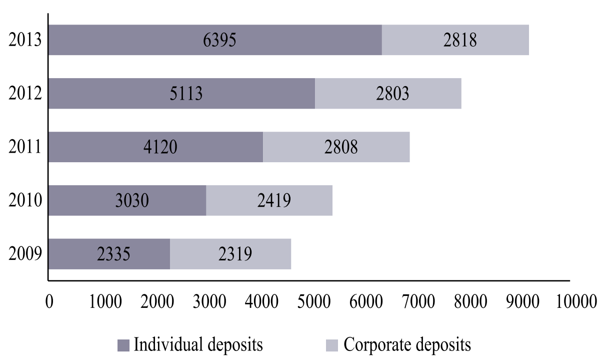
Chart 45. Structure of banks' resource base, %




*Source: CBA*

In 2013, **individual deposits** increased by 25.1% to AZN6395.8 million, thus amounting to 37.6% of total bank liabilities[3]. Corporate deposits (non-financial institutions) totaled to AZN2818 million as at January 1, 2014. No material changes took place in corporate deposits. As individual term deposits increased considerably relative to the relevant period of the previous year, it had a stimulating effect on the quality of the banks' resource base. Hence, while individual current accounts went up by AZN45 million, term deposits registered an increase of AZN1237 million.

Chart 46. Deposits of non-financial sector, AZN million




*Source: CBA*

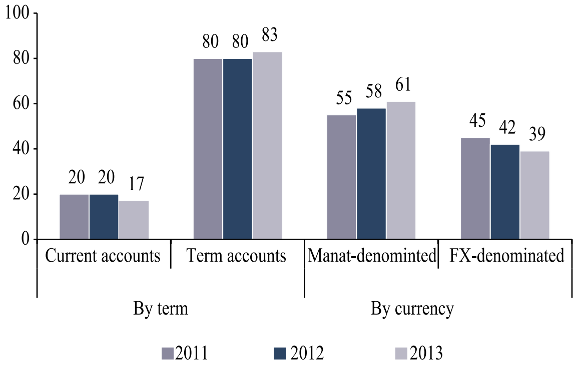
The **dollarization** level declined during the year as the manat's exchange rate remained stable. Thus, national currency-denominated individual deposits increased by 31.2%, rising up to 61% of total deposits (58% as at 01.01.2012).

No substantive changes occurred in the depositor

[3] Liabilities=Assets-Capital

structure, as resident individual depositors represented 87.9% and non-resident depositors accounted for 12.1% of total individual deposits.

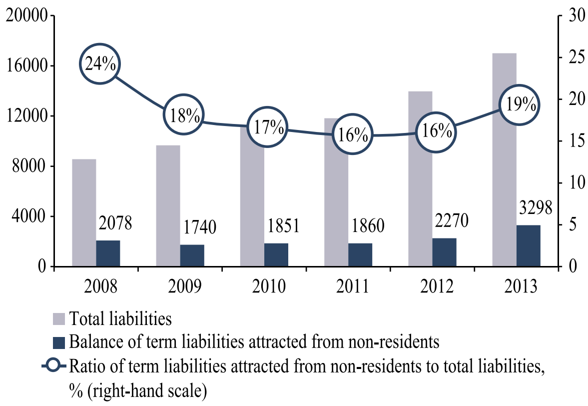
Chart 47. Structure of individual deposits, %




*Source: CBA*

In 2013, funds attracted from financial institutions (loans, deposits and other resources from other banks and other financial institutions) totaled to AZN6.8 billion (40% of total bank liabilities) as of January 1, 2014.

Chart 48. Change path of foreign debt, AZN million




*Source: CBA*

Funds attracted from non-resident banks and international financial institutions totaled to AZN 3 298 million through a 45% increase. External borrowings remained positive, representing 19.4% of total bank liabilities.

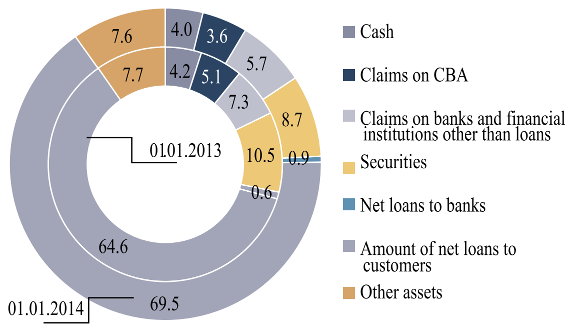
As banks reduced their dependency on external funding, substituting them increasingly with domestic deposits, they managed to enhance their ability to withstand external shocks and secure a more stable funding source to feed their lending activities.

### 6.3. Structure of the banking system's assets

*During the reported year banks continued to provide financial support to the economic activity, and scored some positive structural shifts in assets.*

In 2013 the total bank assets increased by AZN3 854.7 million or 23.3% totaling to AZN20385.1 million. Bank loans increased by AZN3179.2 million or 26%, reaching AZN15422.9 million as at January 1, 2014.

Chart 49. Structure of assets, %



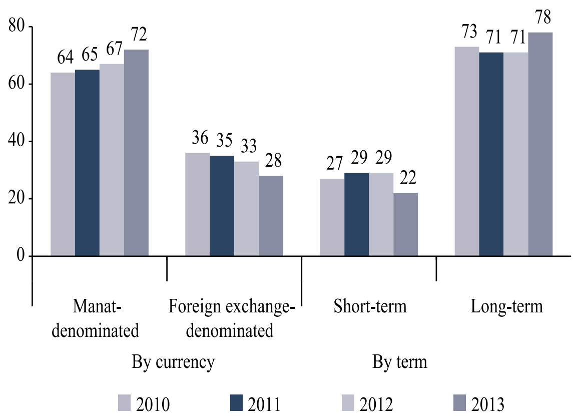

*Source: CBA*

Growth of the **loan portfolio** is largely attributable to savings of individuals and corporate sector deposits.

Long-term loans increased by 38.4% to AZN12087.4 million by the year-end. Long-term loans amounted to 78.4% of the total loan portfolio by the end- of 2013 (70.6% as at 01.01.2013).

The **currency structure of loans** also showed positive shifts during the year. The stable exchange rate enabled the national currency-denominated

Chart 50. Structure of loans, %




*Source: CBA*

loans to have a growth rate (31.5%) which exceeded the growth pace of foreign exchange-denominated loans (13.8%) in 2013. Manat loans increased by 3%, thus amounting to 71.8% of the total loan portfolio at the year-end.

Construction and real estate sectors (86%), transport and communications (17.9%), industry and production (16.9%), agriculture and processing industries (34.2%) showed the highest growth rates in terms of lending. Plastic card loans increased by 2 times consequently to the introduction and facilitation of cutting-edge banking technologies and instruments.

**Loans to households** increased by 44%, totaling to AZN6214.7 million by the year-end, which represented 40.3% of the total loan portfolio. Consumer loans (on all credit institutions) increased by 45.4%, representing 77.6% of total loans to households.

Mortgage loans had a growth rate of 26.6% in 2013; overall, mortgage lending amounted to AZN890.3 million as at January 1, 2014 (the mortgage loan portfolio totaled to AZN703.7 million as of 01.01.2013). Such loans represented 5.8% of the total (bank) loan portfolio as at 01.01.2014.

**Investments in securities** totaled to AZN1772.9 million as at January 1, 2014, which exceeds the previous year level by 2.1% or AZN36.8 million. Securities represented 8.7% of average assets. While corporate securities made up 71.1% (AZN1234 million) of the securities portfolio in 2012, this indicator reached 81.8% (AZN1449 million) in 2013. Investments in government securities reached AZN300 million by the year-end.

### 6.4. Capital of the banking sector

*Banks progressed further down the path of strengthening their equity base, and retained the overall capital adequacy of the banking system at an acceptable level.*

Total bank capital increased by 32.7% or AZN844.3 million to AZN3426.5 million in 2013. Tier I capital represented 79.3% of total capital, having increased by 32.5% during the year. In general, paid-in capital drove the increase (76%) in total bank capital. Thus, paid-in capital increased by AZN639.2 million or 23.2%.

The banking system maintained a high level of total **capital adequacy** (18.1%), far above the Central Bank's minimum requirement (12%) and the internationally accepted minimum (8%). The Tier I capital adequacy was also higher than the required minimum (14.1%).

***Table 8. Loans by sectors***

| | 01.01.2013 | | 01.01.2014 | | Change | |
|---|---|---|---|---|---|---|
| | AZN million | Share, % | AZN million | Share, % | AZN million | Share, % |
| Trade and services | 2649,3 | 21,6 | 2219,9 | 14,4 | -429.4 | -16.2 |
| Households | 4316,7 | 35,3 | 6214,7 | 40,3 | 1898 | 44.0 |
| Agriculture and processing | 546,2 | 4,5 | 733,3 | 4,8 | 187.1 | 34.3 |
| Construction and real estate | 1270,3 | 10,4 | 2362,6 | 15,3 | 1092.3 | 86.0 |
| Industry and production | 1297,6 | 10,6 | 1516,4 | 9,8 | 218.8 | 16.9 |
| Transport and communications | 429,1 | 3,5 | 506 | 3,3 | 76.9 | 17.9 |
| Other | 1734,5 | 14,1 | 1870 | 12,1 | 135.5 | 7.8 |

*Source: CBA*

*Table 9. Structure and development path of the banking sector total capital, AZN million*

| | 01.01.2013 | 01.01.2014 |
|---|---|---|
| **Tier I capital** | **2039,6** | **2716,9** |
| *Change year-to-date, %* | *32,5* | *33,2* |
| Paid-in capital | 1972,7 | 2609,6 |
| Share premium | 20,7 | 21,8 |
| Net retained earnings | 114,7 | 229,6 |
| Deductions from Tier I capital | -50,4 | -58,8 |
| **Tier II capital** | **688,9** | **872,9** |
| Profit from the current year | 195,6 | 287,3 |
| General reserves | 190,9 | 234,3 |
| Other capital funds | 302,6 | 351,2 |
| Deductions from total capital | -95,9 | -104,4 |
| **Total capital after deductions** | **2582,2** | **3426,5** |
| *Change year-to-date, %* | *36,4* | *32,7* |

*Source: CBA*

## 6.5. Financial performance of the banking sector

*Overall, the banking system's financial performance was satisfactory in 2013.*

Profits earned by banks in 2013 (before taxes) totaled AZN341.2 million, while net profits after taxes doubled against the previous year totaling to AZN267.6 million.

91% of banks completed the year of 2013 with profits of AZN272.3 million, while 9% of banks with losses of AZN4.8 million. Banks that completed the year with losses accounted for 0.8% of total bank assets.

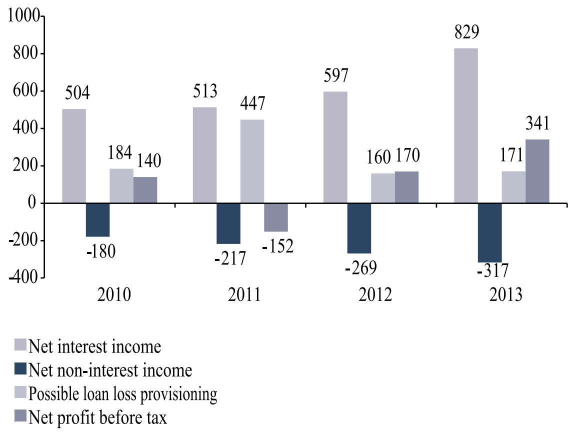
During the year **interest income** totaled to AZN1646.9 million having increased by 30.1% (with interest income on loans to customers increasing by 31.8% to AZN1514.2 million) against the previous year. Total income of banks amounted to AZN2089.5 million, which exceeds the 2012 level by AZN464.4 million or 22.2%. Total interest income represented 78.8% of total income in 2013.

**Interest expenses** totaled to AZN817.6 million by the year-end having increased by 23.7% against the previous year. The ratio of such expenses to average assets made 4.4%.

Net interest profit of banks totaled to AZN829.22 million in 2013, which exceeds the 2012 level by AZN232.4 million or 38.9%.

**Non-interest expenses** of banks increased by 19.4% against the previous year, totaling to AZN759.4 million. Total non-interest expenses remained flat at 4.1% as a percentage of average assets, primarily due to rise of salary, remuneration and other operating costs.

Chart 51. Structure of profits, AZN million




*Source: CBA*

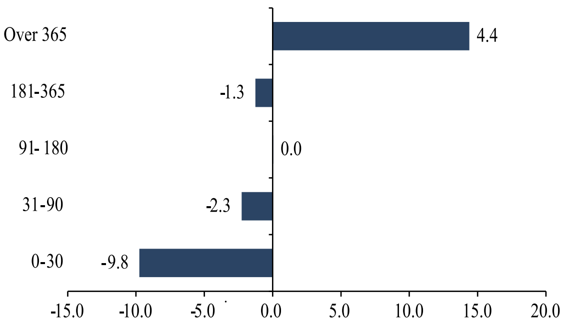
Return on assets of the banking sector (calculated as a ratio of net profits before taxes to average assets, ROA) made 1.5% in 2013, while return on equity (calculated as a ratio of net profits before taxes to average equity, ROE) amounted to 11.7%.

### 6.6. Risks of the banking sector

*The banking system retained its financial stability, and kept risks at a manageable level in 2013. Analysis of asset and liability maturity gap indicates that the banking system's liquidity is at an acceptable level.*

In the reported year, the banking system maintained a level of liquidity sufficient to honor its obligations to creditors and borrowers on time. Improvements in the term and currency structure of the banking system's deposit base made a positive contribution to the strengthening of the liquidity position.

Chart 52. Maturity mismatch of assets and liabilities (as percentage of assets, %)



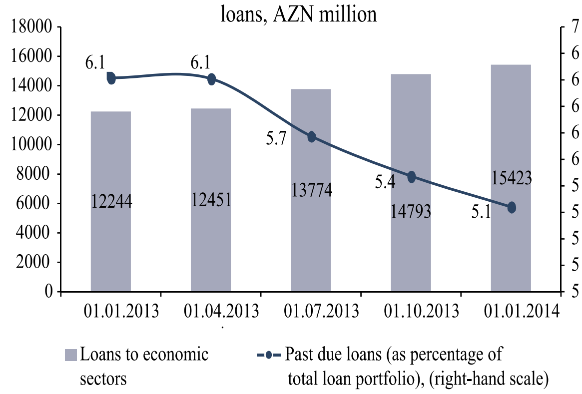

*Source: CBA*

The maturity gap between assets and liabilities remained manageable, enabling the banking system to benefit from subdued liquidity risks.

In the reported year the instant liquidity ratio was 55.4%, higher than the required minimum set by the Central Bank (threshold 30%).

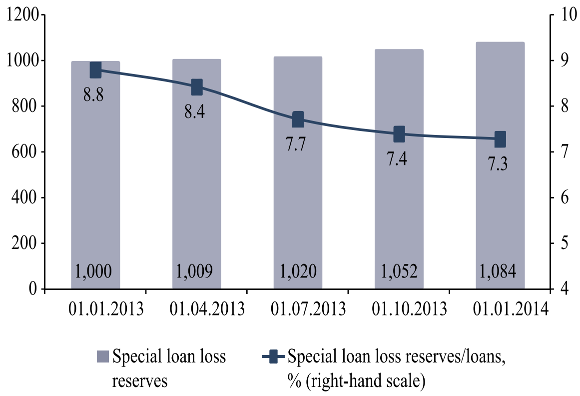
**Past due loans** amounted to 5.1%, sub-standard loans accounted for 8.3% of the total loan portfolio at the year-end.

Chart 53. Characteristics of loans to economic sectors and past due loans, AZN million




*Source: CBA*

Chart 54. Loan loss provisioning, AZN million




*Source: CBA*

The **loan loss provisioning** amounted to 7.3% of the loan portfolio as of January 1, 2014 (8.8% as of 01.01.2013).

### 6.7. Banking supervision

*In 2013, the Bank continued efforts to preserve confidence in the banking system, minimize risks and enhance management capacity of the system, as well as to expand the sector's sustainability. The risk-based prudential supervision framework was materially improved.*

Assets classification was refined in order to introduce a macroprudential approach to credit risk management and align to international financial reporting standards. An established regulatory framework allows to consider time and quality criteria, employ a differential provisioning method as well as take into account collateral quality for provisioning considerations.

**Systemic risks** were kept at bay during the year, and the sector's major trends and risk accumulation, as well as retail banking and consumer lending were reviewed and analyzed on a regular basis. Detailed supervision and analysis of the consumer loan portfolio allowed to diagnose latent risks. Findings of this diagnostics enabled supervisors to be proactive in managing the risks inherent in the consumer lending segment. The Bank identified the potential for positive growth and prospects of acceptable risks and issued appropriate strategic recommendations to banks. With an aim to fostering the banking sector's financial sustainability, banks were charged with a task of intensifying arrangements and enhancing relevant control to grant loans in line with 'responsible lending' principles. Furthermore, to allow banking consumers make a competitive choice, Actual Annual Interest Rates (AAIR) were introduced in early 2013.

