

**Central Bank of the Republic of Azerbaijan
Financial Statements**

for the year ended 31 December 2016

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Independent Auditor's Report

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

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

What we have audited

The Bank's financial statements comprise:

- the statement of financial position as at 31 December 2016;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

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

Independence

We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code).

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern and disclosing, as applicable, matters related to going concern. In discharging this responsibility, the management considers the provisions of article 14 of the law of the Republic of Azerbaijan on the Central Bank of the Republic of Azerbaijan, which states that the Central Bank cannot be declared bankrupt and that any short fall in capital will be covered by the issuance of securities by the Azerbaijan Government.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings including any significant deficiencies in internal control that we identify during our audit.

PricewaterhouseCoopers Audit Azerbaijan LLC
24 April 2017

Baku, the Republic of Azerbaijan

Central Bank of the Republic of Azerbaijan
Statement of Financial Position

<i>In thousands of Azerbaijani Manats</i>	Notes	31/12/2016	31/12/2015
ASSETS			
Cash and cash equivalents	4	5,885,213	5,788,173
Amounts due from non-resident banks		-	17,784
Special Drawing Rights with the IMF	5	364,399	332,661
Trading securities	6	4,212,232	2,801,748
Derivative financial instruments	7	2,191	32
Investment securities	8	10,522,619	3,770,797
Loans to banks	9	4,061,362	5,812,054
Promissory notes from government	24	244,240	239,603
Property and equipment	10	55,075	60,300
Intangible assets	11	43,639	37,182
Other financial assets	12	121,223	4,521
Other assets	13	51,870	59,295
Total assets		25,564,063	18,924,150
LIABILITIES			
Money issued in circulation	14	6,960,778	5,416,751
Short-term deposits of resident banks	15	5,922,278	-
Amounts due to government organizations	16	2,697,269	4,350,844
Amounts due to credit institutions	17	3,225,104	3,336,202
Amounts due to other organizations	19	13,569	6,589
Debt securities in issue	20	108,987	-
Liabilities on transactions with the IMF	5	366,589	333,327
Amounts due to international financial institutions	21	4,326	4,657
Other financial liabilities	22	391,435	6,836
Other liabilities	23	1,259	471
Total liabilities		19,691,594	13,455,677
EQUITY			
Charter fund	24	500,000	500,000
Capital reserves	24	500,000	500,000
Revaluation reserve for available-for-sale financial assets		(2,582)	(4,914)
Retained earnings		4,875,051	4,473,387
Total equity		5,872,469	5,468,473
Total liabilities and equity		25,564,063	18,924,150

The financial statements were approved by Management on 24 April 2017 and were signed on its behalf by

Mr. Alim Guliyev
First Deputy Governor

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

Central Bank of the Republic of Azerbaijan
Statement of Profit or Loss and Other Comprehensive Income

<i>In thousands of Azerbaijani Manats</i>	Notes	2016	2015
Interest income	24	282,315	226,745
Interest expense	24	(257,895)	(155)
Net interest income		24,420	226,590
Fee and commission income	25	6,192	12,568
Fee and commission expense	26	(3,031)	(7,089)
Net fee and commission income		3,161	5,479
Net gains/ (losses) from trading securities		(10,348)	27,552
Net gains/ (losses) from derivative financial instruments		8,212	(56,557)
Net gains/ (losses) from foreign exchange translation	28	899,713	5,823,161
Net gains from trading in currencies		10,882	10,615
Other operating income		1,803	5,591
Impairment losses		(477,076)	(464,371)
Administrative and other operating expenses	29	(59,103)	(46,930)
Profit for the year		401,664	5,531,130
Other comprehensive income			
<i>Items that are or may be reclassified subsequently to profit or loss:</i>			
Revaluation reserve for available-for-sale financial assets:			
- Net change in fair value		2,332	(4,914)
<i>Total items that are or may be reclassified subsequently to profit or loss</i>		2,332	(4,914)
Other comprehensive loss for the year		2,332	(4,914)
Total comprehensive income for the year		403,996	5,526,216

Central Bank of the Republic of Azerbaijan
Statement of Changes in Equity

	Note	Charter fund	Capital reserves	Revaluation reserve for available-for-sale financial assets	(Accumulated losses)/ Retained earnings	Total equity
<i>In thousands of Azerbaijani Manats</i>						
Balance as at 1 January 2015		10,000	209,517	-	(277,260)	(57,743)
Profit for the year		-	-	-	5,531,130	5,531,130
Other comprehensive income						
<i>Items that are or may be reclassified subsequently to profit or loss:</i>						
Net change in fair value of available-for-sale financial assets		-	-	(4,914)		(4,914)
<i>Total items that are or may be reclassified subsequently to profit or loss</i>		-	-	(4,914)		(4,914)
Total other comprehensive income		-	-	(4,914)		(4,914)
Total comprehensive income for the year		-	-	(4,914)	5,531,130	5,526,216
Transactions with owners, recorded directly in equity						
Transferred to charter fund from retained earnings	24	490,000	-	-	(490,000)	-
Transferred to capital reserves from retained earnings	24	-	290,483	-	(290,483)	-
Total transactions with owners		490,000	290,483	-	(780,483)	-
Balance as at 31 December 2015		500,000	500,000	(4,914)	4,473,387	5,468,473
Profit for the year		-	-	-	401,664	401,664
Other comprehensive income						
<i>Items that are or may be reclassified subsequently to profit or loss:</i>						
Net change in fair value of available-for-sale financial assets		-	-	2,332	-	2,332
<i>Total items that are or may be reclassified subsequently to profit or loss</i>		-	-	2,332	-	2,332
Total other comprehensive income		-	-	2,332	-	2,332
Total comprehensive income for the year		-	-	2,332	401,664	403,996
Balance as at 31 December 2016		500,000	500,000	(2,582)	4,875,051	5,872,469

<i>In thousands of Azerbaijani Manats</i>	Notes	31/12/2016	31/12/2015
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest receipts		356,406	219,939
Interest payments		(257,264)	(156)
Fee and commission receipts		6,192	12,568
Fee and commission payments		(3,031)	(7,089)
Net (payments)/receipts from trading securities		(19,776)	28,791
Net receipts/(payments) from derivative financial instruments		6,053	(55,520)
Net receipts from trading in foreign currencies		10,882	10,615
Other operating income receipts		1,803	5,591
Administrative and other operating expenses payments		(45,414)	(32,952)
Cash flows from operating activities before changes in operating assets and liabilities		55,851	181,787
(Increase)/decrease in operating assets			
Amounts due from non-resident banks		17,784	520,260
Trading securities	6	(550,710)	1,541,566
Special Drawing Rights with the IMF		20	31
Loans to banks		1,333,552	(2,259,777)
Other financial assets		(95,146)	280,706
Other assets		7,436	(18,765)
Increase/(decrease) in operating liabilities			
Money issued in circulation		1,544,027	(5,429,195)
Short-term deposits of resident banks		5,922,278	-
Amounts due to government organizations		(1,722,065)	450,398
Amounts due to credit institutions		(379,181)	1,595,821
Amounts due to other organizations		7,262	(1,100)
Debt securities in issue		108,357	(26,998)
Other financial liabilities		70,125	(355,687)
Other liabilities		(139)	36,364
Cash flows from (used in) operations		6,319,451	(3,484,589)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of investment securities	8	(7,568,355)	(2,890,933)
Sale and repayment of investment securities	8	843,894	3,819,652
Purchases of property and equipment	10	(2,817)	(5,767)
Purchases of intangible assets	11	(12,104)	(7,612)
Cash flows from/ (used in) investing activities		(6,739,382)	915,340
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from/(repayment of) IMF borrowings		1,502	(1,431)
Repayment of amounts due to international financial institutions		(777)	(330)
Cash flows (used in)/ from financing activities		725	(1,761)
Net decrease in cash and cash equivalents		(419,206)	(2,571,010)
Effect of changes in exchange rates on cash and cash equivalents		516,246	3,752,378
Cash and cash equivalents as at the beginning of the year		5,788,173	4,606,805
Cash and cash equivalents as at the end of the year	4	5,885,213	5,788,173

1 Background

These financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2016 for the Central Bank of the Republic of Azerbaijan.

Principal activity

The Central Bank of the Republic of Azerbaijan (the “Bank”) is the central bank of the Republic of Azerbaijan, and is wholly-owned by the Republic of Azerbaijan. It acts in accordance with the “Law on the Central Bank of the Republic of Azerbaijan” effective from 10 December 2004 (the “Law”).

Article 4 of the Law sets out the goals of the Bank, which are as follows:

- The primary goal of the Bank is to ensure, within its power, the stability of prices;
- The goal of the Central Bank’s activity shall also be to organize and ensure operation of centralized interbank and other unlicensed payment systems, as well as support the stability of the banking system
- Profit making is not a primary goal of the Bank.

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

- Establish and implement the country’s monetary and foreign exchange policy;
- Organise cash circulation; in accordance with paragraph 2 of article 19 of the Constitution and the Law: issue, put into circulation, and withdraw banknotes from circulation;
- Determine and declare the official exchange rate of Azerbaijani Manat;
- Implement foreign currency regulation and control;
- Maintain and manage the gold and foreign currency reserves at its disposal;
- Manage the drawing up of the reporting balance of payments and participate in the drawing-up of the projected balance of payments of the country;
- Develop the country’s consolidated (public and non-public) foreign debt statistics and international investment balance, summarize and disseminate data;
- Organize, coordinate, regulate activities of and oversee centralized interbank and other unlicensed payment systems.

In accordance with Article 14.1 of the Law, the Bank cannot be declared bankrupt. Any deficit in capital is to be covered by the securities issued by the Government of Azerbaijan Republic.

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

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

The Bank may participate in the capital and activity of international organizations for the purpose of cooperation in monetary and foreign exchange policy.

At 31 December 2016, 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

1 Background (Continued)

The responsibilities of the Management Board and Governor are presented in Articles 23 and 24 of the Law.

The Bank's main office is located on the following address: 90 Rashid Behbudov Street, Baku, AZ1014, Azerbaijan. The Bank had six regional branches in the Republic of Azerbaijan (2015: six). As of 31 December 2016, the Bank had 594 employees (2015: 646).

Functional and presentation currency

The functional currency of the Bank is Azerbaijani Manats ("AZN") as being the national currency of the Republic of Azerbaijan. These financial statements are presented in AZN, unless otherwise stated.

Operating Environment of the Bank

Global economic processes continued to have a negative impact on Azerbaijan economy in 2016. Weakening global economic growth in major partner countries and decrease in global average oil prices as compared to the same period of the previous year had an impact on the foreign currency sources of Azerbaijan and aggregate demand.

During the year, the balance of payments of Azerbaijan has been influenced directly and indirectly by processes in the global and regional economy, as well as global energy markets. Unfavourable international market conditions resulted in the balance of payments deficit for Azerbaijan during 2016 and 2015. Although goal-oriented macroeconomic policy over the last 2 years, including adjustment of AZN rate had positively affected the current account of balance of payments, the current account is not fully regulated.