The Central Bank extended the capital adjustment period on the **minimum total capital requirement** until January 1, 2015 to boost effectiveness of financial intermediation and depth. As of the end-2013, the **capital of banks** owning over 95% of the system's total assets and individual deposits exceeds AZN50 million.

Banks are required to have a highly effective **risk management system**. Furthermore, measures were taken to establish an operating risk management framework in conjunction with international organizations. New corporate governance standards are being introduced in order to increase the efficiency of the banking sector's management and reporting system.

The Bank continued to formulate a legal and regulatory framework, which envisages development of new business processes and instruments for risk-based supervision. A special methodology was developed to identify the supervisory system architecture, core business processes and hierarchy of authorities.

**Anti-money laundering and terrorism financing** (AML/TF) remained an area of specific focus as in previous years. Guidelines on Risk-Based Supervision of Compliance of Banks with the Requirements of the Law of the Republic of Azerbaijan on the Prevention of Legalization of Criminally Obtained Funds or Other Property and the Financing of Terrorism were developed with the International Monetary Fund's (IMF) technical assistance and enacted by the Central Bank's Management Board decision of 29.12.2013. This policy guidance will enable banks to carry out risk-based examinations in relation to AML/TF.

In 2013, the Central Bank continued to work on the Program to Improve Protection of Bank Services Consumers' Rights under the CBA's **Consumer Finance Protection** project. The program is implemented in collaboration with the World Bank. Guidelines on Review of Financial Service Consumer Appeals to Banks and Non-Bank Credit Institutions were developed under the aforementioned program. The Guidelines set entirely new requirements on how credit institutions need to deal with consumers, and the related implementation framework. When introduced, the Guidelines will essentially impulse establishment of an out-of-court **arbitration institute**, and mark launch of a new phase in this area.

Preparations were continued to support the World Bank and the International Monetary Fund **Financial Sector Assessment Program in Azerbaijan** (FSAP) in 2013. To this end, the Bank took a number of actions under the Action Plan grounded in the findings of a self-assessment of functional areas and diagnosis of gaps. These actions covered banking supervision, transparency of the monetary and financial policy as well as payment systems. Action Plans implementation was also reported on during the year. Preparations for the Program also focused on coordinating efforts with other government agencies and international organizations.

# VII. MORTGAGE LENDING

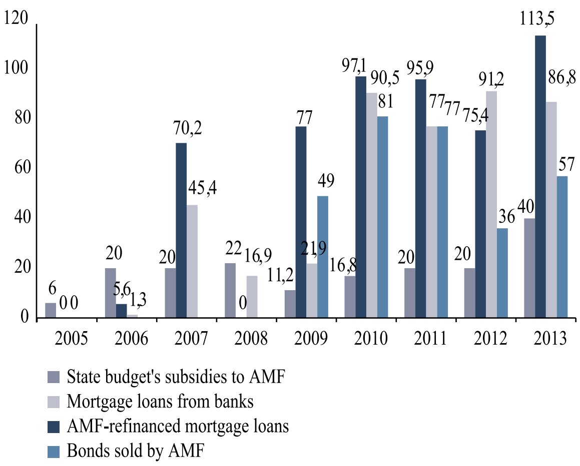
*Continuing mortgage lending played a key role in improving consumers' housing conditions in 2013.*

Mortgage lending channeled through authorized credit institutions increased by 51% against the 2012 level, with AZN113.5 million worth of mortgage loans granted to approximately 2700 individuals in 2013.

Thereby, the Azerbaijan Mortgage Fund (AMF) counted AZN534.7 million worth of 13600 mortgage loans it had financed by the end 2013. The Fund's refinanced loan portfolio totaled to AZN360.9 million.

The government's social policy of **discounted mortgage loans** to members of young families included to special categories (members of Martyr and National Heroes' families, internally displaced persons, public servants, candidates or doctors of sciences, decorated/honorary accomplished masters of sports) and military servants continued. Presidential Decree No.811 of February 4, 2013 amending the Discounted Mortgage Lending in the Republic of Azerbaijan, increased the maximum loan amount from AZN35000 to AZN50000. The decree expanded the range of military servants eligible for discounted mortgage loans.

Chart 55. Financial resources by mortgage loans, AZN million




*Source: AMF*

Discounted mortgage loans amounted to AZN42.8 million in the previous year, having increased by 44% against the 2012 level. In general, the total discounted mortgage loan portfolio for the period of 2007-2013 amounted to AZN114.7 million (3200 loans). The state budget's subsidies made in 2005-2013 for mortgage loan refinancing totaled to AZN176 million.

Sales of AMF-backed bonds continued in 2013 as well, raising as much as AZN57 million from domestic financial markets during the year. Overall, the AMF, which had become an active player of the financial market, managed to raise AZN300 million worth free market funds in 2009-2013.

The "BBB-" **credit rating** assigned to the Azerbaijan Mortgage Fund by Fitch Ratings was maintained at the same level as the country rating of the Republic of Azerbaijan. The AMF's success in retaining the investment grade international credit rating will enable the Fund to further improve its creditworthiness, gain access to international funds markets and offer its debt securities through the markets of the kind at favorable rates.

A June 2013 introduced **Electronic Mortgage** system will assist authorized banks, insurance and appraisal companies to automate mortgage lending. The launch of the system substantially reduced the paperwork between authorized institutions and the Fund.

In parallel, a new automated settlement system was initiated that will receive mortgage loan payments, with full transition scheduled for the end of Q1 2014. This system will allow to improve the quality of service offers, and receiving electronic payments on mortgage loans.

Furthermore, the Bank developed and submitted to relevant government agencies for review and approval a ‘Development Strategy for Mortgage Lending in Azerbaijan in 2014-2025’ presumably to further expand access to mortgage loans in the reported year.

# VIII. CENTRALIZED CREDIT REGISTRY

*The Centralized Credit Registry continued to collect detailed credit information on individuals and legal entities with outstanding credit liabilities due to the banking system in parallel to enabling users to make online inquiries in 2013.*

**The legal and regulatory framework** governing the Centralized Credit Registry's (CCR) operations was refined during the reported year, with addition of a newly enacted Regulations on Maintaining and Using the Centralized Credit Registry. The new Regulations halved the query fee charged to credit institutions for CCR inquiries, expanded access of individuals to information collected on them, and enabled CCR electronic signature and distant enquiry functionalities.

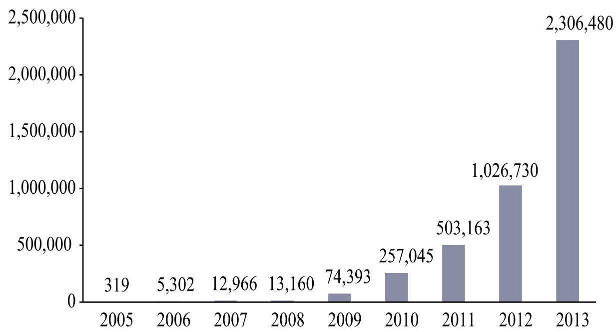
The CCR **coverage** continued to expand in 2013 as well, as 5 newly licensed non-bank credit institutions (NBCIs) joined the registry. As of the end of the reported year the registry's network counted 43 banks, 33 NBCIs, 640 branches and over 1500 user points covering the entire country.

A **special model** was developed and incorporated in credit reports and system that posts the last 24 monthly payments alongside with the current status of borrower's credit obligations.

**5 regional offices** of the Central Bank completed accession to the registry, launching a CCR query and request response platform under their updated Statutes.

A CCR outlet was commissioned at the 'ASAN xidmət'center (the State Agency for Public Service and Social Innovations under the President of the Republic of Azerbaijan) in the reported year with an aim to improving the CCR's treatment of **customer queries**. High quality service combined with a range of cutting-edge technologies introduced enables individuals to make prompting credit reports an immediate on-the-spot transaction.

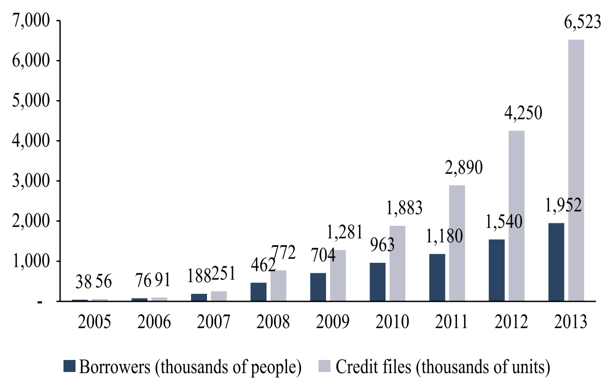
Chart 56. Number of queries




*Source: CBA*

43 banks and 27 NBCI's used the registry during 2013; at the year-end, the CCR counted 1 952 996 borrowers, 6 523 015 credit files and 836 516 guarantors.

Chart 57. Development path of the CCR's data flows




*Source: CBA*

The CCR processed 2 306 480 inquiries during the reported period, which is 2.25 times more than the previous year's level (1 026 730 in 2012). 5 355 individuals made inquiries during the reported period (2 043 in 2012).

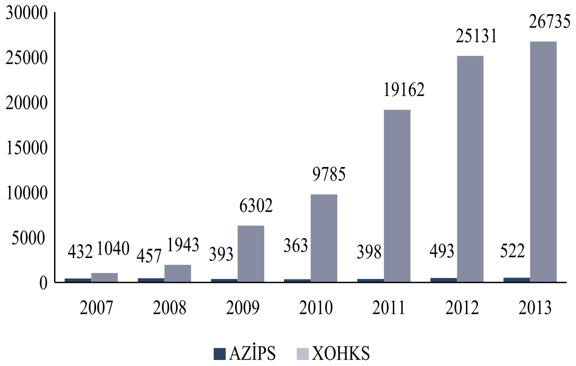
# IX. PAYMENT SYSTEMS

### 9.1. Ensuring stable and reliable operation of payment systems

*Alongside other priority tasks for 2013, the Central Bank focused on ensuring uninterrupted and reliable operation of the payment systems, upgrading the electronic payment services by enhancing, and promoting effective use of their infrastructural capacity.*

**The Real Time Interbank Settlement System** (AZIPS) processed AZN113 billion (2.02 times as much as GDP) worth 522 thousand payment documents, which exceeds the previous year level by 5.8% (AZN6205 million) and 5.9% (29 thousand documents) accordingly. The system's average daily document load counted 2130 payment documents, with each one at AZN461 thousand.

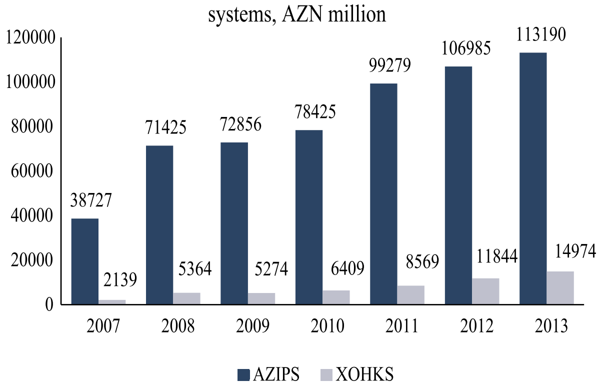
Chart 58. Number of payment documents in AZIPS and XOHKS systems, thousands of pcs.




*Source: CBA*

The National Payment System's another major component, **the Retail Payment System** (BCSS), processed a total of 26735 thousand payment documents for a total worth of AZN15 billion, which exceeds the previous year level by 6.4% (1604 thousand documents) and 26.4% (AZN3130 million) correspondingly. On a daily basis the system processed on average 109.1 thousand documents, where each document amounted to AZN61.1 thousand on average.

Chart 59. Total payments in AZIPS and XOHKS systems, AZN million




*Source: CBA*

AZIPS had a 1.9% and XOHKS a 98.1% share of the total number of payment documents in 2013, while AZIPS accounted for 88.3% of the total payments, with XOHKS closing at 11.7%.

### 9.2. Development and regulation of the National Payment Systems

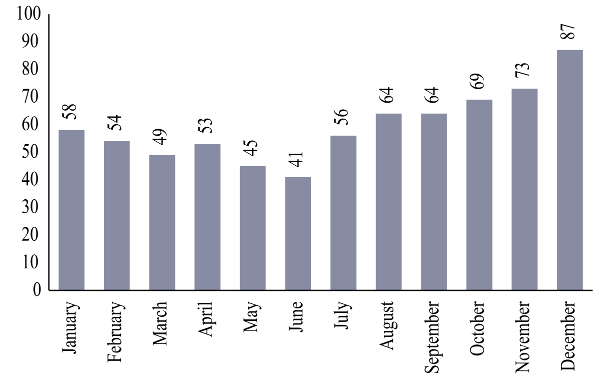
*The functionalities and scope of use of the electronic payment systems were greatly enhanced as a result of the measures taken across the country in the reported year.*

The Government Payment Portal (GPP) that uses the technical and functional capacities of the Centralized Information System for Mass Payments continued to expand its coverage.

This expansion integrated the Ministries of Taxes, Finance, Economy and Industry, Internal Affairs, Emergency Situations, the State Customs Committee, the Baku State Road Police department of the MIA, the State Social Security Fund, as well as the Azeristiliktechizat JSC in the GPP.

Presently about 1500 payment points of 42 banks and the Azerpost LLC combined connected to the GPP's established infrastructure handle cash and card payments using the system's web-based functionalities.

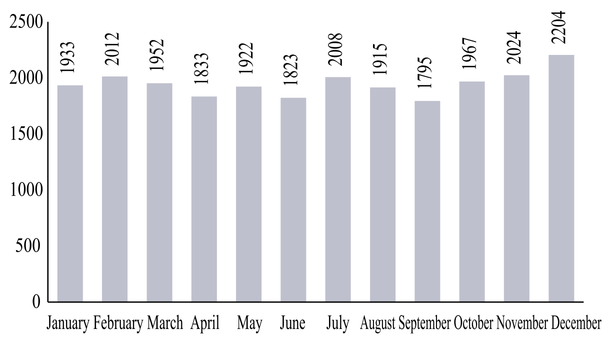
Chart 60. Total payments via GPP in 2013, AZN million




*Source: CBA*

The system processed 24.4 million transactions for a total worth of AZN713 million in 2013. Transactions processed by the system increased by 48.2% (AZN232 mil) and the number of transactions by 4,3% (995 million) against the previous year level.

Chart 61. Number of payments via GPP in 2013, million units



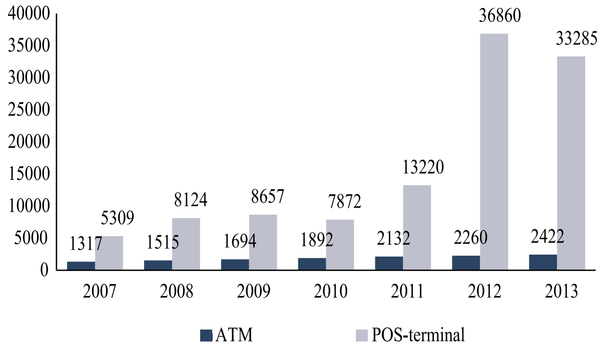

*Source: CBA*

The National Payment System's infrastructure was further expanded in 2013, with an emphasis on improving access to financial services for individuals and enterprises in rural areas. The number of postal offices acting as Central Bank-authorized financial service providers rose to 63, while postal departments within the said offices went up to 952 as of 01.01.2014. Joining MasterCard, the Azerpost LLC issued 9684 MasterCard-branded payment cards.

The number of **POS-terminals** across the country made 33285 units by the end-2013, while the number of POS-terminals in rural areas increased by 34.5% (1114) to 4345 units over the year. The number of POS-terminal transactions increased by 2.4 times (6.6 million) to 11.2 million transactions, while in monetary terms they increased by 1.6 times (AZN384 million) to AZN981 million.

The number of **ATM's** increased by 7.2% (162 units) to 2422 units across the country. The number of ATM transactions increased by 5.9% (2898 thousand) to 51.7 million transactions, while in monetary terms they increased by 12.5% (AZN952 million) to AZN8581 million.