Following the current dynamics of economic growth and balance of payments indicators, the Central Bank of the Republic of Azerbaijan announced transition of Manat to a floating exchange rate at the year-end. The floating rate regime has created conditions for the formation of the national currency based on macroeconomic fundamentals and had a positive impact on protection of strategic currency reserves.

The dynamics of economic growth has been established under the influence of changes in the domestic demand. The consumption level, which is another important component of domestic demand, has been generated under the influence of fluctuations of wages, cash income and interest rates as well as inflation factors. The budget spending was one of the important factors, which had an impact on domestic demand in 2016. The dynamics of budget expenditures has significantly affected investments. In addition, dynamics of economic growth was exposed to structural changes.

During the period, the monetary policy decisions were made towards the reduction of inflation and strengthening of confidence in the national currency. Following the macroeconomic situation and forecasts, necessary changes were made to the monetary policy tools. At the same time, the measures were taken towards improvement of the monetary policy framework.

Overall, the Central Bank of the Republic of Azerbaijan provided necessary support in order to maintain macroeconomic stability in the country through implementation of its roles in accordance with its mandate.

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, available-for-sale financial assets and investment property 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.

2 Basis of Preparation (Continued)

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

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

- loan impairment estimates – Note 9;

3 Significant Accounting Policies

The accounting policies set out below are applied consistently to all periods presented in these financial statements.

Foreign currency

Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rate of exchange ruling at the end of the reporting period. Gains and losses resulting from the translation of foreign currency transactions are recognized in current year profit or loss for the year (as foreign exchange translation gains less losses). Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

As of 31 December 2016, exchange rates for translation of foreign currency balances were as follows: US Dollar 1 = AZN 1.7707, Euro 1 = AZN 1.8644, Pound Sterling 1 = AZN 2.1745 and Special Drawing Right 1 = AZN 2.3729 (31 December 2015: US Dollar 1 = AZN 1.5594, Euro 1 = AZN 1.7046, Pound Sterling 1 = AZN 2.3133 and Special Drawing Right 1 = AZN 2.1661).

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 amortized cost.

Financial instruments

Classification

Trading securities

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

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.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as trading securities or designated as investment securities available-for-sale. Such assets are carried at amortized cost using the effective interest method.

Financial assets that would have met the definition of loans and receivables may be reclassified out of the fair value through profit or loss or available-for-sale category if the Bank has an intention and ability to hold them for the foreseeable future or until maturity.

3 Significant Accounting Policies (Continued)

Other financial instruments not included in the category of loans and receivables may be reclassified out of at fair value through profit or loss trading category only in the case that is unusual and highly unlikely to recur in the near term.

Derivative financial instruments and financial instruments designated as at fair value through profit or loss upon initial recognition are not reclassified out of at fair value through profit or loss category.

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, are measured at their fair values.

Loans and receivables are measured at amortized cost using the effective interest method.

All financial liabilities, other than derivative financial instruments are measured at amortized cost.

Amortized cost

Amortized cost is the amount at which the financial instrument was recognized 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 amortization 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 amortized 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.

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 recognized 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 derecognizes 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.

3 Significant Accounting Policies (Continued)

The Bank enters into transactions whereby it transfers assets recognized 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 derecognized.

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

In transfers where control over the asset is retained, the Bank continues to recognize 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.

Derecognition of financial liabilities

An entity shall remove a financial liability (or a part of a financial liability) from its statement of financial position when, and only when, it is extinguished—ie when the obligation specified in the contract is discharged or cancelled or expires.

Derivative financial instruments

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

Derivatives are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently premeasured at fair value. All derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative. Changes in the fair value of derivatives are recognized immediately in profit or loss.

Property and equipment

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

Costs of minor repairs and day-to-day maintenance are expensed when incurred. Costs of replacing major parts or components of premises and equipment items are capitalized, and the replaced part is retired.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognized in profit or loss for the year (within other operating income or expenses).

Depreciation

Land and construction in progress are not depreciated. Depreciation on other items of property and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives. Depreciation of an asset begins when it is available for use. Estimated useful life is determined using the following annual depreciation rates:

	%
Buildings	3
Furniture and fixtures	20-25
Computer and office equipment	25
Motor vehicles	15

Intangible assets

Bank's intangible assets have definite useful life and primarily include capitalized computer software and licenses.

Acquired intangible assets are stated at cost less accumulated amortization and impairment losses.

Amortization is charged to profit or loss on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives range from 1 to 10 years.

3 Significant Accounting Policies (Continued)

Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in normal course of business, or for the use in production or supply of goods or services or for administrative purposes. Investment property is measured at fair value with any change recognized in profit or loss and included in "Other Assets".

When the use of a property changes such that it is reclassified as property and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

Impairment of financial assets

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

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

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

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

Financial assets carried at amortized cost

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

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

If there is objective evidence that an impairment loss on a loan or receivable has been incurred, the amount of the loss is measured as the difference between the carrying amount of the loan or receivable and the present value of estimated future cash flows including amounts recoverable from guarantees and collateral discounted at the loan or receivable's original effective interest rate. Contractual cash flows and historical loss experience adjusted on the basis of relevant observable data that reflect current economic conditions provide the basis for estimating expected cash flows.

In some cases the observable data required to estimate the amount of an impairment loss on a loan or receivable may be limited or no longer fully relevant to current circumstances. This may be the case when a borrower is in financial difficulties and there is little available historical data relating to similar borrowers. In such cases, the Bank uses its experience and judgment to estimate the amount of any impairment loss.

All impairment losses in respect of loans and receivables are recognized in profit or loss and are only reversed if a subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognized.

3 Significant Accounting Policies (Continued)

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.

Available-for-sale financial assets

Impairment losses are recognized by transferring the cumulative loss that is recognized in other comprehensive income to profit or loss as a reclassification adjustment when impairment occurred after the initial recognition of available-for-sale financial assets and if there is objective evidence that the asset is impaired. The cumulative loss that is reclassified from other comprehensive income to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortization, and the current fair value, less any impairment loss previously recognized in profit or loss.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed, with the amount of the reversal recognized in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognized in other comprehensive income.

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 organizations and other organizations

Amounts due to government organizations and other organizations are non-derivative liabilities and are carried at amortized cost.

Amounts due to credit institutions

Amounts due to credit institutions are recorded when money or other assets are advanced to the Bank by counterparty banks. The non-derivative liability is carried at amortized cost. If the Bank purchases its own debt, the liability is removed from the statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains or losses arising from early retirement of debt.

Retirement and other benefit obligations

The Bank does not have any pension arrangements in addition to the state pension system of Azerbaijan. In addition, the Bank has no post-retirement benefits or other significant compensation benefits requiring accrual. In accordance with the requirements of the Azerbaijan legislation, the Bank withholds amounts of pension contributions from employee salaries and pays them to the state pension fund. Upon retirement all retirement benefit payments are made by the state pension fund.

Charter fund and capital reserves

The Bank's capital is comprised of its authorized paid-in charter fund and capital reserves.

Taxation

The Bank is exempt from all taxes, except for taxes on employees' remuneration as a tax agent and social taxes, in accordance with the laws of the Republic of Azerbaijan.

3 Significant Accounting Policies (Continued)

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

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

Membership fees payable to IMF are denominated in Special Drawing Rights (“SDR”) and are revalued in AZN at the rate of exchange set by the IMF at year-end. Membership quota and securities issued by the Ministry of Finance of the Republic of Azerbaijan in respect of IMF quota are not presented in the statement of financial position as they do not represent the assets and liabilities of the Bank, but are disclosed in Note 5 to the financial statements.

General and special allocations received from the IMF to boost the liquidity of member countries are taken up by the Bank as an asset under SDR holdings with the IMF and on the other hand, as a liability to the Government of the Republic of Azerbaijan.

Income and expense recognition

Interest income and expense are recorded for all debt instruments on an accrual basis using the effective interest method. This method defers, as part of interest income or expense, all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Loan origination fees, loan servicing fees and other fees that are considered to be integral to the overall profitability of a loan, together with the related transaction costs, are deferred and amortized to interest income over the estimated life of the financial instrument using the effective interest method.

Other fees, commissions and other income and expense items are recognized in profit or loss when the corresponding service is provided.

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

New standards and interpretations not yet adopted

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2017 or later, and which the Bank has not early adopted.

IFRS 9 “Financial Instruments: Classification and Measurement” (amended in July 2014 and effective for annual periods beginning on or after 1 January 2018). Key features of the new standard are:

- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortized cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).

3 Significant Accounting Policies (Continued)

- Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortized cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not meet the requirement of principal and interest payments (SPPI) or intended to be sold within short period must be measured at FVPL (for example, derivatives, trading securities).
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.

IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL.

The standard is expected to have a significant impact on the Bank's loan impairment provisions.

Disclosure Initiative - Amendments to IAS 7 (issued on 29 January 2016 and effective for annual periods beginning on or after 1 January 2017). The amended IAS 7 will require disclosure of a reconciliation of movements in liabilities arising from financing activities. The Bank will present this disclosure in its 2017 financial statements.

4 Cash and Cash Equivalents

In thousands of Azerbaijani Manats

	<u>31/12/2016</u>	<u>31/12/2015</u>
Cash on hand	340,024	597,411
Nostro accounts with non-resident banks		
- rated AAA	394,333	79,552
- rated AA- to AA+	3,998,911	4,936,620
- rated A- to A+	-	8,077
- rated BBB- to BBB+	89,472	37,559
Total nostro accounts with non-resident banks	4,482,716	5,061,808
Cash equivalents		
Term deposits with non-resident banks		
- rated AAA	354,140	13,640
- rated A- to A+	708,333	115,314
Total term deposits with non-resident banks	1,062,473	128,954
Total cash and cash equivalents	5,885,213	5,788,173

No cash and cash equivalents are past due or impaired.

As at 31 December 2016 and 2015, ratings of nostro accounts and deposits 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

<i>In thousands of Azerbaijani Manats</i>	31/12/2016	31/12/2015
ASSETS		
Special Drawing Rights (SDR) holdings	364,399	332,661
Total assets with IMF	364,399	332,661
LIABILITIES		
Current accounts	2,168	666
SDR allocation:		
General allocation	283,032	258,365
Special allocation	81,389	74,296
Total SDR allocations	364,421	332,661
Total liabilities with IMF	366,589	333,327

SDR holdings

SDR holdings represent the current account with the IMF used for borrowings and settlements with the IMF. Interest accrued in respect of SDR holdings is calculated using the rates set by the IMF on weekly basis in accordance with short-term market rates in major money markets.

Current accounts

The Bank maintains two separate accounts with the IMF for special purposes, account No. 1 and No. 2. Account No. 1 is used for paying commissions for transactions with the IMF, whereas account No.2 is used for covering expenses of IMF representatives during their visit to member countries.