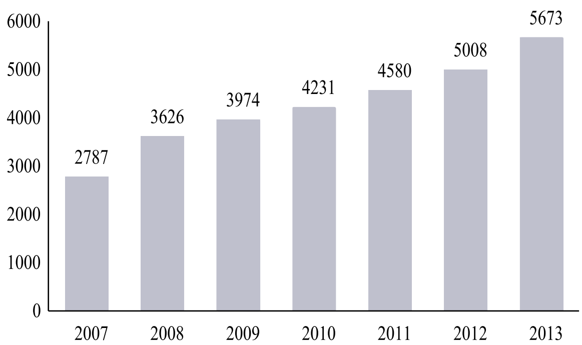
Chart 62. Number of ATM's and POS-terminals installed in the country, units




*Source: CBA*

During the year, the number of banks issuing **payment cards** reached 40, the number of cardholders – 5.1 million people, the number of cards – 5.7 million pieces, of which 4.7 million are debit and 942.5 thousand are credit cards.

Chart 63. Number of payments cards in circulation, thousands of units




*Source: CBA*

Overall, transactions involving **payment cards** issued by domestic banks totaled AZN9.56 billion worth of 63 million, of which non-cash payments make 6% and 18.3% respectively in 2013. Transactions involving locally issued payments cards increased by 64.5% in terms of amount and 2.3 times in terms of number as opposed to the previous year.

Increasing use of payments cards calls for stricter control and management of card frauds. A developed draft interbank data exchange system will enable banks to share information on fraudulent activities. In parallel, a set of proposals has been developed and submitted for review and approval with respect to stimulating non-cash payments, expanding the related infrastructure and refining the legal framework.

One of the priority areas identified for 2013 was the execution of stimulating efforts aimed at expanding the uses of cutting-edge banking technologies and the scope of non-cash payments. To this effect, the Central Bank announced "**Leading non-cash payment bank**" and "**Electronic banking leader**" nominations to incentivize banks. Statistic indicators-based evaluation schedules of nominated participants are posted on the Central Bank's web-site on a monthly basis.

A **draft Law on Payment Services** was prepared and submitted for review and approval, to expand access to financial services, foster payment market competition and protect the rights of payment service users.

A new edition of the **Regulations on Cashless Settlements and Money Transfers** was approved and enacted, which is designed to improve the existing payment system and cashless settlements legislation, and the format of cashless settlements payments. The Regulations have been aligned with best international practices with refined requirements on payment orders and their execution, setting a direct debit as an appropriate form of cashless settlements.

**As part of the payment system oversight exercise**, a self-assessment of systemic payment systems was carried out in 2013 in accordance with the Principles for Financial Market Infrastructures and Principles for Financial Market Infrastructures: Disclosure Framework and Assessment Methodology developed by the Bank for International Settlements' Committee on Payment and Settlement Systems and the Committee of the International Organization of Securities Commissions in 2012.

# X. CASH CIRCULATION

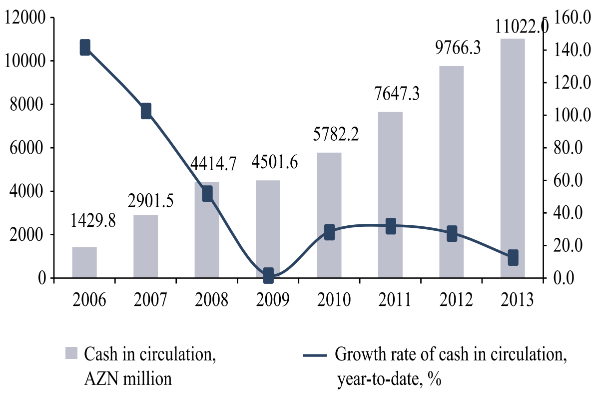
## 10.1. Addressing the economy's demand for cash

*In the reported year the Central Bank addressed the national economy's cash demand in full and on time, meanwhile forming up strategic reserves of bank notes and coins.*

As at January 1, cash in circulation increased (including cash outside the banking system and in bank vaults) by 12.9% (AZN1.3 billion) to AZN11.02 billion as opposed to the beginning of 2013.

In the reported year the Central Bank introduced AZN8.1 billion worth 347 million monetary units, while withdrawing AZN9.3 billion worth 414.5 million monetary units from circulation during the year. In general, the Central Bank's yearly issue of money totaled to AZN1.3 billion (67.5 million units, including coins), against the previous year's AZN2.1 billion (an increase of 27.7%).

Chart 64. Change of cash in circulation in 2006-2012 (year-end)




*Source: CBA*

Cash in circulation broke down as follows in 2013: 99.6% - bank notes (10 981.9), 0.4% metal coins (40.1) in terms of amounts, and 50.9% - bank notes (249.4 million units) and 49.1% - metal coins (241 million units) in terms of quantity.

The most used bank note in circulation was the 100 Manat denomination, in terms of amount and units (62.5% or AZN6893.8 million), while among coins the most used denomination was 50 copecks in terms of amount (AZN16.4 million), with the 20 copeck (75.6 million units) prevailing in terms of number of units.

To optimize the structure of cash in circulation, reduce the attractiveness of using cash for payments and stimulate cashless payments, the Central Bank carried out a set of restrictive measures. As a result, the cash in circulation structure was optimized, with the 100 Manat denomination banknote transferring 11.5% of its load onto lower denominations, as opposed to the early year.

Low denomination coins (1, 3 and 5 copecks) increased by 14.2% to AZN2.2 million during the period. The increased demand for low denomination coins is presumed to have stemmed from the inflation rate maintained at an acceptable level while low

***Table 10. Structure of cash in circulation***

| Denomination | Amount, AZN million | Million of units |
|---|---|---|
| 1 AZN | 53,2 | 53,2 |
| 5 AZN | 112,1 | 22,4 |
| 10 AZN | 142,5 | 14,3 |
| 20 AZN | 500,6 | 25,0 |
| 50 AZN | 3,279,7 | 65,6 |
| 100 AZN | 6,893,8 | 68,9 |
| Total bank notes: | 10981.9 | 249,4 |
| Metal coins: | 40.1 | 241.0 |
| Total: | 11 022.0 | 490.4 |

*Source: CBA*

denomination coins have been increasingly gaining on scope in retail and pricing. Furthermore, studies predict low denomination coins to remain in high demand over the course of next 2 years.

The process of withdrawing old design bank notes (AZM) from circulation continued in 2013 as well. Overall, 11.8 thousand units or AZN156.5 million AZM (equivalent of AZN31.3 thousand) worth old design notes were destroyed during the year. In general, 99% of AZM in terms of amount was withdrawn and destroyed by the end of 2013.

The Central Bank carried on with the **Clean Money in Circulation Policy** in 2013, managing to maintain a high quality money in circulation.

The Central Bank's Head Office and Regional Centers continued to replace bank notes received from the public via Exchange Cashiers. The Central Bank-based cash offices overall bank note replacement transactions amounted to 4.0 million units (2.6).

To intensify the circulation of coins in 2013, the **Mobile Cash-Office** set up at the Central Bank continued to operate. Over year, the Mobile Cash-Offices injected coins for a total worth of AZN589.5 thousand (4.3 million units).

Commercial banks continued the **Service to the Public** initiative days, with the Central Bank's policy guidance and support, designed to address efficiently the ever increasing flow of cash-related inquiries and requests from the broad public, as well as to conduct expert assessments and replace bank notes.

Requirements were set for commercial banks with respect to re-issuing to circulation only bank notes sorted through high-tech processing systems as part of the Clean Money in Circulation Policy.

The Central Bank discovered only 676 units of counterfeit money (AZN11 340) in 2013. Compared to the relevant international experience, the level of money counterfeiting in Azerbaijan was 10 times lower.

As part of the Central Bank's policy of **issuing anniversary and memorial coins**, high quality memorial golden coins of 1, 10 ounces and 1 kg were issued in commemoration of the 90th anniversary of H. Aliyev, the National Leader of the Azerbaijani people in 2013.

## 10.2. Cash management

*The Central Bank took necessary measures to ensure that cash management meets best international practices, treasury infrastructures are optimized and upgraded to fully comply with international standards, cash-related business processes are entirely safeguarded and risks are minimized.*

The Central Bank carried on with the setting-up of a fully automated, robot-operated **Cash Center** that meets the internationally accepted standards under the **Introduction of Up-to-date Cash Management Practices Program**, approving the system's design concept, developing the technical requirements and specifications, and identifying the potential suppliers.

Software was developed as part of the establishment of the **Cash Management Information System** (CMS) that will fully automate cash management transactions and data flows. Systems that meet relevant specifications were acquired, preliminary tests carried out, and implementation of the Electronic Identification System commenced at the.

Efforts were continued to develop a policy for training a professional designer and issuing investment coins under the **Bank Note Development Capacity Building** project.

The Central Bank's treasury infrastructure was optimized under the **Creation of a New Logistics Model for Cash Management** project. Save for the Ganja Regional Center (RC), the logistics system was fully aligned with best international practices, regional management systems were improved and regulations were approved for Regional Centers identifying a new functional framework. During the period, construction of the Ganja RC's new office building started, and measures were continued aimed at developing Regional Central Banking and upgrading the Central Bank's cash collection and transportation capacities.

Expert assessment under the **Creating business processes based on international standards for expert assessment of bank notes** project was institutionalized, appropriate staffing provided, cutting-edge high-tech systems procured and installed for expert assessment of banks notes and securities in accordance with international standards. Seeking to ensure that money counterfeiting is effectively prevented, coordination between relevant state authorities and automation of information sharing was commenced.

# XI. HUMAN RESOURCES MANAGEMENT

*In 2013 the Central Bank continued to work on further improving the quality of human capital and aligning the human resources management system with best international practices.*

Top priorities in terms of human resources management included upgrades of recruitment, appraisal, motivation systems, inhouse training, management development program.

The **Establishing a Human Resources Management System (HRMS) to Motivate High Output Individual Performance and Development** project successfully continued as one of the Central Bank's top priorities under the 2011-2014 Strategic Plan. To this end, the program's roadmap, project initiative documents for "sub-projects" and project plans.

The automated recruitment testing system was upgraded and a new recruitment policy was developed and adopted with an aim to ensuring a more goal-driven selection of candidates as part of the overall effort of **staffing** the Bank with appropriately qualified personnel. Vacancies were regularly advertised via the Central Bank's official web-site to recruit young well-educated economists.

To this end, the Bank continued collaboration with the Azerbaijani USA and UK alumni (AAA, UKA) associations. Furthermore, the Central Bank's operations and the Bank's HRMS system were widely promoted at the Graduate 2013 graduate fairs organized by the Ministry of Education at the University of Foreign Languages, the Azerbaijan Diplomatic Academy, the Azerbaijan State Economic University.

Overall, the number of job applicants under the Central Bank's recruitment endeavour made 1363 people, with 42 individuals recruited as a result.

**More target-oriented and effective organization of education** was set as a priority for the reported year, with a special focus on upgrading appropriate competences, management and leadership skills of the staff, while expanding the range and scope of in-house training courses. Overall, up to **400** employees participated in the education process. 142 bank employees attended a variety of training courses such as external (domestic and foreign) seminars, experience sharing, certification courses, conferences and forums. 44 in-house seminars were organized on specialization, management and additional skills. A Management Development Program consisting of 4 modules was organized with the Azerbaijan Diplomatic Academy's support for

***Table 11. Central Bank's 2013 HRMS education statistics***

| Education statistics (training/person) | | | | | | | |
|---|---|---|---|---|---|---|---|
| Inhouse | | | Outsourced | | | | External training |
| Specialization | Management | Additional skills | Experience exchange | Seminar | Certification (course and test) | Other | |
| 36/250 | 1/8+19 | 7/80 | 6/12 | 91/117 | 6/8 | 5/5 | 7/225 |

*Source: CBA*

26 Central Bank managers delivered by foreign and local experts.

804 candidates applied for the Internship Program in 2013, which serves the purpose of educating young staff for the financial sector as well as expanding the Central Bank's own staff capacity. The number of applicants increased by 60% over the first years of the program. The screening process resulted in 61 individuals admitted to the program.

A set of proposals was developed for a **motivation system** designed to stimulate the personnel's work and commitment, which was launched in July 2013.

Lessons learned from the previous years were analyzed and a number of innovations introduced to improve and simplify the process in order to enhance the effectiveness of the appraisal procedure that has a specific boosting effect on motivational measures.

A big HR project **Automation of HRM processes** was completed, leading to a successfull automated staff appraisal for the first time with respect to the staff's performance in 2012 in the first half of the previous year. The Bank promoted 29 distinguished employees, rewarded 42 employees financially and awarded 36 staff members non-financial incentives (letters of gratitude).

# XII. COMMUNICATIONS OF THE CENTRAL BANK

*Ensuring that the general public receives full information on the Central Bank's core activities, including the monetary and exchange rate policy and the banking business, and providing an input to economic awareness were the primary strategic objectives that defined the communication endeavours in the reported year. This communication served the purpose of enhancing transparency of execution of the Bank's mission using modern tools, and fostering public confidence in the Bank.*

The Bank's communication efforts in 2013 involved implementation of the **Creation of a Modern Communication System Program**, as one of the key objectives under the Strategic Plan. The Bank worked to implement action plans under the Program's Development of an External Communication System, Development of an Internal Communication System and Formulation of a Corporate Social Responsibility (CSR) Policy projects.

In the reported year, the **updated version of the web-site** was devised that applies mobile platforms and innovative modules under the Development of an External Communication System project. Developed and introduced **mobile applications** allow cruising the web-site using iPhone, Android, BlackBerry devices. In general, over 1 million users visited the renewed version of the web-site.

**A unique page was designed and launched as an element** of the Central Bank's official web-site to commemorate the 90th anniversary of the National Leader Heydar Aliyev; the page hosts press-releases and an image and video gallery covering the anniversarial events.

The Bank's Translation Unit translated and posted on the Bank's web-site 250 publications (the Governor's interviews, articles, statistical summaries, regulations, etc.), as part of the overall endeavor to upgrade the web-site's **English version**.

A total of 71 press-releases were prepared and posted on the Bank's web-site respecting the Central Bank's operations, Governor's meetings, monthly statistics, important decisions made by the Central Bank and other issues. Press-releases were publicized via the press in accordance with best international practices. Dissemination of press-releases, which have been improved in terms of quality and delivery methods, covered news, analyses, opinions, interviews, reports, statements and other communications involving the Central Bank, scoring a total of over 1300 information releases to general audiences via the mass media.

In the reported year, **49 journalist queries** were replied to, **8 conferences and 10 interviews** organized for local and foreign press representatives on a variety of topics. The Central Bank established a legal framework to create a **Spokespersons Group** and a **Crisis Communication System**.

Another **Open Door day** was organized at the Central Bank for journalists on July 18, 2013 to commemo rate the 138th anniversary of the Azerbaijani national press. As a primary communication target group of the Bank, mass media representatives were informed on the Central Bank's core business areas , indicating a special role that the mass media play in ensuring that the general public is properly informed and perceives more effective implementation of the Bank's mission and monetary and banking policies.

**An external image** research was commenced among real sector enterprises as a major external target audience, and a methodology framework developed to conduct of systematic surveys and findings analysis. Furthermore, the Central Bank's official web-site launched a fledgling **interactive** survey platform designed to conduct perception surveys among all external target audiences.

The Central Bank's **internal communication** system was upgraded in 2013. In the reported period, the first electronic issue of the Central Bank's **corporate magazine** was drafted, while the **E-mails from the Governor tradition continued**; a unified useful modules rich **Intranet portal** started to be created to bring all existing internal portals together.

A **CSR Concept** document was developed as a product of the Formulation of the Central Bank's Corporate Social Responsibility Policy project. The Central Bank's employees delivered **lectures on a voluntary basis** to raise financial awareness of high school students. Furthermore, as part of voluntary CSR projects, another **blood donation initiative** was carried out with the involvement of the Central Blood Bank's mobile working unit. In the reported year, all of the Central Bank's units collected and submitted up to 4 tons of recyclable paper and paper products under the **Recycle Paper, Save Trees** motto, which effectively means that at least 60 trees were prevented from being cut down for industrial purposes.

Thus, traditional communication products were further upgraded, while efforts continued to develop new internal and external communication products, which all in all gave a positive input to the successful implementation of the Central Bank mission.

# XIII. INTERNAL AUDIT

*As the Central Bank's unit responsible for evaluating the effectiveness of risk management and internal control systems (ICS) and supporting improvements in management processes, the Internal Audit function carried on with its advisory and assurance work in 2013.*

The 2011-2014 Strategic Plan contains a strategic goal of establishing a corporate governance system that would assist the Central Bank in improving its business efficiency, wherein exists a sub-project of fully aligning the **Internal Controls and Risk Management System** with best international standards and practices. As part of the 2013 Strategic Planning, the Central Bank's ICS was evaluated based on the **COSO standards**. The evaluation covered 3 major components of the ICS: i) supervisory environment; ii) supervisory activities; iii) information and communication elements.

The Internal Audit function targeted high risk areas of the Central Bank using an operational map. Proactive supervision technique was more actively employed in order to enhance the efficiency of operations. Audits of core business operations in the reported year identified significant risks and recommended preventive measures to manage such risks

IT risk assessment and analysis as part of the 2013 audits were grounded in the Internal Auditors Institute, Information Systems Audit and Control Association (ISACA), as well as COBIT 4.1 and ISO 27002 **standards**. Advisory services were continued in order to assist in improving IT risk management and control processes. International practices and the experience of 'Big Four' Deloitte & Touche were studied with an aim to launching **automated audit tools (CAAT)**.

**Post-audit follow-up** activities were also upgraded as the principal indicator of the audit function's value added element. The Bank strengthened follow-up on recommendations provided to audited units as a result of audits. Procedures were developed and enacted for post-audit follow-up designed to improve the discipline of following up on audit recommendations at the Central Bank.

The Bank continued to allign internal audit function with international auditing standards. In the reported year, the Swiss Central Bank's experts carried out an evaluation of the Internal Audit function and asserted that the Central Bank's audit service meets the international standards. Preparations kept going over the year for relevant staff members to obtain professional certifications (CFSA and CISA).

# XIV. INFORMATION TECHNOLOGIES OF THE CENTRAL BANK

*The rapid development of information technologies worldwide, the expanded coverage of electronic services, increasing automation and modernization of technology processes set the Central Bank on the path to new information technology prospects. Considering the above, the Central Bank devised its information technologies efforts in 2013 with an aim to automating business processes as well as improving the information systems in tune with the global trends.*

In 2013, the Central Bank worked to ensure that the **critical systems it operates**, including the Temenos General Ledger (GL), the Electronic Statistics Database and Analytical Reporting, the Centralized Credit Registry, the Electronic Signature Certification, internal communications, local and global networks, Archive/Records, a prudential reporting system for credit institutions, the Electronic Paperwork/Clerical System, Human Resources Management and other internal supporting service systems, as well as the Central Bank's web-site are in full compliance with the regulatory and policy framework and COBIT standards.

The year of 2013 was characterized with **improvement of** the Central Bank's information systems in alignment with global development while expanding their uses. A number of information systems that represent a part of unified information environment were modernized, and a range of business and service processes were automated. All of this had an enhancing effect on labor productivity, while reducing labor, cost and time consumption.

The **IBAN** (International Bank Account Number) structure, a wide-spread tool used worldwide by financial institutions in electronic payments, was introduced in our country, thus instituting real time bank settlements since 2013.

The **Temenos** General Ledger system introduced in 2011 at the Central Bank continued to operate in a reliable and sustainable fashion; the GL's hardware was completely upgraded to refine the system and enhance its coverage, and the system's software platform migrated to the new R13 version. In addition, seeking to ensure centralized management of regional operating and accounting processes, the Central Bank's Regional Offices, including government agencies and other institutions whose correspondent accounts are serviced at the Central Bank were connected to the system operated at the Central Bank's head office, to support their reliable and secure functioning.

The state-of-art **Electronic Statistics Database and Analytical Reporting System** (ESAHS) introduced at the Central Bank continued to operate in th most reliable and secure fashion. Electronic signature certificates were introduced and information system access using electronic signature certificates installed in order to enhance the safety of the system operation.

In order to further expand the scope of information and communication technologies in banking, the Central Bank continued to work on accrediting the **Electronic Signature Certification System** with the Ministry of Communication and Information Technologies (MCIT) of the Republic of Azerbaijan. A number of related regulations were revised and submitted to the MCIT for review and approval. The said project will enable individuals and legal entities as well as government agencies to benefit from online banking services with an assurance that their data are properly safeguarded.

The Central Bank continued to work on increasing the effectiveness and security of cash transactions, optimizing the placement and transportation of cash, minimizing potential risks, and increasing automation of all business processes. Installation of all components of the system hardware and software infrastructure was completed under the

**Cash Management Information System** project to this end. As a major element of the project, a special Portal that will collect/receive, process and transmit the data was developed and presented to the system's principal users, the commercial banks.

Automation of internal supporting services was another main area of the Central Bank's overall information technology infrastructure modernization effort. Thus, supporting services in need of regular upgrade were automated using the Oracle platform in accordance with COBIT standards for the first time in the country. The set-up of the **Electronisation of Technical and Administrative Services and Change Management** systems on this platform stepped into the final phase.

As part of its financial awareness increasing endeavours the Central Bank launched the project of establishing a **Knowledge Management System**, developing a **Research and Financial Awareness Portal**, as well as creating a Stadium for preparing multimedia training aids.

# XV. INTERNATIONAL RELATIONS OF THE CENTRAL BANK

*The Central Bank continued to work successfully on building and developing its foreign relations and international collaboration in 2013.*

Strategic dialogue and partnership relations with international financial institutions and development agencies were reinforced, the bilateral relations map expanded, existing projects continued, while new projects were launched. During the year the Central Bank's management had high level meetings and joint seminars with foreign central banks.

The Bank continued to collaborate successfully with the **World Bank** (WB) on consumer finance protection and raising general public's financial awareness, formulating a supervisory framework for operating risks, and realizing the Paid Advisory Services program. In addition, under the Financial Sector Modernization project, a Project Management Unit was established responsible for the Azerpost component, and a number of measures were taken icluding an audit of the Azerposit LLC, staff training and re-branding the public perception.

IMF experts visited the CBA to discuss Paragraph IV of the Articles of Agreement with the **International Monetary Fund** (IMF). Meetings held covered a range of issues, such as maintenance of macroeconomic stability and the banking system sustainability. As part of the IMF collaboration, the Bank gained technical assistance for the Real Sector Monitoring and prospects evaluated to conduct the next Financial.

**Cooperation with foreign central banks** represented a principal area of interest for the CBA in terms of international relations. CBA representatives went on study tours to Bundesbank, the National Banks of Turkey, Italy, Portugal and Switzerland. In parallel, as part of its advisory services on various areas, the CBA arranged study tours for representatives of the national banks of Switzerland to the Central Bank. The Bank worked with the Bundesbank to organize 'Information Technologies in Central Banking', 'Accounting and Budgeting in Central Banking' and 'Challenges in International Cooperation between Central Banks' seminars in Baku.

**Cooperation with international development agencies** was also successfully continued during the reported year. In the reported year the Central Bank cooperated with the US Agency for International Development (USAID), the Swiss State Secretariat for Economic Affairs (SECO), Luxembourg Financial Technology Transfer Agency (ATTF), the TAIEX Program, a technical assistance instrument of the European Commission, the International Cooperation Agency of Turkey (TIKA) and other development agencies.

In 2013, **the Central Bank also continued to share its successful experiences with partner foreign central banks**. Study tours were arranged for representatives of the Central Bank of Kazakhstan, Kyrgizstan, Ukraine and Vietnam to the CBA for experience sharing on building state-of-the-art cash management capacity, developing non-cash payments, financial programming and forecasting, and improving electronic statistics.

# XVI. THE CENTRAL BANK`S 2013 FINANCIAL STATEMENTS

**Independent Auditors' Report**

To the Management Board of the Central Bank of the Republic of Azerbaijan

We have audited the accompanying financial statements of the Central Bank of the Republic of Azerbaijan (the Bank), which comprise the statement of financial position as at 31 December 2013, and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

*Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, 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.

*Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

*Other Matter*

The financial statements of the Bank as at and for the year ended 31 December 2012 were audited by other auditors whose report dated 19 April 2013 expressed an unmodified opinion on those statements.

KPMG Azerbaijan Limited

Baku, Republic of Azerbaijan

21 May 2014

**Statement of Financial Position**

| *In thousands of Azerbaijani Manats* | Notes | 31/12/2013 | 31/12/2012 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and cash equivalents | 4 | 8,382,174 | 5,816,626 |
| Special Drawing Rights with the IMF | 5 | 186,911 | 185,975 |
| Trading securities | 6 | 1,930,345 | 3,422,816 |
| Derivative financial instruments | 7 | 367 | 75 |
| Investment securities | 8 | 1,101,406 | 157,871 |
| Loans to banks | 9 | 3,359,861 | 3,382,847 |
| Promissory notes from government | 19 | 230,356 | 225,732 |
| Property, equipment and intangible assets | 10 | 72,094 | 72,321 |
| Other assets | 11 | 63,404 | 44,257 |
| **Total assets** | | **15,326,918** | **13,308,520** |
| **LIABILITIES** | | | |
| Money issued in circulation | 12 | 11,033,336 | 9,777,522 |
| Amounts due to government organizations | 13 | 3,053,973 | 2,348,298 |
| Amounts due to credit institutions | 14 | 751,104 | 869,310 |
| Amounts due to other organizations | 15 | 10,580 | 14,305 |
| Derivative financial instruments | 7 | 1,254 | 657 |
| Debt securities in issue | 16 | 19,994 | 119,930 |
| Liabilities on transactions with the IMF | 5 | 191,533 | 198,275 |
| Amounts due to international financial institutions | 17 | 3,010 | 4,239 |
| Other liabilities | 18 | 11,143 | 5,566 |
| **Total liabilities** | | **15,075,927** | **13,338,102** |
| **EQUITY** | | | |
| Share capital | 19 | 10,000 | 10,000 |
| Capital reserves | | 209,517 | 209,517 |
| Retained earnings (accumulated losses) | | 31,474 | (249,099) |
| **Total equity** | | **250,991** | **(29,582)** |
| **Total liabilities and equity** | | **15,326,918** | **13,308,520** |

The financial statements were approved by Management on 21 May 2014 and were signed on its behalf by.

The notes set out on pages 54 to 97 form an integral part of these financial statements.

## Statement of Profit or Loss and Other Comprehensive Income

| *In thousands of Azerbaijani Manats* | Notes | 2013 | 2012 |
|---|---|---|---|
| Interest income | 20 | 165,211 | 111,414 |
| Interest expense | 20 | (897) | (2,381) |
| **Net interest income** | | **164,314** | **109,033** |
| Fee and commission income | 21 | 8,574 | 3,908 |
| Fee and commission expense | 22 | (727) | (760) |
| **Net fee and commission income** | | **7,847** | **3,148** |
| Net (losses) gains from trading securities | | (10,041) | 6,641 |
| Net losses from derivative financial instruments | | (6,107) | (7,229) |
| Net gains from foreign exchange translation | | 138,949 | 77,751 |
| Net gains (losses) from trading in currencies | | 7,065 | (625) |
| Other operating income | | 13,109 | 3,531 |
| **Operating income** | | **315,136** | **192,250** |
| Impairment of loans to banks recovery/(losses) | | 22,143 | (15,288) |
| Administrative and other operating expenses | 23 | (56,706) | (45,760) |
| **Total comprehensive income for the year** | | **280,573** | **131,202** |

## Statement of Changes in Equity

| *In thousands of Azerbaijani Manats* | Share capital | Capital reserves | Retained earnings (accumulated losses) | Total equity |
|---|---|---|---|---|
| **Balance as at 1 January 2012** | **10,000** | **209,517** | **(380,301)** | **(160,784)** |
| Total comprehensive income for the year | - | - | 131,202 | 131,202 |
| **Balance as at 31 December 2012** | **10,000** | **209,517** | **(249,099)** | **(29,582)** |
| Total comprehensive income for the year | - | - | 280,573 | 280,573 |
| **Balance as at 31 December 2013** | **10,000** | **209,517** | **31,474** | **250,991** |

The notes set out on pages 54 to 97 form an integral part of these financial statements.

## Statement of Cash Flows

| *In thousands of Azerbaijani Manats* | Notes | 31/12/2013 | 31/12/2012 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Interest receipts | | 144,350 | 90,457 |
| Interest payments | | (809) | (2,722) |
| Fee and commission receipts | | 8,574 | 3,908 |
| Fee and commission payments | | (727) | (760) |
| Net (payments) receipts from trading securities | | (11,152) | 838 |
| Net payments from derivative financial instruments | | (5,441) | (4,882) |
| Net receipts (payments) from trading in foreign currencies | | 7,065 | (625) |
| Other operating income receipts | | 13,109 | 3,531 |
| Administrative and other operating expenses payments | | (48,327) | (38,172) |
| **Cash flows from operating activities before changes in operating assetsand liabilities** | | **106,642** | **51,573** |
| **(Increase) decrease in operating assets** | | | |
| Trading securities | | 1,522,270 | (1,870,566) |
| Special Drawing Rights with the IMF | | - | (661) |
| Loans to banks | | 54,633 | (1,301,597) |
| Other assets | | (19,148) | 6,850 |
| **Increase (decrease) in operating liabilities** | | | |
| Money issued in circulation | | 1,255,814 | 2,119,036 |
| Amounts due to government organizations | | 703,784 | (150,305) |
| Amounts due to credit institutions | | (118,206) | 990 |
| Amounts due to other organizations | | (4,403) | 9,627 |
| Other liabilities | | 3,708 | 5,263 |
| **Cash flows from/(used in) operations** | | **3,505,094** | **(1,132,790)** |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Purchases of investment securities | | (1,344,107) | (3,033) |
| Sale and repayment of investment securities | | 403,891 | 206,222 |
| Purchases of property, equipment and intangible assets | | (8,152) | (29,317) |
| **Cash flows (used in)/from investing activities** | | **(948,368)** | **173,872** |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Proceeds from debt securities in issue | | 344,603 | 1,080,356 |
| Repayment of debt securities in issue | | (444,636) | (1,010,657) |
| Repayment of borrowings from IMF | | (7,692) | (9,815) |
| (Repayment)/receipts of amounts due to international financial institutions | | (1,229) | 479 |
| **Cash flows (used in)/from financing activities** | | **(108,954)** | **60,363** |
| **Net increase (decrease) in cash and cash equivalents** | | **2,447,772** | **(898,555)** |
| Effect of changes in exchange rates on cash and cash equivalents | | 117,776 | 32,677 |
| Cash and cash equivalents as at the beginning of the year | | 5,816,626 | 6,682,504 |
| **Cash and cash equivalents as at the end of the year** | 4 | **8,382,174** | **5,816,626** |

The notes set out on pages 54 to 97 form an integral part of these financial statements.

**Notes tothe financial statements for the year ended 31 December 2013**

## 1. Background

These financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2013 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;
- Ensure the development and strengthening of the banking and payment systems; and
- Profit making is not a primary goal of the Bank.

Article 5 of the Law sets out the functions of the Bank as follows:

- Determine and implement monetary 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;
- In accordance with normative acts issued in accordance with the Laws of the Republic of Azerbaijan “On Banks”, “On Post” and “On Central Bank of the Republic of Azerbaijan”, licenses and regulates banking activities and supervises banking activities subject to procedures established by legislation;
- Determine, coordinate and regulate activities of payment systems;
- Implement other functions as stipulated by the legislation.

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 Government of Azerbaijan Republic. Refer to Note 25.

Pursuant to the legislation of the Republic of Azerbaijan and the international treaties acceded to by the Republic of Azerbaijan, the Bank represents the Republic of Azerbaijan in relations with the central banks of foreign states, as well as international financial and credit institutions in matters relating to the Bank's responsibilities.

The Bank may conclude agreements on cooperation with the central banks of foreign countries concerning various areas of its activities. It may also conclude clearing and settlement agreements and other agreements with foreign public and private clearing agencies, on its own behalf and on behalf of the Republic of Azerbaijan, if appropriately empowered.

The Bank may participate in the capital and activity of international organizations for the purpose of cooperation in monetary, foreign currency and banking areas.

At 31 December 2013, 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 |
| Mr. Khagani Abdullayev | Deputy Governor |

The Bank's main office is located on the following address: 32 Rashid Behbudov Street, Baku, AZ1014, Azerbaijan. The Bank had six regional branches in the Republic of Azerbaijan (31 December 2012: five). As of 31 December 2013, the Bank had 613 employees (31 December 2012: 623).

**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, rounded to nearest thousand, unless otherwise stated.

**Operating Environment of the Bank**

A well-developed business and regulatory infrastructure is being established in Azerbaijan as a country with a newly emerged market economy. A number of developments are being implemented that positively affect the overall investment climate of the country.

Over the last few years the Government of the Republic of Azerbaijan and the Bank implemented significant reforms necessary to create banking, judicial, taxation and regulatory systems. Those measures also included the adoption of a new body of legislation and amendments to the existing legislation. These steps will contribute to mitigation of the risks incurred by entities doing business in the Republic of Azerbaijan.

The reforms aimed at the overall improvement of the business environment are expected to continue. However, the Azerbaijani economy is quite sustainable to market downturns and economic slowdowns in its partner countries. In spite of the fact the global economy is gradually recovering from the recession, persistence of significant risks remain in the global financial market and its capital markets instability. Growth and development of the Republic of Azerbaijan economy continued and sustainable macroeconomic stability was maintained at a time of such a situation in the global economy. The liquidity needs of the economy were fulfilled and stability of the exchange rate of the national currency was maintained through measures of the Azerbaijani Government.