SDR allocation

SDR allocation is an unconditional distribution of SDRs to member countries by the IMF. A general SDR allocation became effective since 28 August 2009. The allocation is designed to provide liquidity to the global economic system by supplementing the IMF member countries' foreign exchange reserves. General SDR allocation is determined proportionate to existing IMF quotas for each member country.

Additionally, on 10 August 2009, the Fourth Amendment to the IMF Articles of Agreement providing for a special one-time SDR allocation came into force to boost global liquidity. According to the Amendment, the special allocation was made to IMF members, including the Republic of Azerbaijan on 9 September 2009.

Members and prescribed holders may use their SDR holdings to conduct transactions with the IMF. The Bank treats the allocation as foreign exchange liability to the Government of the Republic of Azerbaijan.

IMF Quota and securities held in custody in respect of IMF Quota

The IMF Quota subscription amount has been increased from SDR 160.9 million to 391.7 million as at 25 February 2016. (AZN 929,465 thousand and AZN 348,525 thousand as at 31 December 2016 and 2015 respectively). 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

<i>In thousands of Azerbaijani Manats</i>	31/12/2016	31/12/2015
Agency notes	2,142,167	594,289
Corporate bonds	579,873	287,292
US Treasury notes	450,673	807,855
Government bonds	434,022	63,389
Municipal bonds	338,580	303,135
Notes issued by international financial institutions	222,522	639,306
UK Treasury notes	44,395	106,482
Total trading securities	4,212,232	2,801,748

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.

6 Trading Securities (Continued)

Analysis by credit quality of debt trading securities is as follows at 31 December 2016:

	Agency notes	Corporate bonds	US Treasury notes	UK Treasury notes	Government bonds	Municipal bonds	Notes issued by international financial institutions	Total
<i>In thousands of Azerbaijani Manats</i>								
<i>Neither past due nor impaired</i>								
- AAA rated	1,044,141	14,594	39,512	-	25,998	114,156	167,280	1,405,681
- AA- to AA+ rated	562,848	174,340	411,161	44,395	408,024	184,477	44,373	1,829,618
- A- to A+ rated	535,178	390,939	-	-	-	39,947	10,869	976,933
Total neither past due nor impaired	2,142,167	579,873	450,673	44,395	434,022	338,580	222,522	4,212,232

Analysis by credit quality of debt trading securities is as follows at 31 December 2015:

	Agency notes	Corporate bonds	US Treasury notes	UK Treasury notes	Government bonds	Municipal bonds	Notes issued by international financial institutions	Total
<i>In thousands of Azerbaijani Manats</i>								
<i>Neither past due nor impaired</i>								
- AAA rated	499,512	65,624	807,855	-	21,362	301,574	612,148	2,308,075
- AA- to AA+ rated	94,777	92,825	-	106,482	42,027	1,561	27,158	364,830
- A- to A+ rated	-	128,843	-	-	-	-	-	128,843
Total neither past due nor impaired	594,289	287,292	807,855	106,482	63,389	303,135	639,306	2,801,748

7 Derivative Financial Instruments

The fair value of derivative financial instruments as at 31 December 2016 and 2015 are as follows:

<i>In thousands of Azerbaijani Manats</i>	Notional amount	31 December /2016		Notional amount	31 December 2015	
		Fair value			Fair value	
		Assets	Liabilities		Assets	Liabilities
Foreign exchange contracts	283,446	2,191	-	126,056	32	-
Future contracts	28,125	-	-	71,999	-	-
Total derivative financial instruments	311,571	2,191	-	198,055	32	-

Foreign currency contracts

The table below summarises, by major currencies, the contractual amounts of forward exchange contracts outstanding, with details of the weighted average contractual exchange rates and remaining periods to maturity. Foreign currency amounts presented below are translated at rates ruling at the reporting date.

<i>In thousands of Azerbaijani Manats</i>	Notional amount		Weighted average contractual exchange rates	
	31/12/2016	31/12/2015	31/12/2016	31/12/2015
Buy USD sell EUR				
Less than 3 months	136,657	74,928	1.0557	1.0704
Sell USD buy EUR				
Less than 3 months	50,517	-	1.0549	-
Buy USD sell GBP				
Less than 3 months	32,780	22,008	1.2362	1.5051
Sell USD buy GBP				
Less than 3 months	11,283	-	1.2357	-
Buy USD sell CAD				
Less than 3 months	15,816	10,580	0.7458	0.7451
Sell USD buy CAD				
Less than 3 months	4,981	-	0.7457	-
Buy USD sell other currencies				
Less than 3 months	24,062	18,540	0.6250	-
Sell USD buy other currencies				
Less than 3 months	7,350	-	0.6229	-

8 Investment Securities

<i>In thousands of Azerbaijani Manats</i>	<u>31/12/2016</u>	<u>31/12/2015</u>
- Available-for-sale investments		
Azerbaijan Mortgage Fund	337,094	336,154
Notes issued by international financial institutions	91,376	355,510
Ministry of Finance of the Republic of Azerbaijan	28,169	-
Government bonds	-	334,298
US Treasury notes	-	78,348
UK Treasury notes	-	71,148
Securities issued by Kapital Bank OJSC	-	16,418
Total available-for-sale investments	<u>456,639</u>	<u>1,191,876</u>
- Loans and advances		
JSCO Aqrarkredit	10,000,041	2,500,000
Ministry of Finance of the Republic of Azerbaijan	70,234	83,216
Impairment allowance	(4,295)	(4,295)
Total loans and advances less impairment allowance	<u>10,065,980</u>	<u>2,578,921</u>
Total investment securities	<u>10,522,619</u>	<u>3,770,797</u>

Due to the reason that the Bank sold significant amount of the portfolio of held-to-maturity investments on 20 February 2015, it was not able to classify any investment as held to maturity for the remainder of the financial year plus two financial years after the financial year in which the event occurred. As a result, the held-to-maturity investments portfolio was reclassified to available-for-sale investments portfolio, and treated as such after 20 February 2015.

Included in loans and advances are securities of Joint-Stock Credit Organisation Aqrarkredit purchased by the Bank during 2015 with the nominal amount of AZN 2,500,000 thousand and, additionally, during 2016 AZN 7,500,000 thousand, bearing interest rate of 0.15% and maturing in 2045. Repayment of these securities is guaranteed by the Government of Azerbaijan. These securities were purchased based on Decree of President of Azerbaijan Republic on "Actions for improvement of International Bank of Azerbaijan OJSC's condition to prepare for the privatisation of shares owned by government" and "On approval of issue, volume, maturity and payment conditions of securities with government guarantee issued by Aqrarkredit JSCO". Refer to note 34 for fair value disclosures.

Analysis by credit quality of investment securities outstanding at 31 December 2016 is as follows:

<i>In thousands of Azerbaijani Manats</i>	Notes issued by international financial institutions	Azerbaijan Mortgage Fund	JSCO Aqrarkredit	Ministry of Finance of the Republic of Azerbaijan	Total
<i>Neither past due nor impaired</i>					
- AAA rated	91,376	-	-	-	91,376
- BB+	-	337,094	10,000,041	94,108	10,431,243
Total neither past due nor impaired	<u>91,376</u>	<u>337,094</u>	<u>10,000,041</u>	<u>94,108</u>	<u>10,522,619</u>

8 Investment Securities (Continued)

Analysis by credit quality of investment securities outstanding at 31 December 2015 is as follows:

<i>In thousands of Azerbaijani Manats</i>	Notes issued by international financial institutions	Azerbaijan Mortgage Fund	Government bonds	US Treasury notes	UK Treasury notes	Kapital Bank OJSC	JSCO AqrarKredit	Ministry of Finance of the Republic of Azerbaijan	Total
<i>Neither past due nor impaired</i>									
- AA- to AA+ rated	355,510	-	334,298	78,348	71,148	-	-	-	839,304
- BB+	-	336,154	-	-	-	-	2,500,000	78,921	2,915,075
- Unrated	-	-	-	-	-	16,418	-	-	16,418
Total neither past due nor impaired	355,510	336,154	334,298	78,348	71,148	16,418	2,500,000	78,921	3,770,797

AqrarKredit securities are not traded in an active market.

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

<i>In thousands of Azerbaijani Manats</i>	2016	2015
Carrying amount at 1 January	1,191,876	207,847
Fair value gains less losses	(1,402)	(9,782)
Interest income accrued	17,845	32,548
Interest income received	(22,602)	(30,708)
Purchases	87,455	931,168
Disposals of [current] investment securities available for sale	(844,731)	(2,661,770)
Reclassification from held to maturity to available for sale	-	2,132,862
Effect of translation to presentation currency	28,198	589,711
Carrying amount at 31 December	456,639	1,191,876

9 Loans to Banks

<i>In thousands of Azerbaijani Manats</i>	31/12/2016	31/12/2015
Loans under government guarantee	2,406,515	3,903,736
Refinancing loans	1,517,242	1,741,141
Subordinated loans	600,410	600,410
Lender of last resort loans	36,150	75,119
Gross loans to banks	4,560,317	6,320,406
Impairment allowance	(498,955)	(508,352)
Total loans to banks less impairment allowance	4,061,362	5,812,054

Concentration of loans to banks

As at 31 December 2016 the Bank had loans to 2 banks (2015: 3 banks), whose balances exceed 10% of equity. The gross value of these balances as at 31 December 2016 is AZN 2,535,618 thousand (2015: AZN 4,493,323 thousand).