In addition to these, monetary policy and banking operations carried out in the Republic of Azerbaijan can be subject to certain risks. Currently, all the necessary measures are implemented to support the Bank's role in maintaining macroeconomic and financial stability. However, especially sharp changes of operating environment (including global environment) could affect the Bank's results and financial position in a manner not currently determinable.

## 2. Basis of preparation

### Basis of measurement

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

### Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results could differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

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

- loan impairment estimates – Note 9;
- estimates of fair values of financial assets and liabilities – Note 29.

### Changes in accounting policies and presentation

The Bank has adopted the following new standards and amendments to standards with a date of initial application of 1 January 2013.

- IFRS 13 *Fair Value Measurements*

The nature and the effect of the changes are explained below.

***Fair value measurement***

IFRS 13 establishes a single framework for measuring fair value and making disclosures about fair value measurements, when such measurements are required or permitted by other IFRSs. In particular, it unifies the definition of fair value as 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. It also replaces and expands the disclosure requirements about fair value measurements in other IFRSs, including IFRS 7 *Financial Instruments: Disclosures.* (see note 29).

As a result, the Bank adopted a new definition of fair value, as set out in note 3. The change had no significant impact on the measurements of assets and liabilities. However, the Bank included new disclosures in the financial statements that are required under IFRS 13, comparatives not restated.

## 3. Significant accounting policies

The accounting policies set out below are applied consistently to all periods presented in these financial statements, except as explained in note 2, which addresses changes in accounting policies.

**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 recognised 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 2013, exchange rates for translation of foreign currency balances were as follows:1 US Dollar = AZN 0.7845, 1 Euro = AZN 1.078, 1 Pound sterling = AZN 1.2927 and 1 Special Drawing Right = AZN 1.2122 (31 December 2012: 1 US Dollar = AZN 0.785, 1 Euro = AZN 1.0377, 1 Pound sterling = AZN 1.2694 və 1 Special Drawing Right = AZN 1.2058).

**Financial instruments**

***Classification***

***Cash and cash equivalents***

Cash and cash equivalents are short-term items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents consist of cash on hand in foreign currency and unrestricted balances on correspondent accounts including overnight deposits and deposits with a maturity of three months from origination. Cash and cash equivalents are carried at amortised cost.

***Trading securities***

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

***Available for sale financial assets***

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

***Investment securities held to maturity***

This classification includes quoted non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank has both the intention and ability to hold to maturity. Management determines the classification of investment securities held to maturity at their initial recognition and reassesses the appropriateness of that classification at the end of each reporting period. Investment securities held to maturity are carried at amortised cost.

***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 amortised cost using the effective interest method.

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.

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 category only in the case that is unusual and highly unlikely to recur in the near term.

***Recognition***

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

***Measurement***

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

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

Loans and receivables and held-to-maturity investments which are measured at amortized cost are measured using the effective interest method.

All financial liabilities, other than those designated at fair value through profit or loss and financial liabilities that arise when a transfer of a financial asset carried at fair value does not qualify for derecognition, are measured at amortized cost.

***Amortised cost***

Amortised costis 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 write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the statement of financial position.

***Fair value***

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 in the principal, or in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk. When available, the Bank measures the fair value of an instrument using quoted prices in an active market for that instrument. 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.

When there is no quoted price in an active market, the Bank uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all the factors that market participants would take into account in these circumstances.

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 recognised 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.

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

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

- a gain or loss on a financial instrument classified as at fair value through profit or loss is recognized in profit or loss;

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

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

***Derecognition***

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

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

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

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

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.

***Repurchase and reverse repurchase agreements***

Sale and repurchase agreements ("repo agreements") which effectively provide a lender's return to the counterparty are treated as secured financing transactions. Securities sold under such sale and repurchase agreements are not derecognised. The securities are not reclassified in the statement of financial position unless the transferee has the right by contract or custom to sell or repledge the securities, in which case they are reclassified as repurchase receivables. The corresponding liability is presented within amounts due to credit institutions or other organizations.

Securities purchased under agreements to resell ("reverse repo agreements") which effectively provide a lender's return to the Bank are recorded as loans to local banks. The difference between the sale and repurchase price is treated as interest income and accrued over the life of reverse repo agreements using the effective interest method.

If assets purchased under an agreement to resell are sold to third parties, the obligation to return securities is recorded as a trading liability and measured at fair value.

***Derivative financial instruments***

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

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured 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 recognised immediately in profit or loss.

**Property and equipment**

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

***Depreciation***

Depreciation 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. Land is not depreciated. Estimated useful lives 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 capitalised computer software and licenses.
Acquired intangible assets are stated at cost less accumulated amortisation and impairment losses.
Amortisation 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.

**Impairment**

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

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

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

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

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

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

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

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.

***Financial assets carried at cost***

Financial assets carried at cost include unquoted equity instruments included in available-for-sale financial assets that are not carried at fair value because their fair value cannot be reliably measured. If there is objective evidence that such investments are impaired, the impairment loss is calculated as the difference between the carrying amount of the investment and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset.

All impairment losses in respect of these investments are recognized in profit or loss and cannot be reversed.

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

Impairment losses on available-for-sale financial assets are recognised by transferring the cumulative loss that is recognised in other comprehensive income to profit or loss as a reclassification adjustment. 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 amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

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 recognised in profit or loss, the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

**Money issued in circulation**

Money issued in circulation represents banknotes and coins issued by the Bank 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 amortised 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 amortised 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 separate from the state pension system of Azerbaijan. In addition, the Bank has no post-retirement benefits or other significant compensation benefits requiring accrual. In accordance with the requirements of the Azerbaijan legislation, the Bank withholds amounts of pension contributions from employee salaries and pays them to the state pension fund. Upon retirement all retirement benefit payments are made by the state pension fund.

**Charter capital and capital reserves**

The Bank's capital is comprised of its authorized paid-in capital 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 organizations (e.g. IMF, World Bank), including payment of membership fees to such organizations.

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

Quotas (capital subscriptions) are the primary source of IMF resources. The IMF receives its resources from its member countries. Each country's subscription (quota) is determined broadly on the basis of the economic size of the country and taking into account quotas of similar countries. A member's quota delineates basic aspects of its financial and organizational 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 15 to the financial statements.

General and special allocations received from the IMF to boost the liquidity of member countries are taken up y 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 recognised in profit or loss when the corresponding service is provided.

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

**New standards and interpretations not yet adopted**

*A number of new standards, amendments to standards and interpretations are not yet effective* as at 31 December 2013, *and are not applied in preparing thesefinancial statements. Of these pronouncements, potentially the following will have an impact on the* financial position and performance. The Bank plans to adopt these pronouncements when they become effective.

- IFRS 9 *Financial Instruments* will not be effective before 2017 annual periods. The new standard is to be issued in phases and is intended ultimately to replace International Financial Reporting Standard IAS 39 *Financial Instruments:Recognition and Measurement*. The first phase of IFRS 9 was issued in November 2009 and relates to the classification and measurement of financial assets. The second phase regarding classification and measurement of financial liabilities was published in October 2010. The third phase of IFRS 9 was issued in November 2013 and relates to general hedge accounting. The Bank recognises that the new standard introduces many changes to the accounting for financial instruments and is likelyto have a significant impact on the financial statements. The impact of these changes will be analysed during the course of the project as further phases of the standard are issued. The Bank does not intend to adopt this standard early. The Bank has not yet analysed the likely impact of the new standard on its financial position or performance.

- Amendments to IAS 32 *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities* do not introduce new rules for offsetting financial assets and liabilities; rather they clarify the offsetting criteria to address inconsistencies in their application. The Amendments specify that an entity currently has a legally enforceable right to set-off if that right is not contingent on a future event; and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties. The amendments are effective for annual periods beginning on or after 1 January 2014, and are to be applied retrospectively. The Bank has not yet analysed the likely impact of the new standard on its financial position or performance.

- Various *Improvements to IFRS* are dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect not earlier than 1 January 2014. The Bank has not yet analysed the likely impact of the improvements on its financial position or performance.

## 4. Cash and cash equivalents

| *In thousands of Azerbaijani Manats* | **31/12/2013** | **31/12/2012** |
|---|---|---|
| **Cash on hand** | 106,345 | 99,238 |
| **Nostro accounts with non-resident banks** | | |
| - rated AAA | 3,025,076 | 2,889,634 |
| - rated AA- to AA+ | 5,248,781 | 2,770,011 |
| - rated A- to A+ | 1,972 | 57,743 |
| **Total nostro accounts with non-resident banks** | 8,275,829 | 5,717,388 |
| **Total cash and cash equivalents** | **8,382,174** | **5,816,626** |

No cash and cash equivalents are past due or impaired.

As at 31 December 2013 and 2012, ratings of nostro accounts with non-resident banks are disclosed based on the lowest of ratings assigned by Fitch Ratings, Standard and Poor’s and Moody’s agencies.

## 5. Balances with the International Monetary Fund

| *In thousands of Azerbaijani Manats* | **31/12/2013** | **31/12/2012** |
|---|---|---|
| **ASSETS** | | |
| Special Drawing Rights (SDR) holdings | 186,911 | 185,975 |
| **Total assets with IMF** | **186,911** | **185,975** |

| *In thousands of Azerbaijani Manats* | **31/12/2013** | **31/12/2012** |
|---|---|---|
| **LIABILITIES** | | |
| Current accounts | 655 | 656 |
| **Borrowings from the IMF:** | | |
| Poverty Reduction and Growth Facility | 4,713 | 12,415 |
| **SDR allocation:** | | |
| General allocation | 144,587 | 143,853 |
| Special allocation | 41,578 | 41,351 |
| **Total SDR allocations** | 186,165 | 185,204 |
| **Total liabilities with IMF** | **191,533** | **198,275** |

*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.

*Borrowings*

Borrowing from IMF is a 10 year loan issued to the Government of the Republic of Azerbaijan with an annual interest rate of 0.5% maturing in 2015. The Government of the Republic of Azerbaijan has a legal obligation for the repayment of these funds that are maintained by the Bank on behalf of the Government of the Republic of Azerbaijan acting as a depository and the borrowing is treated by the Bank as a liability to the Government of the Republic of Azerbaijan.

*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 160.9 million (AZN 195,043 thousand and AZN 195,367 thousand as at 31 December 2013 and 2012 respectively) has remained unchanged since 25 January 1999 and represents the membership subscription of the Republic of Azerbaijan with the IMF. Securities were issued by the Government of the Republic of Azerbaijan to guarantee these amounts. These securities are held by the Bank for which IMF is acting as the beneficiary.

## 6. Trading securities

| *In thousands of Azerbaijani Manats* | 31/12/2013 | 31/12/2012 |
|---|---|---|
| Agency notes | 800,505 | 510,980 |
| Notes issued by international financial institutions | 442,528 | 259,672 |
| UK Treasury notes | 219,784 | 102,946 |
| Government bonds | 214,571 | 113,575 |
| US Treasury notes | 142,299 | 2,309,681 |
| Municipal bonds | 85,476 | 117,745 |
| Corporate bonds | 25,182 | 8,217 |
| **Total trading securities** | **1,930,345** | **3,422,816** |

No trading securities are past due or impaired.

The Bank uses reputable asset managers for the management of certain 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. Derivative financial instruments

The fair value of derivative financial instruments as at 31 December 2013 and 2012 are as follows:

| *In thousands of Azerbaijani Manats* | 31/12/2013 | | | 31/12/2012 | | |
|---|---|---|---|---|---|---|
| | Notional amount | Fair value | | Notional amount | Fair value | |
| | | Assets | Liabilities | | Assets | Liabilities |
| Foreign exchange contracts | 197,836 | 129 | (1,174) | 113,683 | 75 | (657) |
| Future contracts | 30,240 | 238 | (80) | - | - | - |
| **Total derivative financial instruments** | **228,076** | **367** | **(1,254)** | **113,683** | **75** | **(657)** |

**Foreign currency contracts**

The table below summarises, by major currencies, the contractual amounts of forward exchange contracts outstanding at 31 December 2013 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 | | Weighted average contractual exchange rates | |
|---|---|---|---|---|
| | **31/12/2013** | **31/12/2012** | **31/12/2013** | **31/12/2012** |
| **Buy USD sell EUR** | | | | |
| Less than 3 months | 41,082 | 18,310 | 0.7275 | 0.7672 |
| **Sell USD buy EUR** | | | | |
| Less than 3 months | 107,603 | 57,369 | 1.3643 | 1.3140 |
| **Buy USD sell GBP** | | | | |
| Less than 3 months | 7,472 | 5,078 | 0.6050 | 0.6211 |
| **Sell USD buy GBP** | | | | |
| Less than 3 months | 17,664 | 13,437 | 1.6407 | 1.6106 |
| **Buy USD sell CAD** | | | | |
| Less than 3 months | 2,735 | 2,678 | 1.0635 | 0.9894 |
| **Sell USD buy CAD** | | | | |
| Less than 3 months | 8,364 | 4,841 | 0.9399 | 0.9482 |
| **Buy USD sell other currencies** | | | | |
| Less than 3 months | 3,659 | 1,128 | - | - |
| **Sell USD buy other currencies** | | | | |
| Less than 3 months | 9,257 | 10,842 | - | - |

## 8. Investment securities

| *In thousands of Azerbaijani Manats* | **31/12/2013** | **31/12/2012** |
|---|---|---|
| **- Held-to-maturity investments** | | |
| US Treasury bills | 803,058 | - |
| **- Available-for-sale investments** | | |
| Securities issued by Kapital Bank OJSC | 133,026 | - |
| Ministry of Finance of the Republic of Azerbaijan | 40,000 | 40,000 |
| Azerbaijan Mortgage Fund | 20,434 | - |
| **Total available-for-sale investments** | **193,460** | **40,000** |
| **- Loans and advances** | | |
| Ministry of Finance of the Republic of Azerbaijan | 109,183 | 122,166 |
| Impairment allowance | (4,295) | (4,295) |
| **Total loans and advances less impairment allowance** | **104,888** | **117,871** |
| **Total investment securities** | **1,101,406** | **157,871** |

## 9. Loans to banks

| *In thousands of Azerbaijani Manats* | 31/12/2013 | 31/12/2012 |
|---|---|---|
| Loans under government guarantee | 2,113,452 | 2,479,728 |
| Refinancing loans | 907,508 | 678,833 |
| Subordinated loans | 350,350 | 257,908 |
| Lender of last resort loans | 24,082 | 24,052 |
| **Gross loans to banks** | **3,395,392** | **3,440,521** |
| Impairment allowance | (35,531) | (57,674) |
| **Total loans to banks less impairment allowance** | **3,359,861** | **3,382,847** |

Movements in the loan impairment allowance by classes of loans to customers for the year ended 31 December 2013 are as follows:

| *In thousands of Azerbaijani Manats* | Refinancing loans | Subordinated loans | Lender of last resort loans | Total |
|---|---|---|---|---|
| Balance at the beginning of the year | 28,464 | 5,158 | 24,052 | 57,674 |
| Net recovery | (13,320) | (5,158) | (3,665) | (22,143) |
| **Balance at the end of the year** | **15,144** | **-** | **20,387** | **35,531** |

Movements in the loan impairment allowance by classes of loans to customers for the year ended 31 December 2012 are as follows:

| *In thousands of Azerbaijani Manats* | Refinancing loans | Subordinated loans | Lender of last resort loan | Total |
|---|---|---|---|---|
| Balance at the beginning of the year | 29,576 | - | 23,646 | 53,222 |
| Net charge | 9,724 | 5,158 | 406 | 15,288 |
| Write-offs | (10,836) | - | - | (10,836) |
| **Balance at the end of the year** | **28,464** | **5,158** | **24,052** | **57,674** |

### Credit quality

The following table provides information on the credit quality of loans to customers as at 31 December 2013:

| *In thousands of Azerbaijani Manats* | Gross loans | Impairment allowance | Net loans |
|---|---|---|---|
| **Loans under government guarantee** | | | |
| Loans without individual signs of impairment | 2,113,452 | - | 2,113,452 |
| **Total loans under government guarantee** | **2,113,452** | **-** | **2,113,452** |

| *In thousands of Azerbaijani Manats* | **Gross loans** | **Impairment allowance** | **Net loans** |
|---|---|---|---|
| **Refinancing loans** | | | |
| Loans without individual signs of impairment | 883,786 | (11,106) | 872,680 |
| Overdue or impaired loans: | | | |
| - overdue 180-360 days | 11,784 | (1,749) | 10,035 |
| - overdue more than 360 days | 11,938 | (2,289) | 9,649 |
| Total overdue or impaired loans | 23,722 | (4,038) | 19,684 |
| **Total refinancing loans** | **907,508** | **(15,144)** | **892,364** |
| **Subordinated loans** | | | |
| Loans without individual signs of impairment | 350,350 | - | 350,350 |
| **Total subordinated loans** | **350,350** | **-** | **350,350** |
| **Lender of last resort loans** | | | |
| Overdue or impaired loans: | | | |
| - overdue more than 360 days | 24,082 | (20,387) | 3,695 |
| Total overdue or impaired loans | 24,082 | (20,387) | 3,695 |
| **Total lender of last resort loans** | **24,082** | **(20,387)** | **3,695** |
| **Total loans to banks** | **3,395,392** | **(35,531)** | **3,359,861** |

The following table provides information on the credit quality of loans to customers as at 31 December 2012:

| *In thousands of Azerbaijani Manats* | **Gross loans** | **Impairment allowance** | **Net loans** |
|---|---|---|---|
| **Loans under government guarantee** | | | |
| Loans without individual signs of impairment | 2,479,728 | - | 2,479,728 |
| **Total loans under government guarantee** | **2,479,728** | **-** | **2,479,728** |
| **Refinancing loans** | | | |
| Loans without individual signs of impairment | 666,128 | (15,759) | 650,369 |
| Overdue or impaired loans: | | | |
| - overdue 180-360 days | 4,410 | (4,410) | - |
| - overdue more than 360 days | 8,295 | (8,295) | - |
| Total overdue or impaired loans | 12,705 | (12,705) | - |
| **Total refinancing loans** | **678,833** | **(28,464)** | **650,369** |
| **Subordinated loans** | | | |
| Loans without individual signs of impairment | 257,908 | (5,158) | 252,750 |
| **Total subordinated loans** | **257,908** | **(5,158)** | **252,750** |

| *In thousands of Azerbaijani Manats* | Gross loans | Impairment allowance | Net loans |
|---|---|---|---|
| **Lender of last resort loans** | | | |
| Overdue or impaired loans: | | | |
| - overdue more than 360 days | 24,052 | (24,052) | - |
| Total overdue or impaired loans | 24,052 | (24,052) | - |
| **Total lender of last resort loans** | **24,052** | **(24,052)** | **-** |
| **Total loans to banks** | **3,440,521** | **(57,674)** | **3,382,847** |

As at 31 December 2013 included in the loan portfolio are renegotiated loans to banks in the amount of AZN 27,410 thousand (2012: AZN 28,506 thousand). The main reason for renegotiation is due to stabilisation of short-term liquidity and protection of financial stability. Renegotiated loans are included in the category of assets without individual signs of impairment in the tables above, unless the borrower fails to comply with the renegotiated terms.