Movements in the loan impairment allowance by classes of loans to customers for the year ended 31 December 2016 are as follows:

<i>In thousands of Azerbaijani Manats</i>	Refinancing loans	Lender of last resort loan	Subordinated loans	Total
Balance at the beginning of the year	483,243	25,109	-	508,352
Net charge	372,750	37,500	66,832	477,082
Amounts netted off during the year through provision	(438,903)	(47,576)	-	(486,479)
Balance at the end of the year	417,090	15,033	66,832	498,955

Movements in the loan impairment allowance by classes of loans to customers for the year ended 31 December 2015 are as follows:

<i>In thousands of Azerbaijani Manats</i>	Refinancing loans	Lender of last resort loan	Subordinated loans	Total
Balance at the beginning of the year	22,364	21,631	-	43,995
Net charge	460,879	3,478	-	464,357
Balance at the end of the year	483,243	25,109	-	508,352

9 Loans to Banks (Continued)

Credit quality

The following table provides information on the credit quality of loans to banks as at 31 December 2016:

<i>In thousands of Azerbaijani Manats</i>	Loans under Government guarantee	Refinancing loans	Subordinated loans	Lender of last resort loans	Total
<i>Neither past due nor impaired</i>					
BB+	545,043	37,345	-	-	582,388
BB	733,310	-	-	-	733,310
BB-	1,121,880	103,392	-	-	1,225,272
<i>Unrated</i>					
- Large	4,385	-	-	-	4,385
- Medium	1,897	256,555	-	-	258,452
- Small	-	375,318	-	-	375,318
Total neither past due nor impaired	2,406,515	772,610	-	-	3,179,125
<i>Loans individually determined to be impaired (gross)</i>					
- not overdue	-	708,547	600,410	36,150	1,345,107
- overdue less than 30 days	-	454	-	-	454
- overdue 30-89 days	-	2,586	-	-	2,586
- overdue 90-179 days	-	2,547	-	-	2,547
- overdue 180-360 days	-	600	-	-	600
- overdue more than 360 days	-	29,898	-	-	29,898
Total individually impaired loans	-	744,632	600,410	36,150	1,381,192
Less impairment provision		(417,090)	(66,832)	(15,033)	(498,955)
Total loans to banks	2,406,515	1,100,152	533,578	21,117	4,061,362

9 Loans to Banks (Continued)

The following table provides information on the credit quality of loans to banks as at 31 December 2015:

<i>In thousands of Azerbaijani Manats</i>	Loans under Government guarantee	Refinancing loans	Subordinated loans	Lender of last resort loans	Total
<i>Neither past due nor impaired</i>					
BBB-	-	20,004	-	-	20,004
BB	2,013,228	-	600,410	-	2,613,638
BB-	50,104	3,001	-	-	53,105
B	92,507	110,047	-	-	202,554
CCC	-	5,003	-	-	5,003
Unrated					
- Large	1,146,638	100,022	-	-	1,246,660
- Medium	601,259	172,333	-	-	773,592
- Small	-	383,014	-	-	383,014
Total neither past due nor impaired	3,903,736	793,424	600,410	-	5,297,570
<i>Loans individually determined to be impaired (gross)</i>					
- not overdue	-	800,122	-	-	800,122
- overdue less than 30 days	-	21,401	-	-	21,401
- overdue 30-89 days	-	16,921	-	-	16,921
- overdue 90-179 days	-	264	-	50,010	50,274
- overdue 180-360 days	-	90,844	-	-	90,844
- overdue more than 360 days	-	18,165	-	25,109	43,274
Total individually impaired loans	-	947,717	-	75,119	1,022,836
Less impairment provision	-	(483,243)	-	(25,109)	(508,352)
Total loans to banks	3,903,736	1,257,898	600,410	50,010	5,812,054

As at 31 December 2016 and 31 December 2015, there is no “overdue but not impaired” loans in the loan portfolio of CBAR.

As at 31 December 2016 included in the loan portfolio are renegotiated loans to banks in the amount of AZN 433,148 thousand (2015: AZN 283,192 thousand). The main reason for renegotiation is due to stabilisation of short-term liquidity and protection of financial stability.

During January 2017, the loans of Azerbaijan Depository Insurance Funds in the amount of AZN 527,300 thousand have been paid by the Ministry of Finance.

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 50% to the originally appraised value if the property pledged is sold;
- Up to 5 years for the foreclosure of collateral.

9 Loans to Banks (Continued)

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.

Information about collateral at 31 December 2016 is as follows:

<i>In thousands of Azerbaijani manats</i>	Loans under government guarantee	Refinancing loans	Subordinated loans	Lender of last resort loans	Total
Unsecured loans	-	46,320	533,578	-	579,898
Guarantee letters from government	2,406,515	-	-	-	2,406,515
Loans collateralised by:					
- blocked deposit accounts	-	755,772	-	-	755,772
- commercial real estate	-	294,751	-	21,117	315,868
- residential real estate	-	3,309	-	-	3,309
Total loans to banks	2,406,515	1,100,152	533,578	21,117	4,061,362

Information about collateral at 31 December 2015 is as follows:

<i>In thousands of Azerbaijani manats</i>	Loans under government guarantee	Refinancing loans	Subordinated loans	Lender of last resort loans	Total
Unsecured loans	-	17,379	600,410	50,010	667,799
Guarantee letters from government	3,903,736	-	-	-	3,903,736
Loans collateralised by:					
- blocked deposit accounts	-	752,615	-	-	752,615
- commercial real estate	-	438,917	-	-	438,917
- residential real estate	-	48,987	-	-	48,987
Total loans to banks	3,903,736	1,257,898	600,410	50,010	5,812,054

All loans of the Bank other than unsecured loans are over-collateralized.

10 Property and Equipment

The following table provides information on the movement of property and equipment for the year ended at 31 December 2016:

	Land	Buildings	Furniture and fixtures	Computers and communication equipment	Motor vehicles	Construction in progress	Total
<i>In thousands of Azerbaijani Manats</i>							
Cost							
Balance at 1 January 2016	15,726	42,962	49,217	17,005	2,211	814	127,935
Additions	-	97	903	1,817	-	-	2,817
Transfers	-	814	-	-	-	(814)	-
Disposals	-	-	(559)	(1,915)	(28)	-	(2,502)
Balance at 31 December 2016	15,726	43,873	49,561	16,907	2,183	-	128,250
Depreciation and amortisation							
Balance at 1 January 2016	-	(14,553)	(41,059)	(10,188)	(1,835)	-	(67,635)
Depreciation and amortisation for the year	-	(1,290)	(3,629)	(2,914)	(100)	-	(7,933)
Disposals	-	-	550	1,815	28	-	2,393
Balance at 31 December 2016	-	(15,843)	(44,138)	(11,287)	(1,907)	-	(73,175)
Carrying amount							
At 31 December 2016	15,726	28,030	5,423	5,620	276	-	55,075

10 Property and equipment (Continued)

The following table provides information on the movement of property and equipment for the year ended at 31 December 2015:

	Land	Buildings	Furniture and fixtures	Computers and communication equipment	Motor vehicles	Construction in progress	Total
<i>In thousands of Azerbaijani Manats</i>							
Cost							
Balance at 1 January 2015	15,726	42,505	51,342	14,182	2,189	-	125,944
Additions	-	402	765	3,756	30	814	5,767
Transfers	-	55	(55)	-	-	-	-
Disposals	-	-	(2,835)	(933)	(8)	-	(3,776)
Balance at 31 December 2015	15,726	42,962	49,217	17,005	2,211	814	127,935
Depreciation and amortization							
Balance at 1 January 2015	-	(13,272)	(38,527)	(8,645)	(1,747)	-	(62,191)
Depreciation and amortization for the year	-	(1,280)	(5,368)	(2,474)	(96)	-	(9,218)
Transfers	-	(1)	1	-	-	-	-
Disposals	-	-	2,835	931	8	-	3,774
Balance at 31 December 2015	-	(14,553)	(41,059)	(10,188)	(1,835)	-	(67,635)
Carrying amount							
At 31 December 2015	15,726	28,409	8,158	6,817	376	814	60,300

11 Intangible Assets

The following table provides information on the movement of intangible assets for the year ended at 31 December 2016:

<i>In thousands of Azerbaijani Manats</i>	<u>Total Intangible Assets</u>
Cost	
Balance at 1 January 2016	55,612
Additions	12,078
Disposals	(170)
Balance at 31 December 2016	<u>67,520</u>
Depreciation and amortization	
Balance at 1 January 2016	(18,430)
Depreciation and amortization for the year	(5,477)
Transfers	26
Balance at 31 December 2016	<u>(23,881)</u>
Carrying amount	
At 31 December 2016	<u><u>43,639</u></u>

The following table provides information on the movement of intangible assets for the year ended at 31 December 2015:

<i>In thousands of Azerbaijani Manats</i>	<u>Total Intangible Assets</u>
Cost	
Balance at 1 January 2015	48,698
Additions	7,612
Disposals	(698)
Balance at 31 December 2015	<u>55,612</u>
Depreciation and amortization	
Balance at 1 January 2015	(14,370)
Depreciation and amortization for the year	(4,626)
Transfers	566
Balance at 31 December 2015	<u>(18,430)</u>
Carrying amount	
At 31 December 2015	<u><u>37,182</u></u>

12 Other Financial Assets

<i>In thousands of Azerbaijani Manats</i>	<u>31/12/2016</u>	<u>31/12/2015</u>
Receivables from sale of foreign currencies	104,016	155
Receivables from trade securities disposed	16,243	2,505
Loans to employees	928	1,057
Amounts in the course of settlement	56	830
Impairment allowance	(20)	(26)
Total other financial assets	<u>121,223</u>	<u>4,521</u>

Movement in the impairment allowance for the years ended 31 December 2016 and 2015 is as follows:

<i>In thousands of Azerbaijani Manats</i>	<u>31/12/2016</u>	<u>31/12/2015</u>
Balance at the beginning of the year	26	12
Net charge/ (recovery)	(6)	14
Balance at the end of the year	<u>20</u>	<u>26</u>

Analysis by credit quality of other financial assets outstanding at 31 December 2016 is as follows:

<i>In thousands of Azerbaijani manats</i>	Receivables from sale of foreign currencies	Receivables from trade securities disposed	Loans to employees	Amounts in the course of settlement	Total
<i>Neither past due nor impaired</i>					
- Collected or settled after the end of the reporting period	104,016	16,243	-	4	120,263
- Not due at the date of authorisation of the financial statements for issue	-	-	908	52	960
Total neither past due nor impaired	<u>104,016</u>	<u>16,243</u>	<u>908</u>	<u>56</u>	<u>121,223</u>

Analysis by credit quality of other financial assets outstanding at 31 December 2015 is as follows:

<i>In thousands of Azerbaijani manats</i>	Receivables from sale of foreign currencies	Receivables from trade securities disposed	Loans to employees	Amounts in the course of settlement	Total
<i>Neither past due nor impaired</i>					
- Collected or settled after the end of the reporting period	155	2,505	-	789	3,449
- Not due at the date of authorisation of the financial statements for issue	-	-	1,031	41	1,072
Total neither past due nor impaired	<u>155</u>	<u>2,505</u>	<u>1,031</u>	<u>830</u>	<u>4,521</u>

13 Other Assets

<i>In thousands of Azerbaijani Manats</i>	<u>31/12/2016</u>	<u>31/12/2015</u>
Prepayments to suppliers	47,334	54,783
Investment property	4,400	4,400
Other non-financial assets	136	112
Total other assets	<u>51,870</u>	<u>59,295</u>

14 Money Issued 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, AZM 5,000 is equal to AZN 1.

During the year ended 31 December 2016 the Bank accepted new banknotes amounting to AZN 9,432 thousand from minting company (2015: AZN 790,191 thousand) and destroyed banknotes amounting to AZN 702,666 thousand (2015: AZN 1,752,022 thousand).

<i>In thousands of Azerbaijani Manats</i>	<u>31/12/2016</u>	<u>31/12/2015</u>
Balance at the beginning of the year	5,416,751	10,845,946
Net amount of banknotes and coins withdrawn from circulation	1,544,027	(5,429,195)
Balance at the end of the year	<u>6,960,778</u>	<u>5,416,751</u>

15 Short-term deposits of resident banks

At 31 December 2016, included in short-term deposits of resident banks in the amount of AZN 5,922,278 thousand (31 December 2015: zero) are deposits of AZN 80,329 thousand obtained through auctions as a part of monetary policy tools and deposits of AZN 5,841,949 thousand placed with the Bank out of auction.

16 Amounts Due to Government Organizations

<i>In thousands of Azerbaijani Manats</i>	<u>31/12/2016</u>	<u>31/12/2015</u>
Amounts due to the Central Treasury of the Republic of Azerbaijan	2,435,715	4,105,151
Amounts due to State Oil Fund of the Republic of Azerbaijan	207,180	198,375
Other current/demand accounts	54,374	47,318
Total amounts due to government organisation	<u>2,697,269</u>	<u>4,350,844</u>

Interest rate, currency and maturity analysis of amounts due to government organizations are disclosed in note 30.

17 Amounts Due to Credit Institutions

<i>In thousands of Azerbaijani Manats</i>	<u>31/12/2016</u>	<u>31/12/2015</u>
Current accounts	2,110,989	2,089,877
Blocked accounts	966,408	1,198,941
Mandatory reserves	147,707	47,384
Total amounts due to credit institutions	<u>3,225,104</u>	<u>3,336,202</u>

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19 Amounts Due to Other Organizations

<i>In thousands of Azerbaijani Manats</i>	<u>31/12/2016</u>	<u>31/12/2015</u>
Other financial institutions	7,944	5,247
Public organizations	5,625	1,342
Total amounts due to other organizations	<u>13,569</u>	<u>6,589</u>

20 Debt Securities in Issue

<i>In thousands of Azerbaijani Manats</i>	<u>31/12/2016</u>	<u>31/12/2015</u>
Short-term notes	108,987	-
Total debt securities in issue	<u>108,987</u>	<u>-</u>

21 Amounts Due to International Financial Institutions

<i>In thousands of Azerbaijani Manats</i>	<u>31/12/2016</u>	<u>31/12/2015</u>
Borrowings from International Development Association (IDA)	3,771	4,064
Amounts due to other international financial institutions	555	593
Total amounts due to international financial institutions	<u>4,326</u>	<u>4,657</u>

22 Other Financial Liabilities

<i>In thousands of Azerbaijani Manats</i>	<u>31/12/2016</u>	<u>31/12/2015</u>
Amounts payable for trading securities purchased	286,011	5,604
Advances received for the sale of foreign currencies	104,238	219
Amounts in the course of settlement	1,186	1,013
Total other financial liabilities	<u>391,435</u>	<u>6,836</u>

23 Other Liabilities

<i>In thousands of Azerbaijani Manats</i>	31/12/2016	31/12/2015
Deferred income	17	18
Amounts in the course of settlement	7	-
Other	1,235	453
Total other liabilities	1,259	471

24 Charter Fund and Reserves

The Charter fund of the Bank is AZN 500,000 thousand. On 20 October 2015, as a result of amendments to the Law on the Central Bank of Azerbaijan Republic, charter fund of the Central Bank of Azerbaijan was determined to be AZN 500,000 thousand by transferring additional AZN 490,000 thousand from retained earnings.

During 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 402,115 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 recognized at the fair value of AZN 209,517 thousand with the corresponding increase in capital reserves.

On 20 October 2015, as a result of amendments to the Law on the Central Bank of Azerbaijan Republic, capital reserves of the Bank shall not fall below its charter fund, therefore, the capital reserves of the Bank were determined to be AZN 500,000 thousand by transferring additional amount of AZN 290,483 thousand from retained earnings.

25 Interest Income and Expenses

<i>In thousands of Azerbaijani Manats x'</i>	2016	2015
Interest income		
Loans to banks	212,108	165,461
Investment securities:		
<i>Available-for-sale investments</i>	17,845	32,548
<i>Loans and advances</i>	10,630	177
<i>Held-to-maturity investments</i>	-	4,190
Trading securities	23,233	14,926
Placements with non-resident banks	13,618	4,650
Promissory notes from government	4,636	4,624
SDR holdings with the IMF	184	106
Other assets	61	63
Total interest income	282,315	226,745
Interest expense		
Deposits of resident banks	170,476	-
Deposits and current account of SOFAZ	84,716	-
Liabilities on transactions with the IMF	204	106
Amounts due to international financial institutions	36	39
Debt securities in issue	2,463	10
Total interest expense	257,895	155
Net interest income	24,420	226,590

Included within various line items under interest income for the year ended 31 December 2016 is a total of AZN 26,395 thousand (2015: AZN 25,400 thousand) accrued on impaired financial assets.

26 Fee and Commission Income

<i>In thousands of Azerbaijani Manats</i>	2016	2015
Cash withdrawal	3,334	9,544
Settlement	2,853	3,019
Other	5	5
Total fee and commission income	6,192	12,568

27 Fee and Commission Expense

<i>In thousands of Azerbaijani Manats</i>	2016	2015
Securities operations (management, custodian and brokerage)	1,352	1,057
Cash withdrawal	718	5,647
Settlement	39	103
Other	922	282
Total fee and commission expenses	3,031	7,089

28 Net gains/ (losses) from foreign exchange translation

During 2016 the excess of positive unrealized exchange rate differences which arose during daily revaluation of balance-sheet accounts in foreign currency over negative exchange rate differences constituted AZN 899,713 thousand (2015: AZN 5,823,161 thousand)

29 Administrative and Other Operating Expenses

<i>In thousands of Azerbaijani Manats</i>	2016	2015
Regional construction and social	14,363	2,760
Staff costs	12,314	13,322
Depreciation of premises and equipment	7,933	9,218
Amortisation of software and other intangible assets	5,477	4,626
Banknotes and coin production	4,997	3,842
Software maintenance	4,622	2,380
Contributions to Social Security Pension Fund	2,564	2,737
Security	1,393	1,344
Repair and maintenance	898	862
Communication	687	468
Financing of Financial Monitoring Service	672	2,395
Office supplies	572	528
Heating and lighting	432	380
Insurance	310	397
Occupancy and rent	167	268
Legal and consultancy	164	346
Business travel	143	156
Printing	55	139
Utilities	43	40
Representation	27	43
Other	1,270	679
Total administrative and other operating expenses	59,103	46,930

30 Risk Management

The activities of the Bank are exposed to various risks. Bank's risks are classified in the following four categories based on the "Framework Document on operational risk management of the Central Bank of Azerbaijan Republic" approved by the Management Board on 5 February 2014:

- *Strategic (policy) risks* – are the risks related to the monetary policy, financial stability, and other strategic issues arising out of mandate. Strategic (policy) Risk Management is implemented by Bank's Management Board, Monetary Policy and Financial Stability Committee, as well as relevant units (Monetary Policy, Market operations, Strategic Management and other departments);
- *Financial risks* – is targeted at the identification, management of credit, market and liquidity risks 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 and 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. In accordance with the principles of the Basel Committee on Operational Risk Management, it is carried out on the basis of 3 lines of defence.

The first line of defence consists of the Bank's structural units of the model, the second and the third lines include the Risk Management Department of the Internal Audit Department, respectively. Functions of the Bank's risk management department include preparation, development, communication and training of the policy and methodology documents for of Bank's Operational Risks Management (ORM) and relevant supporting systems; coordination, facilitation, monitoring and reporting of the ORM and as well as the preparation of risk profile of the Bank's consolidated operations.

- *Reputational risks* – are the risks arising out of the personal life, 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.

The Management Board is ultimately responsible for identifying and controlling risks; however, there are separate business units responsible for managing and monitoring the various risks:

Management Board. The Management Board is ultimately responsible for controlling of risk management system. The Management Board is responsible for the overall risk management approach, risk tolerance levels and for approving the main principles of risk management.

Operations are allocated among members of the Management Board based on control principle. Each Board member must control the operations under his sector of responsibility.

Investment Committee. The Investment Committee is responsible for the preparation of "Key directions of Foreign Currency Assets management of the Central Bank of Azerbaijan Republic" in accordance with "Rules of Foreign Currency Assets management of the Central Bank of Azerbaijan Republic", and adoption of "Operational Investment Strategy on Foreign Currency Assets management of the Central Bank of Azerbaijan Republic", as well as control over foreign currency assets management.

29 Risk Management (Continued)

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 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 foreign 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 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.

In 2016 and 2015, loans granted to credit institutions in monetary policy operations were secured by collaterals. Exposure to credit risk is also managed, in part, by obtaining collateral and corporate and personal guarantees. In order to monitor credit risk exposures, regular reports are produced by the Market Operation Department’s officers based on a structured analysis focusing on the customer’s business and financial performance. Any significant exposure to customers with deteriorating creditworthiness are reported to, and reviewed by, Management Board. Management monitors and follows up on past due balances.

29 Risk Management (Continued)

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

<i>In thousands of Azerbaijani Manats</i>	31/12/2016	31/12/2015
ASSETS		
Cash and cash equivalents		
- Nostro accounts with non-resident banks	4,482,716	5,061,808
- Short-term deposits with non-resident banks	1,062,473	128,954
Amounts due from non-resident banks	-	17,784
Special Drawing Rights with the IMF	364,399	332,661
Trading securities	4,212,232	2,801,748
Derivative financial instruments	2,191	32
Investment securities	10,522,619	3,770,797
Loans to banks	4,061,362	5,812,054
Promissory notes from government	244,240	239,603
Other financial assets	121,223	4,521
Total maximum exposure	25,073,455	18,169,962

Collateral generally is not held against claims under derivative financial instruments and investments in securities, 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. The main objective when managing the interest rate risk is to maintain stable return on investments while not exceeding the risk levels that can be undertaken per investment policies.