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

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

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

- a discount of between 20% and 40% to the originally appraised value if the property pledged is sold;
- 12 to 36 months for the foreclosure of collateral.

**Analysis of collateral and other credit enhancements**

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

| *In thousands of Azerbaijani Manats* | 31/12/2013 | | 31/12/2012 | |
|---|---|---|---|---|
| | Loans to banks, carrying amount | Fair value of collateral assessed as of loan date | Loans to banks, carrying amount | Fair value of collateral assessed as of loan date |
| *Loans without individual signs of impairment* | | | | |
| Guarantee letters from government | 2,113,452 | 2,113,452 | 2,479,728 | 2,479,728 |
| Commercial real estate | 796,262 | 796,262 | 430,844 | 430,844 |
| Residential real estate | 62,409 | 62,409 | 52,166 | 52,166 |
| Traded securities | 14,009 | 14,009 | 35,074 | 35,074 |
| Loans without collateral | 350,350 | - | 385,035 | - |
| **Total loans without individual signs of impairment** | **3,336,482** | **2,986,132** | **3,382,847** | **2,997,812** |
| *Overdue or impaired loans* | | | | |
| Commercial real estate | 23,379 | 23,379 | - | - |
| **Total overdue or impaired loans** | **23,379** | **23,379** | **-** | **-** |
| **Total loans to banks** | **3,359,861** | **3,009,511** | **3,382,847** | **2,997,812** |

## 10. Property, equipment and intangible assets

| *In thousands of Azerbaijani Manats* | Land | Buildings | Furniture and fixtures | Computers and communication equipment | Motor vehicles | Intangible assets | Total |
|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | |
| Balance at 1 January 2013 | 15,726 | 38,470 | 40,742 | 11,509 | 2,033 | 23,758 | 132,238 |
| Additions | - | 10 | 1,744 | 2,256 | 46 | 4,111 | 8,167 |
| Disposals | - | - | (89) | (1,190) | (46) | - | (1,325) |
| **Balance at 31 December 2013** | **15,726** | **38,480** | **42,397** | **12,575** | **2,033** | **27,869** | **139,080** |
| **Depreciation and amortisation** | | | | | | | |
| Balance at 1 January 2013 | - | (11,034) | (32,134) | (5,820) | (1,683) | (9,246) | (59,917) |
| Depreciation and amortisation for the year | - | (1,158) | (3,056) | (1,868) | (109) | (2,185) | (8,376) |
| Disposals | - | - | 89 | 1,190 | 28 | - | 1,307 |
| **Balance at 31 December 2013** | **-** | **(12,192)** | **(35,101)** | **(6,498)** | **(1,764)** | **(11,431)** | **(66,986)** |
| **Carrying amount** | | | | | | | |
| **At 31 December 2013** | **15,726** | **26,288** | **7,296** | **6,077** | **269** | **16,438** | **72,094** |

| *In thousands of Azerbaijani Manats* | Land | Buildings | Furniture and fixtures | Computers and communication equipment | Motor vehicles | Construction in progress | Intangible assets | Total |
|---|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | | |
| Balance at 1 January 2012 | 15,726 | 24,387 | 31,044 | 7,069 | 1,926 | 5,810 | 17,312 | 103,274 |
| Additions | - | 9 | 336 | 3,968 | 107 | 18,644 | 6,446 | 29,510 |
| Transfers | - | 14,274 | 9,476 | 704 | - | (24,454) | - | - |
| Disposals | - | (200) | (114) | (232) | - | - | - | (546) |
| **Balance at 31 December 2012** | **15,726** | **38,470** | **40,742** | **11,509** | **2,033** | **-** | **23,758** | **132,238** |
| **Depreciation and amortisation** | | | | | | | | |
| Balance at 1 January 2012 | - | (9,924) | (28,600) | (4,970) | (1,491) | - | (7,695) | (52,680) |
| Depreciation and amortisation for the year | - | (1,115) | (3,648) | (1,082) | (192) | - | (1,551) | (7,588) |
| Disposals | - | 5 | 114 | 232 | - | - | - | 351 |
| **Balance at 31 December 2012** | **-** | **(11,034)** | **(32,134)** | **(5,820)** | **(1,683)** | **-** | **(9,246)** | **(59,917)** |
| **Carrying amount** | | | | | | | | |
| **At 31 December 2012** | **15,726** | **27,436** | **8,608** | **5,689** | **350** | **-** | **14,512** | **72,321** |

## 11. Other assets

| *In thousands of Azerbaijani Manats* | 31/12/2013 | 31/12/2012 |
|---|---|---|
| Receivables from trade securities disposed | 7,850 | 1,886 |
| Loans to employees | 1,197 | 1,355 |
| Amounts in the course of settlement | 89 | - |
| Other financial assets | 44 | - |
| Advances received for foreign currency dealing operations | - | 79 |
| Impairment allowance | (14) | (15) |
| **Total other financial assets** | **9,166** | **3,305** |
| Prepayments to suppliers | 49,743 | 40,868 |
| Repossessed assets | 4,400 | - |
| Other non-financial assets | 95 | 84 |
| **Total other non-financial assets** | **54,238** | **40,952** |
| **Total other assets** | **63,404** | **44,257** |

Movements in the impairment allowance for the years ended 31 December 2013 and 2012 are as follows:

| *In thousands of Azerbaijani Manats* | 31/12/2013 | 31/12/2012 |
|---|---|---|
| Balance at the beginning of the year | 15 | 20 |
| Net recovery | (1) | (5) |
| **Balance at the end of the year** | **14** | **15** |

## 12. Money in circulation

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

During the year ended 31 December 2013 the Bank accepted new banknotes amounting to AZN 16,107 thousand from minting company (2012: AZN 395,698 thousand).

| *In thousands of Azerbaijani Manats* | 31/12/2013 | 31/12/2012 |
|---|---|---|
| Balance at the beginning of the year | 9,777,522 | 7,658,486 |
| Net amount of banknotes and coins issued into circulation | 1,255,814 | 2,119,036 |
| **Balance at the end of the year** | **11,033,336** | **9,777,522** |

### 13. Amounts due to government organisations

| *In thousands of Azerbaijani Manats* | **31/12/2013** | **31/12/2012** |
|---|---|---|
| Amounts due to the Central Treasury of the Republic of Azerbaijan | 2,876,424 | 2,179,547 |
| Amounts due to State Oil Fund of the Republic of Azerbaijan | 169,699 | 156,670 |
| Other demand deposits | 7,850 | 12,081 |
| **Total amounts due to government organization** | **3,053,973** | **2,348,298** |

Interest rate, currency and maturity analysis of amounts due to government organisations are disclosed in note 24.

### 14. Amounts due to credit institutions

| *In thousands of Azerbaijani Manats* | **31/12/2013** | **31/12/2012** |
|---|---|---|
| Current accounts | 592,210 | 740,539 |
| Mandatory reserves | 157,000 | 128,064 |
| Blocked accounts | 1,894 | 707 |
| **Total amounts due to credit institutions** | **751,104** | **869,310** |

### 15. Amounts due to other organisations

| *In thousands of Azerbaijani Manats* | **31/12/2013** | **31/12/2012** |
|---|---|---|
| Public organisations | 10,441 | 14,168 |
| Other financial institutions | 139 | 136 |
| Other | - | 1 |
| **Total amounts due to other organizations** | **10,580** | **14,305** |

### 16. Debt securities in issue

| *In thousands of Azerbaijani Manats* | **31/12/2013** | **31/12/2012** |
|---|---|---|
| Short-term notes | 19,994 | 119,930 |
| **Total debt securities in issue** | **19,994** | **119,930** |

As at 31 December 2013, the Bank has 20,000 short-term notes in issue.

## 17. Amounts due to international financial institutions

| *In thousands of Azerbaijani Manats* | 31/12/2013 | 31/12/2012 |
|---|---|---|
| Borrowings from International Development Association (IDA) | 2,843 | 3,214 |
| Amounts due to other international financial institutions | 167 | 1,025 |
| **Total amounts due to international financial institutions** | **3,010** | **4,239** |

## 18. Other liabilities

| *In thousands of Azerbaijani Manats* | 31/12/2013 | 31/12/2012 |
|---|---|---|
| Amounts payable for investment securities purchased | 10,174 | 1,672 |
| Amounts in the course of settlement | 643 | 3,737 |
| Advances received for the sale of foreign currencies | 241 | 137 |
| **Total other financial liabilities** | **11,058** | **5,546** |
| Deferred income | 20 | 20 |
| Other | 65 | - |
| **Total other non-financial liabilities** | **85** | **20** |
| **Total other liabilities** | **11,143** | **5,566** |

## 19. Share capital

The authorized and fully paid capital of the Bank is AZN 10,000 thousand. During the year ended 31 December 2009, the Ministry of Finance of the Republic of Azerbaijan contributed additional capital to the Bank by issuing non-interest bearing promissory notes with the nominal amount of AZN 255,400 thousand with maturity in 2019. The purpose of this contribution was to cover the capital deficit of the Bank in the amount of AZN 255,399 thousand which occurred further to losses amounting to AZN 402,155 thousand arising in 2008 from the revaluation of foreign currency position of the Bank due to the appreciation of Azerbaijani Manat against foreign currencies. The notes were initially recognised at the fair value of AZN 209,517 thousand with the corresponding increase in capital reserves.

## 20. Interest income and expenses

| *In thousands of Azerbaijani Manats* | 2013 | 2012 |
|---|---|---|
| **Interest income** | | |
| Loans to banks | 125,419 | 80,296 |
| Trading securities | 16,482 | 14,802 |
| Investment securities: | | |
| *Held-to-maturity investments* | 8,896 | 1,462 |
| *Available-for-sale investments* | 2,265 | 1,310 |

| *In thousands of Azerbaijani Manats* | 2013 | 2012 |
|---|---|---|
| Nostro accounts with non-resident banks | 7,298 | 8,618 |
| Promissory notes from government | 4,624 | 4,636 |
| SDR holdings with the IMF | 149 | 198 |
| Other assets | 78 | 92 |
| **Total interest income** | **165,211** | **111,414** |
| | | |
| **Interest expense** | | |
| Debt securities in issue | 720 | 1,740 |
| Liabilities on transactions with the IMF | 147 | 606 |
| Amounts due to international financial institutions | 29 | 33 |
| Amounts due to government organisations | 1 | 2 |
| **Total interest expenses** | **897** | **2,381** |
| **Net interest income** | **164,314** | **109,033** |

Included within various line items under interest income for the year ended 31 December 2013 is a total of AZN 2,081 thousand (2012: AZN 1,413 thousand) accrued on impaired financial assets.

## 21. Fee and commission income

| *In thousands of Azerbaijani Manats* | 2013 | 2012 |
|---|---|---|
| Settlement | 4,867 | 3,856 |
| Cash withdrawal | 3,701 | 33 |
| Other | 6 | 19 |
| **Total fee and commission income** | **8,574** | **3,908** |

## 22. Fee and commission expense

| *In thousands of Azerbaijani Manats* | 2013 | 2012 |
|---|---|---|
| Securities operations (management, custodian and brokerage) | 660 | 672 |
| Settlement | 67 | 72 |
| Other | - | 16 |
| **Total fee and commission expenses** | **727** | **760** |

## 23. Administrative and other operating expenses

| *In thousands of Azerbaijani Manats* | 2013 | 2012 |
|---|---|---|
| Staff costs | 14,768 | 14,261 |
| Banknotes and coin production | 13,348 | 12,600 |
| Regional construction and social | 11,975 | 1,832 |
| Depreciation of premises and equipment | 6,191 | 6,037 |
| Amortization of software and other intangible assets | 2,185 | 1,551 |
| Software maintenance | 1,803 | 1,894 |
| Financing of Financial Monitoring Service | 1,528 | 1,319 |
| Security | 1,268 | 1,320 |
| Repair and maintenance | 968 | 1,124 |
| Communication | 403 | 633 |
| Office supplies | 388 | 434 |
| Heating and lighting | 310 | 335 |
| Insurance | 198 | 227 |
| Occupancy and Rent | 194 | 138 |
| Printing | 190 | 153 |
| Business travel | 173 | 197 |
| Representation | 93 | 299 |
| Legal and consultancy | 71 | 812 |
| Utilities | 43 | 56 |
| Other | 609 | 538 |
| **Total administrative and other operating expenses** | **56,706** | **45,760** |

## 24. Risk management

The activities of the Bank are exposed to various risks. Bank's risks are classified in the following four categories:

- *Strategic (policy) risks* – are the risks related with the monetary policy, financial stability, bank control 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, Credit Organizations Activity Control, Prudential Policy and Methodology, Market operations, Strategic Management and other departments);

- *Financial risks* – is targeted at the identification, management of credit, market and liquidity risks on the management of Bank's currency reserves, Financial risk management Policy, establishment of relevant risk limits and controls, and regular monitoring of implementation of risk levels ans limits. 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 behaviour 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;

- *Reputational risks* – are the risks arising out of the personal life, behaviour 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. At certain times, the Bank may be overly exposed to certain risks and/or take disadvantageous positions in fulfilling its responsibilities, which are typical for central banks and consequently incur unexpected financial losses, e.g. losses from translation of foreign currency balances.

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 defining the acceptable limits for management of the Bank's foreign currency assets in accordance with the "Regulations for Management of Foreign Currency Assets of the Central Bank of the Republic of Azerbaijan".

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

*Internal audit.* Risk management processes throughout the Bank are audited annually by the Internal Audit that examines both the adequacy of the procedures and the Bank's compliance with the procedures. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Chairman of the Bank.

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

The risk related to the Bank's foreign currency assets is a significant risk. Segregation of duties, procedures and reporting for risk management are regulated by the "Guidelines on Management of Foreign Currency Assets of the Central Bank of the Republic of Azerbaijan". Acceptable limits on managed risks are stipulated in the "Guidelines on Management of Foreign Currency Assets of the Central Bank of the Republic of Azerbaijan", "Main Directions of Management of Foreign Currency Assets of the Central Bank of the Republic of Azerbaijan", "Operational Investment Strategy for Management of Foreign Currency Assets of the Central Bank of the Republic of Azerbaijan" and "Investment Rules for Management of Assets by Foreign Managers". These limits are defined by the Investment Committee and approved by the Management Board. Ongoing control over risks is exercised by Risk Management Division of the Market Operations Department and Financial Market Operations Division of the Payment Systems and Settlements Department.