29 Risk Management (Continued)

Interest rate gap analysis

Interest rate risk is managed principally through monitoring interest rate gaps. A summary of the interest gap position for major financial instruments as at 31 December 2016 is as follows:

<i>In thousands of Azerbaijani Manats</i>	Less than 3 months	3-6 months	6-12 months	More than 1 year	Non-interest bearing	Carrying amount
31 December 2016						
ASSETS						
Cash and cash equivalents	5,545,189	-	-	-	340,024	5,885,213
Special Drawing Rights with the IMF	364,399	-	-	-	-	364,399
Trading securities	4,212,232	-	-	-	-	4,212,232
Derivative financial instruments	-	-	-	-	2,191	2,191
Investment securities						
- Loans and receivables	-	12,984	236	10,052,760	-	10,065,980
- Securities available-for-sale	-	9,849	78,390	368,400	-	456,639
Loans to banks	303,753	244,432	217,364	3,295,813	-	4,061,362
Promissory notes from government	-	-	-	244,240	-	244,240
Other financial assets	120,315	6	66	836	-	121,223
Total Financial Assets	10,545,888	267,271	296,056	13,962,049	342,215	25,413,479
LIABILITIES						
Money issued in circulation	-	-	-	-	6,960,778	6,960,778
Amounts due to government organizations	2,697,269	-	-	-	-	2,697,269
Short-term deposits of resident banks	462,835	1,728,568	3,730,875	-	-	5,922,278
Amounts due to credit institutions	3,225,104	-	-	-	-	3,225,104
Amounts due to other organizations	13,569	-	-	-	-	13,569
Debt securities in issue	108,987	-	-	-	-	108,987
Liabilities on transactions with the IMF	366,589	-	-	-	-	366,589
Amounts due to international financial institutions	4,326	-	-	-	-	4,326
Other financial liabilities	391,435	-	-	-	-	391,435
Total Financial Liabilities	7,270,114	1,728,568	3,730,875	-	6,960,778	19,690,335

29 Risk Management (Continued)

Interest rate risk is managed principally through monitoring interest rate gaps. A summary of the interest gap position for major financial instruments as at 31 December 2015 is as follows:

<i>In thousands of Azerbaijani Manats</i>	Less than 3 months	3-6 months	6-12 months	More than 1 year	Non-interest bearing	Carrying amount
31 December 2015						
ASSETS						
Cash and cash equivalents	5,190,762	-	-	-	597,411	5,788,173
Amounts due from non-resident banks	-	9,228	8,556	-	-	17,784
Special Drawing Rights with the IMF	332,661	-	-	-	-	332,661
Trading securities	2,801,748	-	-	-	-	2,801,748
Derivative financial instruments	-	-	-	-	32	32
Investment securities						
- Loans and receivables	-	-	-	2,578,921	-	2,578,921
- Securities available-for-sale	71,150	12,960	428,811	678,955	-	1,191,876
Loans to banks	120,701	204,985	265,562	5,220,806	-	5,812,054
Promissory notes from government	-	-	-	239,603	-	239,603
Other financial assets	3,465	-	1	1,055	-	4,521
Total Financial Assets	8,520,487	227,173	702,930	8,719,340	597,443	18,767,373
LIABILITIES						
Money issued in circulation	-	-	-	-	5,416,751	5,416,751
Amounts due to government organizations	4,350,844	-	-	-	-	4,350,844
Amounts due to credit institutions	3,336,202	-	-	-	-	3,336,202
Amounts due to other organizations	6,589	-	-	-	-	6,589
Liabilities on transactions with the IMF	333,327	-	-	-	-	333,327
Amounts due to international financial institutions	4,657	-	-	-	-	4,657
Other financial liabilities	6,836	-	-	-	-	6,836
Total Financial Liabilities	8,038,455	-	-	-	5,416,751	13,455,206

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 2016 and 2015 is as follows:

<i>In thousands of Azerbaijani Manats</i>	31 December 2016		31 December 2015	
	Impact on profit or loss	Impact on equity	Impact on profit or loss	Impact on equity
100 bp parallel fall	42,133	16,350	26,617	9,230
100 bp parallel rise	(42,133)	(16,350)	(26,617)	(9,230)

29 Risk Management (Continued)

The table below displays average effective interest rates for interest bearing assets and liabilities as at 31 December 2016 and 2015. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	31/12/2016				31/12/2015			
	Average effective interest rate, %				Average effective interest rate, %			
	AZN	USD	EUR	Other currencies	AZN	USD	EUR	Other currencies
Interest bearing assets								
Cash and cash equivalents	-	0.84	(0.40)	-	-	0.32	(0.15)	0.26
Amounts due from non-resident banks	-	-	-	-	-	-	0.02	-
Special Drawing Rights with the IMF	-	-	-	0.05	-	-	-	0.05
Trading securities	-	0.17	0.36	0.16	-	0.67	2.53	0.94
Investment securities	0.26	-	0.25	-	0.51	1.00	1.75	2.00
Loans to banks	14.36	2.53	-	-	3.33	2.53	-	-
Promissory notes from government	2.0	-	-	-	2.0	-	-	-
Other financial assets	7.5	-	-	-	5.67	-	-	-
Interest bearing liabilities								
Amounts due to government organizations	-	-	-	-	-	-	-	-
Short-term deposits of resident banks	5.13	-	-	-	-	-	-	-
Debt securities in issue	14	-	-	-	-	-	-	-

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 8 July 2016. This document is taken as a basis by the Market Operations Department of the Bank, who is the major body responsible for management of the currency risk.

Currency risk is managed through diversification of foreign currency portfolio and determination of the following parameters:

- foreign currencies subject to management;
- maximum share of the managed currency in the total assets denominated in foreign currencies (minimum volume for the base currency).

29 Risk Management (Continued)

The following table shows the foreign currency exposure structure of financial assets and liabilities as at 31 December 2016:

<i>In thousands of Azerbaijani Manats</i>	USD	EUR	Other foreign currencies	Total
ASSETS				
Cash and cash equivalents	5,351,369	409,369	124,475	5,885,213
Special Drawing Rights with the IMF	-	-	364,399	364,399
Trading securities	3,717,404	356,414	138,414	4,212,232
Derivative financial instruments	2,191	-	-	2,191
Investment securities	-	91,376	-	91,376
Loans to banks	1,121,880	-	-	1,121,880
Other financial assets	19,210	74,682	26,316	120,208
Total assets	10,212,054	931,841	653,604	11,797,499
LIABILITIES				
Amounts due to government organizations	903,057	4,298	878	908,233
Amounts due to credit institutions	2,015,821	315,878	64	2,331,763
Amounts due to other organizations	7,177	19	-	7,196
Liabilities on transactions with the IMF	-	-	366,589	366,589
Amounts due to international financial institutions	3,771	-	-	3,771
Other financial liabilities	379,668	9,902	679	390,249
Total liabilities	3,309,494	330,097	368,210	4,007,801
Net recognized position	6,902,560	601,744	285,394	7,789,698
The effect of derivatives	135,184	(86,140)	(49,044)	-
Net position	7,037,744	515,604	236,350	7,789,698

29 Risk Management (Continued)

The following table shows the foreign currency exposure structure of financial assets and liabilities as at 31 December 2015:

<i>In thousands of Azerbaijani Manats</i>	USD	EUR	Other foreign currencies	Total
ASSETS				
Cash and cash equivalents	5,448,746	99,862	239,565	5,788,173
Amounts due from non-resident banks	-	17,784	-	17,784
Special Drawing Rights with the IMF	-	-	332,661	332,661
Trading securities	2,164,502	295,031	342,215	2,801,748
Derivative financial instruments	32	-	-	32
Investment securities	78,348	689,810	71,146	839,304
Loans to banks	996,512	-	-	996,512
Other financial assets	2,505	-	-	2,505
Total assets	8,690,645	1,102,487	985,587	10,778,719
LIABILITIES				
Amounts due to government organizations	70,171	12,015	9,793	91,979
Amounts due to credit institutions	1,793,023	64,664	-	1,857,687
Amounts due to other organizations	109	4	-	113
Liabilities on transactions with the IMF	-	-	333,327	333,327
Amounts due to international financial institutions	4,064	-	-	4,064
Other financial liabilities	5,818	5	-	5,823
Total liabilities	1,873,185	76,688	343,120	2,292,993
Net recognized position	6,817,460	1,025,799	642,467	8,485,726
The effect of derivatives	(126,056)	74,928	51,128	-
Net position	6,691,404	1,100,727	693,595	8,485,726

A weakening of the AZN, as indicated below, against the following currencies at 31 December 2016 and 2015 would have increased equity and profit or loss by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the Bank considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

<i>In thousands of Azerbaijani Manats</i>	31/12/2016	31/12/2015
10% appreciation of USD against AZN (2015: 15%)	703,767	1,003,711
10% appreciation of EUR against AZN (2015: 15%)	51,560	165,109

A strengthening of the AZN against the above currencies at 31 December 2016 and 2015 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.

29 Risk Management (Continued)

Liquidity risk

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due under normal and stress circumstances. Management of the liquidity risk by the Bank is based on keeping the liquidity at required level for meeting the requirements of the Bank in any condition.

In order to implement the monetary policy, the Bank maintains operational liquid tranche from its foreign currency assets. Liquidity risk management consists of identifying the liquid assets and determining the minimum liquidity limits of foreign currency assets over its investment period.

The table below shows liabilities at 31 December 2016 by their remaining contractual maturity. The amounts of liabilities disclosed in the maturity table are the contractual undiscounted cash flows,

Foreign currency payments are translated using the spot exchange rate at the end of the reporting period.

The maturity analysis of financial instruments at 31 December 2016 is as follows:

<i>In thousands of Azerbaijani Manats</i>	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Total
LIABILITIES							
Money issued in circulation	-	-	-	-	-	6,960,778	6,960,778
Short-term deposits of resident banks	80,474	387,233	5,596,267	-	-	-	6,063,974
Amounts due to government organizations	2,697,269	-	-	-	-	-	2,697,269
Amounts due to credit institutions	3,225,104	-	-	-	-	-	3,225,104
Amounts due to other organizations	13,569	-	-	-	-	-	13,569
Debt securities in issue	109,621	-	-	-	-	-	109,621
Liabilities on transactions with the IMF	-	-	-	-	-	366,589	366,589
Amounts due to international financial institutions	4,326	-	-	-	-	-	4,326
Gross Settled Derivatives							
- Inflow	(213,332)	(70,112)	-	-	-	-	(283,444)
- Outflow	211,683	69,570	-	-	-	-	281,253
Other financial liabilities	391,435	-	-	-	-	-	391,435
Total potential future payments for financial obligations	6,520,149	386,691	5,596,267	-	-	7,327,367	19,830,474

29 Risk Management (Continued)

The maturity analysis of financial instruments at 31 December 2015 is as follows:

<i>In thousands of Azerbaijani Manats</i>	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Total
LIABILITIES							
Money issued in circulation	-	-	-	-	-	5,416,751	5,416,751
Amounts due to government organizations	4,350,844	-	-	-	-	-	4,350,844
Amounts due to credit institutions	3,336,202	-	-	-	-	-	3,336,202
Amounts due to other organizations	6,589	-	-	-	-	-	6,589
Liabilities on transactions with the IMF	-	-	-	-	-	333,327	333,327
Amounts due to international financial institutions	4,657	-	-	-	-	-	4,657
Gross Settled Derivatives							
- Inflow	(126,056)	-	-	-	-	-	(126,056)
- Outflow	126,024	-	-	-	-	-	126,024
Other financial liabilities	6,836	-	-	-	-	-	6,836
Total potential future payments for financial obligations	7,705,096	-	-	-	-	5,750,078	13,455,174

29 Risk Management (Continued)

The table below shows the maturity analysis of non-derivative financial assets at their carrying amounts and based on their contractual maturities, except for assets that are readily saleable if it should be necessary to meet cash outflows on financial liabilities. Such financial assets are included in the maturity analysis based on their expected date of disposal. Impaired loans are included at their carrying amounts net of impairment provisions, and based on the expected timing of cash inflows.