**Credit risk**

The Bank is exposed to credit risk, which is the risk that one party will incur a loss because the other party failed to comply with its financial obligations. Exposure to credit risk arises as a result of the Bank's lending and other transactions with counterparties giving rise to financial assets. Credit risk is managed and controlled through proper selection of investment assets, credit quality of investment assets and setting limits on the amount of investment per investment asset.

In accordance with the investment guidelines of the Bank, only investment instruments with short-term ratings of not less than A-2 (Standard & Poor's), F-2 (Fitch) or P-2 (Moody's) and long-term ratings of not less than A- (Standard & Poor's, Fitch) or A3 (Moody's) may be used for management of the Bank's assets. At the same time, the maximum amount invested in one commercial bank, except the government and other central banks, is defined as the equivalent of US Dollar 200 million. Subject to the terms of the investment instrument, minimal credit rating is defined as A- (Standard & Poor's, Fitch) for investment instruments with a term of up to one month, A (Standard & Poor's, Fitch) for deposits with a term from one to twelve months, and A+ (Standard & Poor's, Fitch) for deposits with a term over twelve months. When different credit ratings are designated by the various agencies, the rating meeting the minimum required level for this asset is used.

The Bank classifies loans based on a credit rating system. This provides early identification of possible changes in the creditworthiness of counterparties. Credit rating allows the Bank to assess the potential loss as a result of the risks to which the Bank is exposed and take corrective action.

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

| *In thousands of Azerbaijani Manats* | **31/12/2013** | **31/12/2012** |
|---|---|---|
| **ASSETS** | | |
| Cash and cash equivalents | 8,275,829 | 5,717,388 |
| Special Drawing Rights with the IMF | 186,911 | 185,975 |
| Trading securities | 1,930,345 | 3,422,816 |
| Derivative financial instruments | 367 | 75 |
| Investment securities | 1,101,406 | 157,871 |
| Loans to banks | 3,359,861 | 3,382,847 |
| Promissory notes from government | 230,356 | 225,732 |
| Other financial assets | 9,166 | 3,305 |
| **Total maximum exposure** | **15,094,241** | **13,096,009** |

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

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

**Market risk**

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

***Interest rate risk***

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Bank is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may also reduce or create losses in the event that unexpected movements occur.

***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 2013 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 2013** | | | | | | |
| **ASSETS** | | | | | | |
| Cash and cash equivalents | 8,275,829 | - | - | - | 106,345 | 8,382,174 |
| Special Drawing Rights with the IMF | 186,911 | - | - | - | - | 186,911 |
| Trading securities | 1,930,345 | - | - | - | - | 1,930,345 |
| Derivative financial instruments | - | - | - | - | 367 | 367 |
| Investment securities | - | - | - | 1,101,406 | - | 1,101,406 |
| Loans to banks | 92,654 | 276,147 | 110,901 | 2,880,159 | - | 3,359,861 |
| Promissory notes from government | - | - | - | 230,356 | - | 230,356 |
| Other financial assets | 9,166 | - | - | - | - | 9,166 |
| | **10,494,905** | **276,147** | **110,901** | **4,211,921** | **106,712** | **15,200,586** |
| **LIABILITIES** | | | | | | |
| Money issued in circulation | - | - | - | - | 11,033,336 | 11,033,336 |
| Amounts due to government organizations | 3,053,973 | - | - | - | - | 3,053,973 |
| Amounts due to credit institutions | 751,104 | - | - | - | - | 751,104 |
| Amounts due to other organizations | 10,580 | - | - | - | - | 10,580 |
| Derivative financial instruments | - | - | - | - | 1,254 | 1,254 |
| Debt securities in issue | 19,994 | - | - | - | - | 19,994 |
| Liabilities on transactions with the IMF | 1,564 | 1,564 | - | - | 188,405 | 191,533 |
| Amounts due to international financial institutions | 196 | 196 | 1,616 | 1,002 | - | 3,010 |
| Other financial liabilities | 11,058 | - | - | - | - | 11,058 |
| | **3,848,469** | **1,760** | **1,616** | **1,002** | **11,222,995** | **15,075,842** |
| | **6,646,436** | **274,387** | **109,285** | **4,210,919** | **(11,116,283)** | **124,744** |

A summary of the interest gap position for major financial instruments as at 31 December 2012 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 |
|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | |
| Cash and cash equivalents | 5,717,388 | - | - | - | 99,238 | 5,816,626 |
| Special Drawing Rights with the IMF | 185,975 | - | - | - | - | 185,975 |
| Trading securities | 3,422,816 | - | - | - | - | 3,422,816 |
| Derivative financial instruments | - | - | - | - | 75 | 75 |
| Investment securities | - | - | - | 157,871 | - | 157,871 |
| Loans to banks | 32,994 | 731,554 | 75,460 | 2,542,839 | - | 3,382,847 |
| Promissory notes from government | - | - | - | 225,732 | - | 225,732 |
| Other financial assets | 3,305 | - | - | - | - | 3,305 |
| | **9,362,478** | **731,554** | **75,460** | **2,926,442** | **99,313** | **13,195,247** |
| **LIABILITIES** | | | | | | |
| Money issued in circulation | - | - | - | - | 9,777,522 | 9,777,522 |
| Amounts due to government organizations | 2,348,298 | - | - | - | - | 2,348,298 |
| Amounts due to credit institutions | 869,310 | - | - | - | - | 869,310 |
| Amounts due to other organizations | 14,305 | - | - | - | - | 14,305 |
| Derivative financial instruments | - | - | - | - | 657 | 657 |
| Debt securities in issue | 119,930 | - | - | - | - | 119,930 |
| Liabilities on transactions with the IMF | 1,057 | 2,775 | 3,170 | 5,413 | 185,860 | 198,275 |
| Amounts due to international financial institutions | 948 | 196 | 196 | 2,899 | - | 4,239 |
| Other financial liabilities | 5,546 | - | - | - | - | 5,546 |
| | **3,359,394** | **2,971** | **3,366** | **8,312** | **9,964,039** | **13,338,082** |
| | **6,003,084** | **728,583** | **72,094** | **2,918,130** | **(9,864,726)** | **(142,835)** |

***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 2013 and 2012 is as follows:

| *In thousands of Azerbaijani Manats* | 31/12/2013 | 31/12/2012 |
|---|---|---|
| 100 bp parallel fall | (76,273) | (70,150) |
| 100 bp parallel rise | 76,273 | 70,150 |

An analysis of sensitivity of net profit or loss and equity as a result of changes in the fair value of trading securities and financial assets available-for-sale due to changes in the interest rates based on positions existing as at 31 December 2013 and 2012 and a simplified scenario of a 100 bp symmetrical fall or rise in all yield curves is as follows:

| *In thousands of Azerbaijani Manats* | **31/12/2013** | **31/12/2012** |
|---|---|---|
| | | |
| 100 bp parallel fall | (20,218) | (32,897) |
| 100 bp parallel rise | 20,218 | 32,897 |

The table below displays average effective interest rates for interest bearing assets and liabilities as at 31 December 2013 and 2012. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

| | **31/12/2013 Average effective interest rate, %** | | | | **31/12/2012 Average effective interest rate, %** | | | |
|---|---|---|---|---|---|---|---|---|
| | **AZN** | **USD** | **EUR** | **Other currencies** | **AZN** | **USD** | **EUR** | **Other currencies** |
| **Interest bearing assets** | | | | | | | | |
| Cash and cash equivalents | - | 0.25 | 0.50 | - | - | 0.20 | 0.08 | - |
| Special Drawing Rights with the IMF | - | - | - | 0.13 | - | - | - | 0.11 |
| Trading securities | - | 1.19 | - | - | - | 1.22 | - | - |
| Investment securities | 2.96 | 1.40 | - | - | 0.95 | - | - | - |
| Loans to banks | | | - | - | 4.26 | 2.56 | - | - |
| Promissory notes from government | 2.00 | - | - | - | 2.00 | - | - | - |
| Other financial assets | 11.00 | - | - | - | 11.00 | - | - | - |
| | | | | | | | | |
| **Interest bearing liabilities** | | | | | | | | |
| Debt securities in issue | 1.15 | - | - | - | 1.97 | - | - | - |
| Liabilities on transactions with the IMF | - | - | - | 0.50 | - | - | - | 0.50 |
| Amounts due to international financial institutions | - | 1.00 | - | - | - | 1.00 | - | - |

***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 10 July 2012. 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. Also the department acts in accordance with its own charter approved by the Management Board.

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 2013:

| *In thousands of Azerbaijani Manats* | USD | EUR | Other currencies | Total |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Cash and cash equivalents | 5,011,071 | 3,031,412 | 339,691 | 8,382,174 |
| Special Drawing Rights with the IMF | - | - | 186,911 | 186,911 |
| Trading securities | 1,199,057 | 156,309 | 574,979 | 1,930,345 |
| Derivative financial instruments | 367 | - | - | 367 |
| Investment securities | 803,058 | - | - | 803,058 |
| Loans to banks | 513,351 | - | - | 513,351 |
| Other financial assets | 7,850 | - | - | 7,850 |
| **Total assets** | **7,534,754** | **3,187,721** | **1,101,581** | **11,824,056** |
| **LIABILITIES** | | | | |
| Amounts due to government organisations | 2,608 | 23,004 | 20,557 | 46,169 |
| Amounts due to credit institutions | 130,219 | 20,897 | 2 | 151,118 |
| Derivative financial instruments | 1,254 | - | - | 1,254 |
| Liabilities on transactions with the IMF | - | - | 190,878 | 190,878 |
| Amounts due to international financial institutions | 3,010 | - | - | 3,010 |
| Other financial liabilities | 10,382 | 1 | - | 10,383 |
| **Total liabilities** | **147,473** | **43,902** | **211,437** | **402,812** |
| **Net recognised position** | **7,387,281** | **3,143,819** | **890,144** | **11,421,244** |
| The effect of derivatives | (87,940) | 66,521 | 21,419 | - |
| **Net position** | **7,299,341** | **3,210,340** | **911,563** | **11,421,244** |

The following table shows the currency structure of financial assets and liabilities as at 31 December 2012:

| *In thousands of Azerbaijani Manats* | USD | EUR | Other currencies | Total |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Cash and cash equivalents | 2,919,893 | 2,357,837 | 538,694 | 5,816,424 |
| Special Drawing Rights with the IMF | - | - | 185,975 | 185,975 |
| Trading securities | 3,011,734 | 178,631 | 232,451 | 3,422,816 |
| Derivative financial instruments | 75 | - | - | 75 |
| Loans to banks | 376,854 | - | - | 376,854 |
| Other financial assets | 1,811 | - | - | 1,811 |
| **Total assets** | **6,310,367** | **2,536,468** | **957,120** | **9,803,955** |
| **LIABILITIES** | | | | |
| Amounts due to government organisations | 58,520 | 29,021 | 14,962 | 102,503 |
| Amounts due to credit institutions | 120,959 | 24,358 | 4 | 145,321 |
| Amounts due to other organisations | 3 | 1 | - | 4 |
| Derivative financial instruments | 657 | - | - | 657 |
| Liabilities on transactions with the IMF | - | - | 197,619 | 197,619 |
| Amounts due to international financial institutions | 3,239 | - | - | 3,239 |
| Other financial liabilities | 1,147 | 2,557 | 84 | 3,788 |
| **Total liabilities** | **184,525** | **55,937** | **212,669** | **453,131** |
| **Net recognised position** | **6,125,842** | **2,480,531** | **744,451** | **9,350,824** |
| The effect of derivatives | (59,295) | 39,059 | 20,236 | - |
| **Net position** | **6,066,547** | **2,519,590** | **764,687** | **9,350,824** |

A weakening of the AZN, as indicated below, against the following currencies at 31 December 2013 and 2012 would have increased (decreased) 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* | **31/12/2013** | **31/12/2012** |
|---|---|---|
| 10% appreciation of USD against AZN | 729,934 | 606,555 |
| 10% appreciation of EUR against AZN | 321,034 | 251,959 |

A strengthening of the AZN against the above currencies at 31 December 2013 and 2012 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.

***Other price risk***

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. Other price risk arises when the Bank takes a long or short position in a financial instrument.

An analysis of sensitivity of net profit or loss and equity to changes in securities prices based on positions existing as at 31 December 2013 and 2012 and a simplified scenario of a 10% change in all securities prices is as follows:

| *In thousands of Azerbaijani Manats* | **31/12/2013** | **31/12/2012** |
|---|---|---|
| 10% increase in securities prices | 193,041 | 342,223 |
| 10% decrease in securities prices | (193,041) | (342,223) |

**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 achieve the Bank's primary goals of maintaining currency stability and control over monetary policy, the Bank maintains operational foreign currency assets which are a group of liquid assets from its foreign currency assets to ensure timely intervention when deemed necessary. Such group of operational liquid foreign currency assets of the Bank is adequate for meeting the foreign currency demand for currency intervention, financing foreign trade equivalent of three-month import, and financing short-term foreign debt of the country. 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 an analysis, by expected maturities, of the amounts recognised in the statement of financial position as at 31 December 2013:

| In thousands of Azerbaijani Manats | Demand and less than 1 month | From 1 to 3months | From 3 to 12 months | From 1 to 5 years | More than 5 years | No maturity | Overdue | Total |
|---|---|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | | | |
| Cash and cash equivalents | 8,381,973 | 201 | - | - | - | - | - | 8,382,174 |
| Special Drawing Rights with the IMF | - | - | - | - | - | 186,911 | - | 186,911 |
| Trading securities | 1,930,345 | - | - | - | - | - | - | 1,930,345 |
| Derivative financial instruments | 367 | - | - | - | - | - | - | 367 |
| Investment securities | 36 | 116 | 128 | 452,835 | 648,291 | - | - | 1,101,406 |
| Loans to banks | 247 | 166,627 | 313,075 | 506,875 | 2,349,883 | - | 23,154 | 3,359,861 |
| Promissory notes from government | - | - | - | - | 230,356 | - | - | 230,356 |
| Property, equipment and intangible assets | - | - | - | - | - | 72,094 | - | 72,094 |
| Other assets | 9,166 | - | - | - | - | 54,238 | - | 63,404 |
| **Total assets** | **10,322,134** | **166,944** | **313,203** | **959,710** | **3,228,530** | **313,243** | **23,154** | **15,326,918** |
| **LIABILITIES** | | | | | | | | |
| Money issued in circulation | - | - | - | - | - | 11,033,336 | - | 11,033,336 |
| Amounts due to government organizations | 3,053,973 | - | - | - | - | - | - | 3,053,973 |
| Amounts due to credit institutions | 751,104 | - | - | - | - | - | - | 751,104 |
| Amounts due to other organizations | 10,580 | - | - | - | - | - | - | 10,580 |
| Derivative financial instruments | 1,254 | - | - | - | - | - | - | 1,254 |
| Debt securities in issue | 19,994 | - | - | - | - | - | - | 19,994 |
| Liabilities on transactions with the IMF | 1,564 | 1,564 | - | - | - | 188,405 | - | 191,533 |
| Amounts due to international financial institutions | 196 | 196 | 1,616 | 1,002 | - | - | - | 3,010 |
| Other liabilities | 11,058 | - | - | - | - | 85 | - | 11,143 |
| **Total liabilities** | **3,849,723** | **1,760** | **1,616** | **1,002** | **-** | **11,221,826** | **-** | **15,075,927** |
| **Net position** | **6,472,411** | **165,184** | **311,587** | **958,708** | **3,228,530** | **(10,908,583)** | **23,154** | **250,991** |

The table below shows an analysis, by expected maturities, of the amounts recognised in the statement of financial position as at 31 December 2012:

| In thousands of Azerbaijani Manats | Demand and lessthan 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 | 2,926,992 | 2,889,634 | - | - | - | - | - | 5,816,626 |
| Special Drawing Rights with the IMF | - | 21 | - | - | - | 185,954 | - | 185,975 |
| Trading securities | 3,422,816 | - | - | - | - | - | - | 3,422,816 |
| Derivative financial instruments | 75 | | | | | | | 75 |
| Investment securities | - | - | - | 40,000 | 117,871 | - | - | 157,871 |
| Loans to banks | 32,994 | 731,554 | 75,460 | 1,049,418 | 1,483,813 | - | 9,608 | 3,382,847 |
| Promissory notes from government | - | - | - | - | 225,732 | - | - | 225,732 |
| Property, equipment and intangible assets | - | - | - | - | - | 72,321 | - | 72,321 |
| Other assets | 3,305 | - | - | - | - | 40,952 | - | 44,257 |
| **Total assets** | **6,386,182** | **3,621,209** | **75,460** | **1,089,418** | **1,827,416** | **299,227** | **9,608** | **13,308,520** |
| **LIABILITIES** | | | | | | | | |
| Money issued in circulation | - | - | - | - | - | 9,777,522 | - | 9,777,522 |
| Amounts due to government organizations | 2,348,298 | - | - | - | - | - | - | 2,348,298 |
| Amounts due to credit institutions | 869,310 | - | - | - | - | - | - | 869,310 |
| Amounts due to other organizations | 14,305 | - | - | - | - | - | - | 14,305 |
| Derivative financial instruments | 657 | | | | | | | 657 |
| Debt securities in issue | 119,930 | - | - | - | - | - | - | 119,930 |
| Liabilities on transactions with the IMF | 1,057 | 2,775 | 3,170 | 5,413 | - | 185,860 | - | 198,275 |
| Amounts due to international financial institutions | 948 | 196 | 196 | 1,616 | 1,283 | - | - | 4,239 |
| Other liabilities | 5,546 | - | - | - | - | 20 | - | 5,566 |
| **Total liabilities** | **3,360,051** | **2,971** | **3,366** | **7,029** | **1,283** | **9,963,402** | **-** | **13,338,102** |
| **Net position** | **3,026,131** | **3,618,238** | **72,094** | **1,082,389** | **1,826,133** | **(9,664,175)** | **9,608** | **(29,582)** |

## 25. 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 statutory capital 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 19, at 31 December 2013 the authorised and fully paid capital of the Bank was AZN 10,000 thousand (31 December 2012: AZN 10,000 thousand).

According to Article 10.3 of the Law, capital reserves should make up 15% of the national currency in cash put into circulation by the Bank and are established by allocations from the profit for the year. The difference resulting from the revaluation of assets and liabilities that are held in gold and foreign currency because of changes in the rate of AZN is accounted for in the statement of profit or loss and other comprehensive income of the Bank, but shall not be taken into consideration in the calculation of the capital reserves. Upon establishment of capital reserves, the residual balance of realised profit of the Bank shall be transferred to the State Budget.

Due to the fact that the capital reserves of the Bank at 31 December 2012 were not at the level required by the Law, there were no transfers made to the State Budget during the year 2013. At 31 December 2013, the Bank did not have the capital reserves required by the Law and therefore, no liability was recognised for the transfers to the State Budget.

## 26. Operating leases

The Bank leases a number of premises and equipment under operating leases. The leases typically run for an initial period of one year, with an option to renew the lease after that date. Lease payments are usually increased annually to reflect market rentals. None of the leases includes contingent rentals.

## 27. 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.

## 28. 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.

Bodies under the state's control represent the Azerbaijan Mortgage Fund ("AMF"), the Financial Monitoring Service ("FMS") and International Bank of Azerbaijan. The Bank acts as supervisor of these entities as mandated by law, but it has no title over their assets and liabilities, has no share ownership and rights over their economic benefits arising from their activities.

### Transactions with the members of the Management

Total remuneration included in personnel expenses for the years ended 31 December 2013 and 2012 is as follows:

| *In thousands of Azerbaijani Manats* | **2013** | **2012** |
|---|---|---|
| Short term employee benefits (salary) | **843** | **819** |

### Transactions with government-related entities

The Bank is a state owned entity, and in the ordinary course of business operates with various state owned companies. Significant transactions with government owned companies include loans to banks, 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 2013 and related profit or loss amounts of transactions for the year ended 31 December 2013 with other related parties are as follows:

| | Government of Azerbaijan | | Management Board | | Government controlled entities | | 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 | 144,888 | 0.86 | - | - | 20,434 | 3.25 | 165,322 |
| Loans to banks | | | | | | | |
| Principal balance | - | - | 70 | 4.60 | 1,301,057 | 4.15 | 1,301,127 |
| Impairment allowance | - | | (1) | | - | | (1) |
| Promissory notes from government | 230,356 | - | - | - | - | - | 230,356 |
| Other assets | 47 | - | - | - | 43 | - | 90 |
| **LIABILITIES** | | | | | | | |
| Amounts due to government organisations | 3,051,005 | - | - | - | 2,968 | - | 3,053,973 |
| Amounts due to credit institutions | - | - | - | - | 41,898 | - | 41,898 |
| Amounts due to other organisations | 10,432 | - | - | - | 42 | - | 10,474 |
| Liabilities on transactions with the IMF | 191,533 | - | - | - | - | - | 191,533 |
| Amounts due to international financial institutions | 3,010 | - | - | - | - | - | 3,010 |
| | | | | | | | |
| **Profit (loss)** | | | | | | | |
| Interest income | 7,050 | | 3 | | 46,384 | | 53,437 |
| Interest expense | (29) | | - | | - | | (29) |
| Fee and commission income | 1,632 | | - | | 1,987 | | 3,619 |
| Impairment recovery | - | | - | | 7,605 | | 7,605 |
| Other general and administrative expenses | - | | - | | (1,528) | | (1,528) |

The outstanding balances and the related average effective interest rates as at 31 December 2012 and related profit or loss amounts of transactions for the year ended 31 December 2012 with other related parties are as follows:

| | Government of Azerbaijan | | Management Board | | Government controlled entities | | 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 | 157,871 | 0.80 | - | - | - | - | 157,871 |
| Loans to banks | | | | | | | |
| Principal balance | - | - | 32 | 4.20 | 1,132,705 | 4.15 | 1,132,737 |
| Impairment allowance | - | | - | | (7,605) | | (7,605) |
| Promissory notes from government | 225,732 | - | - | - | - | - | 225,732 |
| Other assets | - | - | - | - | 326 | - | 326 |
| **LIABILITIES** | | | | | | | |
| Amounts due to government organisations | 2,346,118 | - | - | - | 2,180 | - | 2,348,298 |
| Amounts due to credit institutions | - | - | - | - | 52,563 | - | 52,563 |
| Amounts due to other organisations | - | - | - | - | 14,168 | - | 14,168 |
| Liabilities on transactions with the IMF | 198,275 | - | - | - | - | - | 198,275 |
| Amounts due to international financial institutions | 4,239 | - | - | - | - | - | 4,239 |
| | | | | | | | |
| **Profit (loss)** | | | | | | | |
| Interest income | 5,687 | | 2 | | 35,369 | | 41,058 |
| Impairment recovery | - | | - | | (5,960) | | (5,960) |
| Other general and administrative expenses | - | | - | | (1,319) | | (1,319) |

The outstanding balances and the related average effective interest rates as at 31 December 2012 and related profit or loss amounts of transactions for the year ended 31 December 2012 with other related parties are as follows:

| | Government of Azerbaijan | | Management Board | | Government controlled entities | | 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 | 157,871 | 0.80 | - | - | - | - | 157,871 |
| Loans to banks | | | | | | | |
| Principal balance | - | - | 32 | 4.20 | 1,132,705 | 4.15 | 1,132,737 |
| Impairment allowance | - | | - | | (7,605) | | (7,605) |
| Promissory notes from government | 225,732 | - | - | - | - | - | 225,732 |
| Other assets | - | - | - | - | 326 | - | 326 |
| **LIABILITIES** | | | | | | | |
| Amounts due to government organisations | 2,346,118 | - | - | - | 2,180 | - | 2,348,298 |
| Amounts due to credit institutions | - | - | - | - | 52,563 | - | 52,563 |
| Amounts due to other organisations | - | - | - | - | 14,168 | - | 14,168 |
| Liabilities on transactions with the IMF | 198,275 | - | - | - | - | - | 198,275 |
| Amounts due to international financial institutions | 4,239 | - | - | - | - | - | 4,239 |
| | | | | | | | |
| **Profit (loss)** | | | | | | | |
| Interest income | 5,687 | | 2 | | 35,369 | | 41,058 |
| Impairment recovery | - | | - | | (5,960) | | (5,960) |
| Other general and administrative expenses | - | | - | | (1,319) | | (1,319) |

## 29. Financial assets and liabilities: fair values and accounting classifications

### Accounting classifications and fair values

The table below sets out the carrying amounts and fair values of financial assets and financial liabilities as at 31 December 2013:

| In thousands of Azerbaijani Manats | Trading securities | Designated at fair value | Held-to-maturity | Loans and receivables | Available-for-sale | Other amortised cost | Total carrying amount | Fair value |
|---|---|---|---|---|---|---|---|---|
| Cash and cash equivalents | - | - | - | 8,382,174 | - | - | 8,382,174 | 8,382,174 |
| Special Drawing Rights with the IMF | - | - | - | 186,911 | - | - | 186,911 | 186,911 |
| Trading securities | 1,930,345 | - | - | - | - | - | 1,930,345 | 1,930,345 |
| Derivative financial instruments | - | 367 | - | - | - | - | 367 | 367 |
| Investment securities | - | - | 803,058 | 104,888 | 193,460 | - | 1,101,406 | 1,105,701 |
| Loans to banks | - | - | - | 3,359,861 | - | - | 3,359,861 | 3,326,461 |
| Promissory notes from government | - | - | - | 230,356 | - | - | 230,356 | 230,356 |
| Other financial assets | - | - | - | 9,166 | - | - | 9,166 | 9,166 |
| | **1,930,345** | **367** | **803,058** | **12,273,356** | **193,460** | **-** | **15,200,586** | **15,171,481** |
| Money issued in circulation | - | - | - | - | - | 11,033,336 | 11,033,336 | 11,033,336 |
| Amounts due to government organizations | - | - | - | - | - | 3,053,973 | 3,053,973 | 3,053,973 |
| Amounts due to credit institutions | - | - | - | - | - | 751,104 | 751,104 | 751,104 |
| Amounts due to other organizations | - | - | - | - | - | 10,580 | 10,580 | 10,580 |
| Derivative financial instruments | - | 1,254 | - | - | - | - | 1,254 | 1,254 |
| Debt securities in issue | - | - | - | - | - | 19,994 | 19,994 | 19,994 |
| Liabilities on transactions with the IMF | - | - | - | - | - | 191,533 | 191,533 | 191,533 |
| Amounts due to international financial institutions | - | - | - | - | - | 3,010 | 3,010 | 3,010 |
| Other financial liabilities | - | - | - | - | - | 11,058 | 11,058 | 11,058 |
| | **-** | **1,254** | **-** | **-** | **-** | **15,074,588** | **15,075,842** | **15,075,842** |

The table below sets out the carrying amounts and fair values of financial assets and financial liabilities as at 31 December 2012:

| *In thousands of Azerbaijani Manats* | Trading securities | Designated at fair value | Loans and receivables | Available-for-sale | Other amortised cost | Total carrying amount | Fair value |
|---|---|---|---|---|---|---|---|
| Cash and cash equivalents | - | - | 5,816,626 | - | - | 5,816,626 | 5,816,626 |
| Special Drawing Rights with the IMF | - | - | 185,975 | - | - | 185,975 | 185,975 |
| Trading securities | 3,422,816 | - | - | - | - | 3,422,816 | 3,422,816 |
| Derivative financial instruments | - | 75 | - | - | - | 75 | 75 |
| Investment securities | - | - | 117,871 | 40,000 | - | 157,871 | 157,871 |
| Loans to banks | - | - | 3,382,847 | - | - | 3,382,847 | 3,382,847 |
| Promissory notes from government | - | - | 225,732 | - | - | 225,732 | 225,732 |
| Other financial assets | - | - | 3,305 | - | - | 3,305 | 3,305 |
| | **3,422,816** | **75** | **9,732,356** | **40,000** | **-** | **13,195,247** | **13,195,247** |
| Money issued in circulation | - | - | - | - | 9,777,522 | 9,777,522 | 9,777,522 |
| Amounts due to government organizations | - | - | - | - | 2,348,298 | 2,348,298 | 2,348,298 |
| Amounts due to credit institutions | - | - | - | - | 869,310 | 869,310 | 869,310 |
| Amounts due to other organizations | - | - | - | - | 14,305 | 14,305 | 14,305 |
| Derivative financial instruments | - | 657 | - | - | - | 657 | 657 |
| Debt securities in issue | - | - | - | - | 119,930 | 119,930 | 119,930 |
| Liabilities on transactions with the IMF | - | - | - | - | 198,275 | 198,275 | 198,275 |
| Amounts due to international financial institutions | - | - | - | - | 4,239 | 4,239 | 4,239 |
| Other financial liabilities | - | - | - | - | 5,546 | 5,546 | 5,546 |
| | **-** | **657** | **-** | **-** | **13,337,425** | **13,338,082** | **13,338,082** |

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. 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.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments the Bank determines fair values using other valuation techniques.

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 recognised 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 securitisations.

**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, Product Control assesses and documents the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRS. 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.

The table below analyses financial instruments measured at fair value at 31 December 2013, by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognised in the statement of financial position:

| *In thousands of Azerbaijani Manats* | **Level 1** | **Level 2** | **Total** |
|---|---|---|---|
| **Financial assets** | | | |
| Trading securities | 1,930,345 | - | 1,930,345 |
| Derivative financial instruments | - | 367 | 367 |
| Available-for-sale financial assets | | | |
| - Debt and other fixed income instruments | 193,460 | - | 193,460 |
| | **2,123,805** | **367** | **2,124,172** |
| **Financial liabilities** | | | |
| Derivative financial instruments | - | (1,254) | (1,254) |
| | **-** | **(1,254)** | **(1,254)** |

The table below analyses financial instruments measured at fair value at 31 December 2012, by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognised in the statement of financial position:

| *In thousands of Azerbaijani Manats* | **Level 1** | **Level 2** | **Total** |
|---|---|---|---|
| **Financial assets** | | | |
| Trading securities | 3,422,816 | - | 3,422,816 |
| Derivative financial instruments | - | 75 | 75 |
| Available-for-sale financial assets | | | |
| - Debt and other fixed income instruments | 40,000 | - | 40,000 |
| | **3,462,816** | **75** | **3,462,891** |
| **Financial liabilities** | | | |
| Derivative financial instruments | - | (657) | (657) |
| | **-** | **(657)** | **(657)** |

The table below analyses financial instruments not measured at fair value at 31 December 2013, by the second level in the fair value hierarchy:

| *In thousands of Azerbaijani Manats* | **Level 1** | **Level 2** | **Total fair value** | **Total carrying amount** |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Cash and cash equivalents | - | 8,382,174 | 8,382,174 | 8,382,174 |
| SDRs with the IMF | - | 186,911 | 186,911 | 186,911 |
| Loans to banks | - | 3,326,461 | 3,326,461 | 3,359,861 |
| Investment securities | | | | |
| - Held to maturity investments | 803,058 | - | 803,058 | 803,058 |
| - Loans and advances | - | 109,183 | 109,183 | 104,888 |
| Promissory notes from government | - | 230,356 | 230,356 | 230,356 |
| Other assets | - | 9,166 | 9,166 | 9,166 |
| **LIABILITIES** | | | | |
| Money issued in circulation | 11,033,336 | - | 11,033,336 | 11,033,336 |
| Amounts due to government organizations | - | 3,053,973 | 3,053,973 | 3,053,973 |
| Amounts due to credit institutions | - | 751,104 | 751,104 | 751,104 |
| Amounts due to oher organizations | - | 10,580 | 10,580 | 10,580 |
| Debt securities in issue | 19,994 | - | 19,994 | 19,994 |
| Liabilities on trasactions with the IMF | - | 191,533 | 191,533 | 191,533 |
| Amounts due to international financial institutions | - | 3,010 | 3,010 | 3,010 |
| Other liabilities | - | 11,058 | 11,058 | 11,058 |

The table below analyses financial instruments not measured at fair value at 31 December 2012, by the second level in the fair value hierarchy:

| *In thousands of Azerbaijani Manats* | Level 1 | Level 2 | Total fair value | Total carrying amount |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Cash and cash equivalents | - | 5,816,626 | 5,816,626 | 5,816,626 |
| SDRs with the IMF | | 185,975 | 185,975 | 185,975 |
| Loans to banks | - | 3,382,847 | 3,382,847 | 3,382,847 |
| Investment securities | | | | |
| - Loans and advances | - | 122,166 | 122,166 | 117,871 |
| Promissory notes from government | - | 225,732 | 225,732 | 225,732 |
| Other assets | - | 3,305 | 3,305 | 3,305 |
| **LIABILITIES** | | | | |
| Money issued in circulation | 9,777,522 | - | 9,777,522 | 9,777,522 |
| Amounts due to government organizations | - | 2,348,298 | 2,348,298 | 2,348,298 |
| Amounts due to credit institutions | - | 869,310 | 869,310 | 869,310 |
| Amounts due to other organizations | - | 14,305 | 14,305 | 14,305 |
| Debt securities in issue | 119,930 | - | 119,930 | 119,930 |
| Liabilities on transactions with the IMF | - | 198,275 | 198,275 | 198,275 |
| Amounts due to international financial institutions | - | 4,239 | 4,239 | 4,239 |
| Other liabilities | - | 5,546 | 5,546 | 5,546 |

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