The table below shows an analysis, by expected maturities, of the amounts recognized in the statement of financial position as at 31 December 2016:

<i>In thousands of Azerbaijani Manats</i>	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Overdue	Total
ASSETS								
Cash and cash equivalents	5,885,213	-	-	-	-	-	-	5,885,213
Special Drawing Rights with the IMF	-	-	-	-	-	364,399	-	364,399
Trading securities	4,212,232	-	-	-	-	-	-	4,212,232
Derivative financial instruments	1,989	202	-	-	-	-	-	2,191
Investment securities	-	-	101,459	465,783	9,955,377	-	-	10,522,619
Loans to banks	34,192	253,195	461,796	987,230	2,308,583	-	16,366	4,061,362
Promissory notes from government	-	-	-	244,240	-	-	-	244,240
Other financial assets	120,315	-	72	102	734	-	-	121,223
Total financial assets	10,253,941	253,397	563,327	1,697,355	12,264,694	364,399	16,366	25,413,479
LIABILITIES								
Money issued in circulation	-	-	-	-	-	6,960,778	-	6,960,778
Amounts due to government organizations	2,697,269	-	-	-	-	-	-	2,697,269
Short-term deposits of resident banks	80,329	382,506	5,459,443	-	-	-	-	5,922,278
Amounts due to credit institutions	3,225,104	-	-	-	-	-	-	3,225,104
Amounts due to other organizations	13,569	-	-	-	-	-	-	13,569
Debt securities in issue	108,987	-	-	-	-	-	-	108,987
Liabilities on transactions with the IMF	-	-	-	-	-	366,589	-	366,589
Amounts due to international financial institutions	4,326	-	-	-	-	-	-	4,326
Other financial liabilities	391,435	-	-	-	-	-	-	391,435
Total financial liabilities	6,521,019	382,506	5,459,443	-	-	7,327,367	-	19,690,335
Net position	3,732,922	(129,109)	(4,896,116)	1,697,355	12,264,694	(6,962,968)	16,366	5,723,144

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

29 Risk Management (Continued)

The table below shows an analysis, by expected maturities, of the amounts recognized in the statement of financial position as at 31 December 2015:

<i>In thousands of Azerbaijani Manats</i>	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Overdue	Total
ASSETS								
Cash and cash equivalents	5,788,173	-	-	-	-	-	-	5,788,173
Amounts due from non-resident banks	-	-	17,784	-	-	-	-	17,784
Special Drawing Rights with the IMF	-	-	-	-	-	332,661	-	332,661
Trading securities	2,801,748	-	-	-	-	-	-	2,801,748
Derivative financial instruments	32	-	-	-	-	-	-	32
Investment securities	71,148	-	441,771	502,031	2,755,846	-	1	3,770,797
Loans to banks	2,526	32,866	470,547	1,331,587	3,889,218	-	85,310	5,812,054
Promissory notes from government	-	-	-	239,603	-	-	-	239,603
Other financial assets	3,465	-	1	143	912	-	-	4,521
Total financial assets	8,667,092	32,866	930,103	2,073,364	6,645,976	332,661	85,311	18,767,373
LIABILITIES								
Money issued in circulation	-	-	-	-	-	5,416,751	-	5,416,751
Amounts due to government organizations	4,350,844	-	-	-	-	-	-	4,350,844
Amounts due to credit institutions	3,336,202	-	-	-	-	-	-	3,336,202
Amounts due to other organizations	6,589	-	-	-	-	-	-	6,589
Liabilities on transactions with the IMF	-	-	-	-	-	333,327	-	333,327
Amounts due to international financial institutions	4,657	-	-	-	-	-	-	4,657
Other financial liabilities	6,836	-	-	-	-	-	-	6,836
Total financial liabilities	7,705,128	-	-	-	-	5,750,078	-	13,455,206
Net position	961,964	32,866	930,103	2,073,364	6,645,976	(5,417,417)	85,311	5,312,167

31 Management of Capital

The capital of the Bank comprises the residual value of the Bank's assets after deduction of all its liabilities.

The Bank's objectives when managing capital are to maintain an appropriate level of capital to ensure economic independence of the Bank and ability to perform its functions. The Bank considers total capital under management to be equity disclosed in the statement of financial position.

No external capital requirements exist for the Bank as the central bank, except for the size of the charter fund and minimum amount of capital reserves stipulated by the Law of the Republic of Azerbaijan on "the Central Bank of the Republic of Azerbaijan" (the "Law").

As disclosed in Note 24, at 31 December 2016 the authorized and fully paid charter fund of the Bank was AZN 500,000 thousand (31 December 2015: AZN 500,000 thousand).

The Bank has made total profit in the amount of AZN 401,664 (2015: AZN 5,531,130 thousand) thousand for the year ended 31 December 2016. Based on article 12 of the Law, reporting year profit shall, in the first place, be directed to formation of capital reserves of the Central Bank. Upon formation of capital reserves and based on approved Central Bank's annual financial statements by the auditor's opinion, clear balance of realized gain shall be transferred to the state budget.

During the period between 31 December 2016 and the reporting date, based on the Order of the Cabinet of Ministers of Azerbaijan as of 10 January 2017, the Bank transferred AZN 1,954,859 thousands to the State Budget

Promissory notes (debt securities) issued by the Ministry of Finance for the purpose of covering the capital shortfall of the Central Bank as of 31 December 2008 have been recalled from 1 March 2017, and debt securities at the fair value of AZN 244,987 thousand were discharged.

32 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.

33 Related Party Transactions

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

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

Main government entities operating with the Bank includes the Azerbaijan Mortgage Fund ("AMF"), the Financial Monitoring Service ("FMS"), Ministry of Finance, International Bank of Azerbaijan, State Oil Fund of Azerbaijan, Aqrarkredit, Azerbaijan Deposit Insurance Fund and AzerTurk Bank. The Bank acts as supervisor of "FMS" as mandated by law until July of 2016, but it has no title over its assets and liabilities, has no share ownership and rights over its economic benefits arising from their activities.

32 Related Party Transactions (Continued)

Transactions with the members of the Management

Total remuneration included in personnel expenses for the years ended 31 December 2016 and 2015 is as follows:

<i>In thousands of Azerbaijani Manats</i>	2016	2015
Short-term employee benefits (salary)	869	890

Transactions with government-related entities

The Bank is a public legal entity, and in the ordinary course of business operates with various state owned companies. Significant transactions with government owned companies include loans to banks and other government owned institutions, investment securities, promissory notes from government, placements by government and credit institutions and interest income.

The outstanding balances and the related average effective interest rates as at 31 December 2016 and related profit or loss amounts of transactions for the year ended 31 December 2016 with other related parties are as follows:

	Government bodies of Azerbaijan		Management Board		Entities under government control		Total
	In thousands of Azerbaijani Manats	Effective interest rate, %	In thousands of Azerbaijani Manats	Effective interest rate, %	In thousands of Azerbaijani Manats	Effective interest rate, %	In thousands of Azerbaijani Manats
Statement of financial position							
ASSETS							
Investment securities	94,108	from 0.15 to 4.25	-	-	10,337,135	from 0.15 to 3	10,431,243
Loans to banks	-	-	-	-	-	-	-
Principal balance	-	-	-	-	1,989,335	from 0.15 to 7	1,989,335
Allowance for impairment	-	-	-	-	(109,762)	-	(109,762)
Promissory notes from government	244,240	2.00	-	-	-	-	244,240
LIABILITIES							
Amounts due to government organizations	2,480,049	-	-	-	217,220	-	2,697,269
Short-term deposits of resident banks	-	-	-	-	4,878,950	5	4,878,950
Amounts due to credit institutions	-	-	-	-	274,790	-	274,790
Amounts due to other organizations	5,625	-	-	-	7,944	-	13,569
Liabilities on transactions with the IMF	366,589	-	-	-	-	-	366,589
Amounts due to international financial institutions	4,326	-	-	-	-	-	4,326
Profit (loss)							
Interest income	5,022	-	-	-	104,769	-	109,791
Interest expense	-	-	-	-	(234,711)	-	(234,711)
Fee and commission income	328	-	-	-	2,218	-	2,546
Other general and administrative expenses	-	-	-	-	672	-	672

32 Related Party Transactions (Continued)

The outstanding balances and the related average effective interest rates as at 31 December 2015 and related profit or loss amounts of transactions for the year ended 31 December 2015 with other related parties are as follows:

	Government bodies of Azerbaijan		Management Board		Entities under government control		Total
	In thousands of Azerbaijani Manats	Effective interest rate, %	In thousands of Azerbaijani Manats	Effective interest rate, %	In thousands of Azerbaijani Manats	Effective interest rate, %	In thousands of Azerbaijani Manats
Statement of financial position							
ASSETS							
Investment securities	78,921	0.01	-	-	2,836,154	from 0.1 to 3	2,915,075
Loans to banks							
Principal balance	-	-	-	-	2,663,648	from 1 to 6	2,663,648
Allowance for impairment					(2,022)		(2,022)
Promissory notes from government	239,603	2.00					239,603
Other assets	8	-	90	3.75	770	-	868
LIABILITIES							
Amounts due to government organizations	4,108,986	-	-	-	241,858	-	4,350,844
Amounts due to credit institutions	-	-	-	-	1,135,568	-	1,135,568
Amounts due to other organizations	5,247	-	-	-	1,342	-	6,589
Liabilities on transactions with the IMF	333,327	-	-	-	-	-	333,327
Amounts due to international financial institutions	4,657	-	-	-	-	-	4,657
Other liabilities					245	-	245
Profit (loss)							
Interest income	213	-	3	-	69,948	-	70,164
Interest expense	(135)	-	-	-	(12)	-	(147)
Fee and commission income	371	-	-	-	3,974	-	4,345
Other general and administrative expenses	-	-	-	-	(2,395)	-	(2,395)

34 Financial Assets and Liabilities: Fair Values and Accounting Classifications

Accounting classifications and fair values

For the purposes of measurement, IAS 39 "Financial Instruments: Recognition and Measurement", classifies financial assets into the following categories: (a) loans and receivables; (b) available-for-sale financial assets; (c) financial assets held to maturity and (d) financial assets at fair value through profit or loss ("FVTPL"). Financial assets at fair value through profit or loss have two sub-categories: (i) assets designated as such upon initial recognition, and (ii) those classified as held for trading. The following table provides a reconciliation of financial assets with these measurement categories as of 31 December 2016:

<i>In thousands of Azerbaijani Manats</i>	Loans and receivables	Available-for- sale assets	Trading assets	Total
ASSETS				
Cash and cash equivalents	5,885,213	-	-	5,885,213
Trading securities				
- Agency notes	-	-	2,142,167	2,142,167
- Corporate bonds	-	-	579,873	579,873
- US Treasury notes	-	-	450,673	450,673
- Government bonds	-	-	434,022	434,022
- Municipal bonds	-	-	338,580	338,580
- Notes issued by international financial institutions	-	-	222,522	222,522
- UK Treasury notes	-	-	44,395	44,395
Investment securities				
- Notes issued by international financial institutions	-	91,376	-	91,376
- Azerbaijan Mortgage Fund	-	337,094	-	337,094
- Ministry of Finance of the Republic of Azerbaijan	65,939	28,169	-	94,108
- JSCO Aqrarkredit	10,000,041	-	-	10,000,041
Derivative financial instruments				
-	-	-	2,191	2,191
Loans to banks				
- Loans under government guarantee	2,406,515	-	-	2,406,515
- Refinancing loans	1,100,152	-	-	1,100,152
- Subordinated loans	533,578	-	-	533,578
- Lender of last resort loans	21,117	-	-	21,117
Promissory notes from government	244,240	-	-	244,240
Special Drawing Rights with the IMF				
	364,399	-	-	364,399
Other financial assets:				
- Receivables from sale of foreign currencies	104,016	-	-	104,016
- Receivables from trade securities disposed	16,243	-	-	16,243
- Loans to employees	908	-	-	908
- Amounts in course of settlement	56	-	-	56
TOTAL FINANCIAL ASSETS	20,742,417	456,639	4,214,423	25,413,479

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

The following table provides a reconciliation of financial assets with measurement categories at 31 December 2015:

<i>In thousands of Azerbaijani Manats</i>	Loans and receivables	Available-for- sale assets	Trading assets	Assets desig- nated at FVTPL	Total
ASSETS					
Cash and cash equivalents	5,788,173	-	-	-	5,788,173
Trading securities					
- US Treasury notes	-	-	807,855	-	807,855
- Notes issued by international financial institutions	-	-	639,306	-	639,306
- Agency notes	-	-	594,289	-	594,289
- Municipal bonds	-	-	303,135	-	303,135
- Corporate bonds	-	-	287,292	-	287,292
- UK Treasury notes	-	-	106,482	-	106,482
- Government bonds	-	-	63,389	-	63,389
Investment securities					
- Notes issued by international financial institutions	-	355,510	-	-	355,510
- Azerbaijan Mortgage Fund	-	336,154	-	-	336,154
- Government bonds	-	334,298	-	-	334,298
- US Treasury notes	-	78,348	-	-	78,348
- UK Treasury notes	-	71,148	-	-	71,148
- Securities issued by Kapital Bank OJSC	-	16,418	-	-	16,418
- Ministry of Finance of the Republic of Azerbaijan	78,921	-	-	-	78,921
- JSCO Aqrarkredit	2,500,000	-	-	-	2,500,000
Derivative financial instruments	-	-	32	-	32
Short-term placements with other banks with original maturities of more than three months	17,784	-	-	-	17,784
Loans to banks					
- Loans under government guarantee	3,903,737	-	-	-	3,903,737
- Refinancing loans	1,257,897	-	-	-	1,257,897
- Subordinated loans	600,410	-	-	-	600,410
- Lender of last resort loans	50,010	-	-	-	50,010
Promissory notes from government	239,603	-	-	-	239,603
Special Drawing Rights with the IMF	332,661	-	-	-	332,661
Other financial assets:					
- Receivables from sale of foreign currencies	155	-	-	-	155
- Receivables from trade securities disposed	2,505	-	-	-	2,505
- Loans to employees	1,031	-	-	-	1,031
- Amounts in course of settlement	830	-	-	-	830
TOTAL FINANCIAL ASSETS	14,773,717	1,191,876	2,801,780	-	18,767,373

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

The estimates of fair value are intended to approximate the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Bank has access at that date. However given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realisable in an immediate sale of the assets or transfer of liabilities. The fair value of a liability reflects its non-performance risk.

The Bank plays a unique role in providing concessionary loans to banks and other financial institutions in order to fund socio-economic projects, as well as providing financial support for the real sector of the economy, balancing macroeconomic and structural policies with the considerations for the economy of Azerbaijan. Management considers that concessionary loans are issued in a special market segment in which commercial lenders do not operate. Issued loans are backed by government guarantees and have unique characteristics in terms of interest rates and maturities. Taking these particular circumstances into account management believes that the carrying amount of concessionary loans that are accounted for at amortized cost represents a reasonable estimate of their fair value.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. For all other financial instruments the Bank determines fair values using other valuation techniques. The chosen valuation technique incorporates all the factors that market participants would take into account in these circumstances.

The objective of valuation techniques is to arrive at a fair value determination that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist, Black-Scholes and polynomial option pricing models and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's length.

The Bank uses widely recognized valuation models for determining the fair value of common and more simple financial instruments, like interest rate and currency swaps that use only observable market data and require little management judgment and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange traded derivatives and simple over the counter derivatives like interest rate swaps.

For more complex instruments, the Bank uses proprietary valuation models. Some or all of the significant inputs into these models may not be observable in the market, and are derived from market prices or rates or are estimated based on assumptions. Example of instruments involving significant unobservable inputs include certain loans and securities for which there is no active market, certain over the counter structured derivatives, and retained interests in securitisations.

There were no changes in valuation techniques during the year ended 31 December 2016 (2015: none).

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

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price, i.e., the fair value of the consideration given or received. If the Bank determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognized in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is supported wholly by observable market data or the transaction is closed out.

Fair value hierarchy

The Bank measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: quoted market price (unadjusted) in an active market for an identical instrument;
- Level 2: inputs other than quotes prices included within Level 1 that are observable either directly (i.e, as prices) or indirectly (i.e, derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data;
- Level 3: inputs that are unobservable. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Where third-party information, such as broker quotes or pricing services are used to measure fair value, the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRS, is assessed and documented. This includes:

- verifying that the broker or pricing service is approved by the Bank for use in pricing the relevant type of financial instrument;
- understanding how the fair value has been arrived at the extent to which it represents actual market transactions;
- when prices for similar instruments are used to measure fair value, how these prices have been adjusted to reflect the characteristics of the instrument subject to measurement;
- where a number of quotes for the same financial instrument have been obtained, how fair value has been determined using those quotes.

Fair value measurements are those that the accounting standards require or permit in the statement of financial position at the end of each reporting period. The table below analyses financial instruments measured at fair value at 31 December 2016, by the level in the fair value hierarchy into which the recurring fair value measurement is categorised. The amounts are based on the values recognized in the statement of financial position:

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

<i>In thousands of Azerbaijani Manats</i>	Level 1	Level 2	Total
Financial assets			
Trading securities			
- Agency notes	2,142,167	-	2,142,167
- Corporate bonds	579,873	-	579,873
- US Treasury notes	450,673	-	450,673
- Government bonds	434,022	-	434,022
- Municipal bonds	338,580	-	338,580
- Notes issued by international financial institutions	222,522	-	222,522
- UK Treasury notes	44,395	-	44,395
Derivative financial instruments	-	2,191	2,191
Available-for-sale financial assets			
- Notes issued by international financial institutions	91,376	-	91,376
- Azerbaijan Mortgage Fund	337,094	-	337,094
- Ministry of Finance of the Republic of Azerbaijan	28,169	-	28,169
	4,668,871	2,191	4,671,062

The table below analyses financial instruments measured at fair value at 31 December 2015, by the level in the fair value hierarchy into which the recurring fair value measurement is categorised. The amounts are based on the values recognized in the statement of financial position:

<i>In thousands of Azerbaijani Manats</i>	Level 1	Level 2	Total
Financial assets			
Trading securities			
- US Treasury notes	807,855	-	807,855
- Notes issued by international financial institutions	639,306	-	639,306
- Agency notes	594,289	-	594,289
- Municipal bonds	303,135	-	303,135
- Corporate bonds	287,292	-	287,292
- UK Treasury notes	106,482	-	106,482
- Government bonds	63,389	-	63,389
Derivative financial instruments	-	32	32
Available-for-sale financial assets			
- Notes issued by international financial institutions	355,510	-	355,510
- Azerbaijan Mortgage Fund	336,154	-	336,154
- Government bonds	334,298	-	334,298
- US Treasury notes	78,348	-	78,348
- UK Treasury notes	71,148	-	71,148
- Securities issued by Kapital Bank OJSC	16,418	-	16,418
	3,993,624	32	3,993,656

The valuation of level 1 securities is regularly performed by the Bank using available sources.

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

Derivative products valued using a valuation technique with market-observable inputs are mainly currency foreign exchange contracts. The fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date.

There were no transfers between Level 1 and Level 2 during the year.

Assets and liabilities not measured at fair value but for which fair value is disclosed

The table below analyses financial instruments not measured at fair value at 31 December 2016, by the level in the fair value hierarchy:

<i>In thousands of Azerbaijani Manats</i>	<u>Level 1 fair value</u>	<u>Level 2 fair value</u>	<u>Level 3 fair value</u>	<u>Carrying value</u>
ASSETS				
Cash and cash equivalents	-	5,885,213	-	5,885,213
SDRs with the IMF	-	364,399	-	364,399
Loans to banks	-	2,389,877	-	4,061,362
Investment securities			-	
- Loans and advances	-	65,939	10,000,041	10,065,980
Promissory notes from government	-	229,847	-	244,240
Other financial assets	-	121,223	-	121,223
LIABILITIES				
Money issued in circulation	6,960,778	-	-	6,960,778
Short-term deposits of resident banks	-	5,922,278	-	5,922,278
Amounts due to government organizations	-	2,697,269	-	2,697,269
Amounts due to credit institutions	-	3,225,104	-	3,225,104
Amounts due to other organizations	-	13,569	-	13,569
Debt securities in issue	-	108,987	-	108,987
Liabilities on transactions with the IMF	-	366,589	-	366,589
Amounts due to international financial institutions	-	4,326	-	4,326
Other financial liabilities	-	391,435	-	391,435

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

The table below analyses financial instruments not measured at fair value at 31 December 2015, by the level in the fair value hierarchy:

<i>In thousands of Azerbaijani Manats</i>	Level 1 fair value	Level 2 fair value	Level 3 fair value	Carrying value
ASSETS				
Cash and cash equivalents	-	5,788,173		5,788,173
Amounts due from non-resident banks	-	17,784		17,784
SDRs with the IMF	-	332,661		332,661
Loans to banks	-	5,638,608		5,812,054
Investment securities				
- Loans and advances	-	78,921	2,500,000	2,578,921
Promissory notes from government	-	239,603		239,603
Other financial assets	-	4,521		4,521
LIABILITIES				
Money issued in circulation	5,416,751	-		5,416,751
Amounts due to government organizations	-	4,350,844		4,350,844
Amounts due to credit institutions	-	3,336,202		3,336,202
Amounts due to other organizations	-	6,589		6,589
Liabilities on transactions with the IMF	-	333,327		333,327
Amounts due to international financial institutions	-	4,657		4,657
Other financial liabilities	-	6,836		6,836

The fair values in level 2 and 3 fair value hierarchies were estimated using the discounted cash flows valuation technique. Significant valuation inputs are presented in Note 8. The fair value of unquoted fixed interest rate instruments was estimated based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity.