

Central Bank of the Republic of Azerbaijan

**Financial Statements
for the year ended 31 December 2020**

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Independent Auditors' Report

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

Opinion

We have audited the financial statements of the Central Bank of the Republic of Azerbaijan (the "Bank"), which comprise the statement of financial position as at 31 December 2020, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2020, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

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 *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants International Code of Ethics for Professional Accountants (including International Independence Standards) (*IESBA Code*) together with the ethical requirements that are relevant to our audit of the financial statements in the Republic of Azerbaijan, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.



Classification of debt securities	
Please refer to the Note 7 in the financial statements.	
The key audit matter	How the matter was addressed in our audit
<p>Operations with financial instruments represent a core business of the Bank and debt securities constitute a majority of the Bank's assets.</p> <p>We paid particular attention to the matter of classification of debt securities in accordance with the IFRS 9 requirements.</p> <p>Due to the significance and diversity of portfolios of debt securities of the Bank, significant turnover of debt securities during the year and management judgement involved, this area is a key audit matter.</p>	<p>We analysed the definition of business models used to manage debt securities by making inquiries to responsible employees, reviewing the Bank's internal documentation and analyzing internal business processes on selected significant debt securities portfolios.</p> <p>We checked that the Bank has performed proper assessment whether contractual cash flows are solely payments of principal and interest by analyzing underlying documents for a sample of debt securities.</p> <p>For debt securities managed in the held-to-collect and sale business model we analyzed the information on frequency and volume of sales, reasons of such sales and assessed whether the sales are consistent with the held-to-collect and sale business model based on our understanding and publicly available market information.</p> <p>We also assessed whether the financial statements provide an appropriate disclosure of key classification and measurement principles for debt securities in accordance with IFRS 9.</p>

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, disclosing, as applicable, matters related to going concern basis of accounting. 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 Bank cannot be declared bankrupt and that any shortfall in capital will be covered by the issuance of securities by the Government of the Republic of Azerbaijan.

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



Auditors' 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 auditors' 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 auditors' 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 auditors' 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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.



From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditors' report is:



Andrey Kouznetsov

"KPMG Audit Azerbaijan" LLC

Baku, The Republic of Azerbaijan

23 April 2021

Central Bank of the Republic of Azerbaijan*Statement of Financial Position*

(Amounts are presented in thousands of Azerbaijani Manats, unless otherwise stated)

	Note	31 December 2020	31 December 2019
ASSETS			
Cash and cash equivalents	4	5,615,273	4,309,312
Special Drawing Rights with the IMF	5	375,543	359,921
Derivative financial instruments	6	449	152
Debt securities	7	18,579,674	17,489,533
Loans to banks	8	399,408	270,971
Loans to non-bank credit organizations	9	25,330	18,866
Loans to Deposit Insurance Fund	10	207,222	-
Property and equipment	11	86,461	80,540
Intangible assets	12	73,527	54,396
Other financial assets	13	49,370	13,380
Other assets	14	73,713	26,718
Total assets		25,485,970	22,623,789
LIABILITIES			
Money in circulation	15	11,839,664	10,405,513
Short-term deposits of resident banks	16	2,713,336	3,075,773
Amounts due to government organisations	17	4,921,318	2,734,428
Amounts due to credit institutions	18	3,204,953	2,721,369
Amounts due to other organisations	19	9,066	11,130
Debt securities in issue	20	648,213	697,325
Liabilities on transactions with the IMF	5	378,505	362,811
Amounts due to international financial institutions	21	1,405	1,447
Derivative financial instruments	6	3,556	3,865
Other financial liabilities	22	142,259	31,275
Other liabilities		1,783	2,476
Total liabilities		23,864,058	20,047,412
EQUITY			
Charter capital	23	500,000	500,000
Capital reserves	23	526,968	526,958
Revaluation reserve for debt securities at FVOCI		(1,065)	5,895
Retained earnings		596,009	1,543,524
Total equity		1,621,912	2,576,377
Total liabilities and equity		25,485,970	22,623,789

The financial statements were approved by Management on 23 April 2021 and were signed on its behalf by:

Mr. Aftandil Babayev
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***(Amounts are presented in thousands of Azerbaijani Manats, unless otherwise stated)*

	Note	2020	2019
Interest income calculated using the effective interest method	24	151,881	209,399
Other interest income	24	17,370	22,279
Interest expense	24	(149,127)	(234,273)
Net interest income/(expense)		20,124	(2,595)
Fee and commission income	25	10,251	16,970
Fee and commission expense	26	(6,501)	(4,308)
Gain on initial recognition of financial liabilities	27	52,447	-
Loss on initial recognition of financial assets	28	(75,742)	-
Net gains from debt securities at fair value through profit or loss		10,566	12,433
Net gains from disposals of securities measured at fair value through other comprehensive income		19,007	65,372
Net (losses) gains from derivative financial instruments		(14,588)	5,149
Net gains from investments in money market funds at fair value through profit or loss		4,320	20,892
Net gains (losses) from foreign exchange translation	29	66,044	(2,840)
Impairment of debt securities at fair value through other comprehensive income		(247)	(39)
Net gains from trading in currencies		1,981	748
Other operating income		46,677	30,491
Other expenses		-	(48,317)
Recovery of impairment loss	30	14,375	29,626
Administrative and other operating expenses	31	(96,229)	(54,398)
Profit for the year		52,485	69,184
Other comprehensive loss:			
<i>Items that are or may be reclassified subsequently to profit or loss:</i>			
Debt securities at fair value through other comprehensive loss:	7		
- Net gains arising during the year		12,047	62,145
- Gains reclassified to profit or loss upon disposal		(19,007)	(65,372)
Other comprehensive loss for the year		(6,960)	(3,227)
Total comprehensive income for the year		45,525	65,957

Central Bank of the Republic of Azerbaijan**Statement of Changes in Equity***(Amounts are presented in thousands of Azerbaijani Manats, unless otherwise stated)*

	Charter fund	Capital reserves	Revaluation reserve for debt securities at FVOCI	Retained earnings	Total equity
Balance at 1 January 2019	500,000	500,000	9,122	3,448,340	4,457,462
Profit for the year	-	-	-	69,184	69,184
Other comprehensive loss					
Revaluation reserve for debt securities at FVOCI:					
- Net change in fair value	-	-	62,145	-	62,145
- Net amount reclassified to profit or loss	-	-	(65,372)	-	(65,372)
Total other comprehensive loss	-	-	(3,227)	-	(3,227)
Total comprehensive income / (loss) for the year	-	-	(3,227)	69,184	65,957
Transactions recorded directly in equity					
Transfer to the State Budget	-	-	-	(1,974,000)	(1,974,000)
Transfer from Financial Markets Supervisory Authority	-	26,958	-	-	26,958
Total transactions recorded directly in equity	-	26,958	-	(1,974,000)	(1,947,042)
Balance as at 31 December 2019	500,000	526,958	5,895	1,543,524	2,576,377
Balance at 1 January 2020	500,000	526,958	5,895	1,543,524	2,576,377
Profit for the year	-	-	-	52,485	52,485
Other comprehensive loss					
Revaluation reserve for debt securities at FVOCI:					
- Net change in fair value	-	-	12,047	-	12,047
- Net amount reclassified to profit or loss	-	-	(19,007)	-	(19,007)
Total other comprehensive loss	-	-	(6,960)	-	(6,960)
Total comprehensive income / (loss) for the year	-	-	(6,960)	52,485	45,525
Transactions recorded directly in equity					
Transfer to the State Budget	-	-	-	(1,000,000)	(1,000,000)
Other transactions	-	10	-	-	10
Total transactions recorded directly in equity	-	10	-	(1,000,000)	(999,990)
Balance as at 31 December 2020	500,000	526,968	(1,065)	596,009	1,621,912

Central Bank of the Republic of Azerbaijan**Statement of Cash Flows***(Amounts are presented in thousands of Azerbaijani Manats, unless otherwise stated)*

	Note	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest receipts		166,336	225,365
Interest payments		(150,506)	(263,187)
Fee and commission receipts		10,251	16,970
Fee and commission payments		(6,501)	(4,308)
Net payments from trading in debt securities at FVTPL		(11,960)	(2,823)
Net (payments)/receipts from derivative financial instruments		(15,194)	8,939
Net receipts from trading in foreign currencies		1,981	748
Other operating income receipts		4,994	19,701
Other payments		-	(17,907)
Net receipts from investments in money market funds at fair value through profit or loss		4,320	20,892
Administrative and other operating expenses payments		(67,931)	(47,639)
Cash flows used in operating activities before changes in operating assets and liabilities		(64,210)	(43,249)
(Increase)/decrease in operating assets			
Debt securities at fair value through profit or loss		(2,167)	6,972
Special Drawing Rights with the IMF		53	172
Loans to banks		(113,521)	65,377
Loans to non-bank credit organizations		(6,463)	(18,866)
Loans to Deposit Insurance Fund		(280,000)	-
Other financial assets		303	(320)
Other assets		(5,658)	(533)
Increase/(decrease) in operating liabilities			
Money in circulation		1,434,151	2,041,384
Short-term deposits of resident banks		(310,000)	(275,000)
Amounts due to government organisations		2,181,730	1,115,921
Amounts due to credit institutions		461,414	(110,616)
Amounts due to other organisations		(2,064)	(24,625)
Debt securities in issue		(47,726)	(307,053)
Other financial liabilities		1,591	2,631
Other liabilities		(633)	(742)
Net cash from operating activities		3,246,800	2,451,453
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of debt securities at fair value through other comprehensive income	7	(13,558,864)	(13,959,858)
Proceeds from sale and redemption of debt securities at fair value through other comprehensive income	7	12,619,981	12,885,686
Proceeds from redemption of debt securities carried at amortised cost	7	12,984	12,984
Purchases of property, equipment	11	(23,390)	(14,887)
Purchases of intangible assets	12	(29,608)	(10,022)
Cash flows used in investing activities		(978,897)	(1,086,097)
CASH FLOWS FROM FINANCING ACTIVITIES			
Transfers to the State Budget		(1,000,000)	(1,974,000)
Transfer from Financial Markets Supervisory Authority		-	23,986
Repayment of IMF borrowings		(1)	(3)
Proceeds from amounts due to international financial institutions		231,371	128,184
Repayment of amounts due to international financial institutions		(231,410)	(129,006)
Cash flows used in financing activities		(1,000,040)	(1,950,839)
Net decrease in cash and cash equivalents		1,267,863	(585,483)
Effect of exchange rate changes on cash and cash equivalents		38,098	210
Cash and cash equivalents at the beginning of the year		4,309,312	4,894,585
Cash and cash equivalents at the end of the year	4	5,615,273	4,309,312

Central Bank of the Republic of Azerbaijan

Notes to the Financial Statements for the year ended 31 December 2020

(Amounts are presented in thousands of Azerbaijani Manats, unless otherwise stated)

1 Background

These financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2020 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;
- Organize cash circulation; in accordance with paragraph 2 of article 19 of the Constitution and the Law: issue, put into circulation, and withdraw banknotes from circulation;
- Determine and declare the official exchange rate of Azerbaijani Manat;
- Implement foreign currency regulation and control;
- Maintain and manage the gold and foreign currency reserves at its disposal;
- Manage the drawing up of the reporting balance of payments and participate in the drawing-up of the projected balance of payments of the country;
- 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.

Pursuant to the Order no 1616 dated 28.11.2019 of the President of the Republic of Azerbaijan "On improving the management of regulation and supervision of financial services market" the Financial Market Supervisory Authority was abolished, its powers as defined in the laws of the Republic of Azerbaijan, including its rights and responsibilities in the areas of licensing, regulation and supervision, protection of rights of investors and consumers of financial services, as well as its property were transferred to the Bank.

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 organisations for the purpose of cooperation in monetary and foreign exchange policy.

Central Bank of the Republic of Azerbaijan

Notes to the Financial Statements for the year ended 31 December 2020

(Amounts are presented in thousands of Azerbaijani Manats, unless otherwise stated)

At 31 December 2020, 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

The responsibilities of the Board and Governor are presented in Articles 22 of the Law.

The Bank's main office is located at the following address: 90 Rashid Behbudov Street, Baku, AZ1014, Azerbaijan. The Bank had six regional branches in the Republic of Azerbaijan (2019: six).

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 thousands of AZN, rounded to nearest thousand, unless otherwise stated.

Operating Environment of the Bank

The anti-crisis program implemented in 2020 with a background of a deep epidemiological crisis, strong shocks from the external environment, significant drop in oil prices and finally Armenia's aggression against Azerbaijan turning into a large-scale civil war in September has secured the economy from a deeper recession.

The Central Bank performed its functions in accordance with its mandate, and as a result of the measures taken in close coordination with the government, the macroeconomic stability in the country, including price stability and balance in the foreign exchange market were safeguarded.

Monetary policy was implemented in accordance with the "Statement of the Central Bank of the Republic of Azerbaijan on main directions of monetary and financial stability policy for 2020 and the medium term". The upmost monetary policy target was to maintain the inflation gap at $4\pm 2\%$. According to the official statistics, in 2020 the 12-month inflation was 2.6% providing one of the lowest figures in CIS and among the partner countries. The stability in the FX market was one of the key prerequisites for stable inflation expectations.

Monetary and macro-prudential easing prevented a further decline in economic activity, allowing economic entities to partially compensate for losses in income. Monetary policy decisions were made considering the analysis of macroeconomic processes and updated macroeconomic forecasts, and the sequence and reasonableness of the decisions were focused on.

In general, the shocks of the pandemic, which have a strong impact on all spheres of public life and economic activity, have been effectively managed over the year.

2 Basis of preparation

Basis of measurement

The financial statements are prepared on the historical cost basis except that financial instruments at fair value through profit or loss and financial instruments at fair value through other comprehensive income are stated at fair value.

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. 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.

ECL measurement

Measurement of ECLs is a significant estimate that involves determination of relevant methodology, models and data inputs. Details of ECL measurement are disclosed in Note 32. The following components have a major impact on credit loss allowance: definition of default, significant increase in credit risk ("SICR"), probability of default ("PD"), exposure at default ("EAD") and loss given default ("LGD"). The Bank regularly reviews the models and inputs to the models to reduce any differences between expected credit loss estimates and actual credit loss experience.

Significant increase in credit risk ("SICR")

In order to determine whether there has been a significant increase in credit risk, the Bank compares the risk of a default occurring over the life of a financial instrument at the end of the reporting date with the risk of default at the date of initial recognition. The assessment considers relative increase in credit risk, all reasonable forward looking information available without undue cost and effort, which includes a range of factors of particular borrowers.

Business model assessment

The Bank classifies financial assets on the basis of the business model for managing the financial assets and cash flow characteristics. The business model is assessed on the basis of actual performance of the Bank for holding and managing financial assets at a level of financial assets groups and portfolios (sub-portfolio), as well as Management's judgements. When assessing a business model, factors such as the purpose, strategic structure, risk parameters of financial assets, the relative significance of sources of income derived from the assets and the frequency and specific weight of purchase (sale) transactions to the portfolio are taken into account. In addition, future business expectations are also considered when determining the business model.

The Bank classifies financial assets as "hold to collect", "hold to collect and sell" and "other business" model. Selling financial assets for i) monetary policy purposes, ii) re-balancing, iii) achieving higher returns; and iv) investment restrictions is an integral part of "hold to collect and sell" business model.

Assessment whether cash flows are solely payments of principal and interest ("SPPI")

For the purpose of classification of financial assets the Bank assesses whether the cash flows represent solely payments of principal and interest ("SPPI"). The principal is the fair value of the financial asset at initial recognition, which may change over the life of a financial instrument. The interest is the compensation for the time value of money, credit risk and other risks associated with the outstanding principal, as well as the profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Bank considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Bank's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- features that modify consideration of the time value of money – e.g. periodical reset of interest rates.
- inverse floater condition

All the instruments that are included in "hold to collect" and "hold to collect and sell" business models passed SPPI tests.

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. 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 2020, exchange rates for translation of foreign currency balances were as follows: US Dollar 1 = AZN 1.7000, Euro 1 = AZN 2.0890, Pound Sterling 1 = AZN 2.3021 and Special Drawing Right 1 = AZN 2.4485 (31 December 2019: US Dollar 1 = AZN 1.7000, Euro 1 = AZN 1.9035, Pound Sterling 1 = AZN 2.2284 and Special Drawing Right 1 = AZN 2.3463).

Financial instruments - definitions and principles of recognition of financial instruments

Financial instrument is any contract that gives rise to a financial asset of the Bank and a financial liability of another entity.

Debt instrument is an instrument that meets the definition of a financial obligation from the issuer's point of view, such as loans and fixed income securities.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is price in an active market.

Transaction costs are incremental costs that are directly attributable to the acquisition or issue of a financial instrument. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortised cost ("AC") is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any allowance for expected credit losses. Accrued interest includes amortisation of any premium or discount to maturity amount at initial recognition using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium, are not presented separately and are included in the carrying values of related items in the statement of financial position.

The effective interest method is a method of allocating interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the gross carrying amount of the financial instrument.

The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date.

Calculation of interest income and expense

The effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability. The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating rate instruments to reflect movements in market rates of interest.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

Expected credit losses (“ECL”) – the weighted average of credit losses with the respective risks of a default.

12-month expected credit losses – the portion of lifetime expected credit losses that represent the expected credit losses that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Lifetime expected credit losses – the expected credit losses that result from all possible default events over the expected life of a financial instrument.

Financial instruments – initial recognition

Upon initial recognition, the Bank classifies its financial assets into the following categories: at amortised cost (AC), at fair value through other comprehensive income (FVOCI), and at fair value through profit or loss (FVTPL).

Financial assets at FVTPL are initially recorded at fair value. Financial assets at AC and at FVOCI are initially recorded at fair value adjusted for transaction costs.

Fair value at initial recognition is best evidenced by the transaction price. In circumstances where the fair value of a financial asset or liability at initial recognition is different from the transaction price, a gain or loss equal to the difference is immediately recognised in the income statement if and only if the fair value measurement is evidenced by a quoted price in an active market for an identical asset or liability, or is based on a valuation technique that uses only data from observable markets. If the fair value measurement at initial recognition does not meet either of these conditions, then the difference is deferred and subsequently recognised as a gain or loss only to the extent it arises from a change in a factor (including time) that market participants would take into account when pricing the asset or liability.

After the initial recognition, an ECL allowance is recognised for financial assets measured at AC and debt instruments measured at FVOCI.

Financial assets – classification and subsequent measurement – measurement categories

The classification and subsequent measurement of debt financial assets depends on: (i) the Bank’s business model for managing the related assets portfolio and (ii) the cash flow characteristics of the asset.

Financial assets – classification and subsequent measurement – cash flow characteristics

Where the business model is to hold assets to collect contractual cash flows or to hold contractual cash flows and sell, the Bank assesses whether the cash flows represent solely payments of principal and interest (“SPPI”). In making this assessment, the Bank considers whether the contractual cash flows are consistent with a basic lending arrangement, i.e. interest includes only consideration for credit risk, time value of money, other basic lending risks and profit margin.

The SPPI assessment is performed on initial recognition of an asset and it is not subsequently reassessed. Refer to Note 2 for critical judgements applied by the Bank in performing the SPPI test for its financial assets.

Financial assets – reclassification

Financial instruments are reclassified only when the business model for the portfolio changes. The reclassification has a prospective effect and takes place from the beginning of the first reporting period that follows after the change in the business model.

Financial assets impairment – credit loss allowance for ECL

The Bank measures, on a forward-looking basis, the ECL for financial instruments measured at AC and FVOCI and recognises credit loss allowance at each reporting date. The measurement of ECL reflects: (i) an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes, (ii) time value of money and (iii) all information about past events, current conditions and forecasts of future conditions before the reporting date.

Debt instruments measured at AC are presented in the statement of financial position net of the allowance for ECL. For debt instruments at FVOCI, allowance for ECL is not recorded in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the revaluation reserve for debt securities at FVOCI. ECL and reversals for debt securities at FVOCI are recognised in profit or loss and other changes in carrying value are recognised in OCI.

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The Bank applies a three stage model for impairment, based on changes in credit quality since initial recognition. A financial instrument that is not credit-impaired on initial recognition is classified in Stage 1. Financial assets in Stage 1 have their ECL measured at an amount equal to the portion of lifetime ECL that results from default events possible within the next 12 months or until contractual maturity, if shorter ("12 Months ECL"). If the Bank identifies a significant increase in credit risk ("SICR") since initial recognition, the asset is transferred to Stage 2 and its ECL is measured based on ECL on a lifetime basis, that is, up until contractual maturity but considering expected prepayments, if any ("Lifetime ECL"). Refer to Note 32 for a description of how the Bank determines when a SICR has occurred. If the Bank determines that a financial asset is credit-impaired, the asset is transferred to Stage 3 and its ECL is measured as a Lifetime ECL. The Bank's definition of credit impaired assets and definition of default is explained in Note 32. Note 32 provides information about inputs, assumptions and estimation techniques used in measuring ECL, including an explanation of how the Bank incorporates forward-looking information in the ECL models.

Financial assets – write-off

Financial assets are written-off, in whole or in part, when the Bank exhausted all practical recovery efforts in accordance with legislation. The write-off represents a derecognition event.

Financial assets – derecognition

The Bank derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Bank has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership, but not retaining control. 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.

Financial assets – modification

The Bank modifies the contractual terms of the financial assets and assesses whether the modification of contractual cash flows is substantial considering, among other, the following factors: significant change in interest rate, credit enhancement that significantly affects the credit risk associated with the asset or a significant extension of a loan when the borrower is not in financial difficulties.

If the modified terms are substantially different, the rights to cash flows from the original asset expire and the Bank derecognises the original financial asset and recognises a new asset at its fair value. The date of renegotiation is considered to be the date of initial recognition for subsequent impairment calculation purposes, including determining whether a SICR has occurred. Any difference between the carrying amount of the original asset derecognised and fair value of the new substantially modified asset is recognised in profit or loss.

Financial liabilities – measurement categories

Other financial liabilities are classified at AC, except for financial liabilities at FVTPL (derivatives).

Financial liabilities – derecognition

The Bank 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 – i.e when the obligation specified in the contract is discharged or cancelled or expires.

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.

Derivative financial instruments

Derivative financial instruments include swaps, futures and forwards.

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

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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 as well as investments on money market funds. Cash and cash equivalents other than investments on money market funds are carried at amortized cost because: (i) they are held for collection of contractual cash flows and those cash flows represent SPPI, and (ii) they are not designated at FVTPL. The investments on money market funds are required to be measured at FVTPL in accordance with IFRS 9 because the units give rise to cash flows that are not solely payments of principal and interest.

Debt securities

Based on the business model and the cash flow characteristics, the Bank classifies debt securities as carried at AC, FVOCI or FVTPL. Debt securities are carried at AC if they are held for collection of contractual cash flows and where those cash flows represent SPPI, and if they are not designated at FVTPL in order to significantly reduce an accounting mismatch.

Debt securities are carried at FVOCI if they are held for collection of contractual cash flows and for selling, where those cash flows represent SPPI, and if they are not designated at FVTPL. Interest income from these assets is calculated using the effective interest method and recognised in profit or loss. When the debt security is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from OCI to profit or loss.

Debt securities are carried at FVTPL if they do not meet the criteria for AC or FVOCI.

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 communication 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.

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".

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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.

Money in circulation

Money in circulation represents banknotes and coins issued by the Bank and in circulation 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 held under the reserve funds of the Bank off-balance sheet.

Amounts due to government organisations and other organisations

Amounts due to government organisations and other organisations 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.

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.

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 organisations (e.g. IMF, World Bank), including payment of membership fees to such organisations.

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.

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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.

Impairment of non-financial assets

Non-financial assets are assessed at each reporting date for any indications of impairment. The recoverable amount of non financial assets is the greater of their fair value less costs to sell and value in use.

In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognised when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

All impairment losses in respect of non financial assets are recognised in profit or loss and reversed only if there has been a change in the estimates used to determine the recoverable amount. Any impairment loss reversed is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

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.

New standards and interpretations not yet adopted

A number of new standards and amendments to the standards are effective from 1 January 2021 and earlier application is permitted; however, the Bank has not early adopted the new or amended standards in preparing these financial statements.

The new and amended standards are not expected to have a significant impact on the Bank's financial statements.

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4 Cash and cash equivalents

The table below discloses the credit quality of cash and cash equivalents balances based on credit risk grades at 31 December 2020 and 2019.

	31 December 2020	31 December 2019
Cash on hand	2,627,388	336,430
Nostro accounts with non-resident banks		
- Rated excellent	1,998,520	2,049,646
- Rated good	49,882	-
Total nostro accounts with non-resident banks	2,048,402	2,049,646
Cash equivalents		
Short-term deposits with non-resident banks (rated excellent)	88,530	853,356
Investments in money market funds (rated excellent)	850,953	1,069,880
Total cash equivalents	939,483	1,923,236
Total cash and cash equivalents	5,615,273	4,309,312

Investments in money market funds are measured at FVTPL.

Nostro accounts and short-term deposits with non-resident banks are in Stage 1.

As at 31 December 2020 the Bank has 2 banks (2019: 3 bank), whose balances exceed 10% of equity. The gross value of these balances as at 31 December 2020 is AZN 1,918,871 thousand (2019: AZN 2,501,418 thousand).

Refer to Note 32 for the description of the Bank's credit risk grading system.

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5 Balances with the International Monetary Fund

	31 December 2020	31 December 2019
ASSETS		
Special Drawing Rights (SDR) holdings	375,543	359,921
Total assets with IMF	375,543	359,921
LIABILITIES		
Current accounts	2,474	2,475
SDR allocation:		
General allocation	292,049	279,859
Special allocation	83,982	80,477
Total SDR allocations	376,031	360,336
Total liabilities with IMF	378,505	362,811

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 a 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.

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

The IMF Quota, in the amount of SDR 391.7 million (AZN 959,077 thousand and AZN 919,046 thousand as at 31 December 2020 and 2019, respectively) has remained unchanged since 25 February 2016 and represents the membership subscription of the Republic of Azerbaijan with the IMF. Securities were issued by the Government of the Republic of Azerbaijan to guarantee these amounts. These securities are held by the Bank for which IMF is acting as the beneficiary.

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6 Derivative financial instruments

The fair value of derivative financial instruments as at 31 December 2020 and 2019 are as follows:

	Notional amount	31 December 2020		Notional amount	31 December 2019	
		Fair value			Fair value	
		Assets	Liabilities		Assets	Liabilities
Foreign exchange contracts	549,082	-	(3,530)	480,375	-	(3,865)
Futures contracts	18,941	-	(26)	22,617	152	-
SWAP contracts	31,366	449	-	-	-	-
Total derivative financial instruments	599,389	449	(3,556)	502,992	152	(3,865)

Foreign currency contracts

The table below summarizes, by major currencies, the contractual amounts of forward (including forward made on the basis of mutual settlement) 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.

	Notional		Weighted average contractual exchange rates	
	31 December 2020	31 December 2019	31 December 2020	31 December 2019
	Sell USD buy AZN			
Less than 5 months	16,759	-	1.8118	-
Buy USD sell EUR				
Less than 3 months	280,801	262,979	1.2239	1.1234
Sell USD buy EUR				
Less than 3 months	104,545	94,402	0.8173	1.1225
Buy USD sell GBP				
Less than 3 months	55,256	48,099	1.3671	1.3252
Sell USD buy GBP				
Less than 3 months	23,508	15,953	0.7316	0.7549
Buy USD sell CAD				
Less than 3 months	37,302	31,451	0.7850	0.7712
Sell USD buy CAD				
Less than 3 months	7,652	7,544	1.2740	1.2967
Buy USD sell other currencies				
Less than 3 months	15,795	14,424	0.5575	0.5213
Sell USD buy other currencies				
Less than 3 months	7,464	5,523	3.8463	4.2423

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7 Debt securities

	31 December 2020	31 December 2019
Debt securities mandatorily measured at FVTPL	958,818	929,829
Debt securities at FVOCI	8,124,710	7,050,574
Debt securities at AC	9,496,146	9,509,130
Total debt securities	18,579,674	17,489,533

The table below discloses debt securities at 31 December 2020 and 2019 by measurement categories and classes:

31 December 2020	Debt securities mandatorily measured at FVTPL	Debt securities at FVOCI	Debt securities at AC	Total
Agency	176,687	3,588,626	-	3,765,313
Supranational	57,875	1,365,851	-	1,423,726
Treasury	580,700	1,287,564	-	1,868,264
Local Authority	34,448	851,370	-	885,818
Corporate	80,199	309,549	-	389,748
Sovereign	4,138	348,727	-	352,865
Covered	24,771	-	-	24,771
Mortgage and Credit Guarantee Fund of the Republic of Azerbaijan	-	373,023	-	373,023
JSCO Aqrarkredit	-	-	9,482,143	9,482,143
Ministry of Finance of the Republic of Azerbaijan	-	-	14,003	14,003
Total debt securities	958,818	8,124,710	9,496,146	18,579,674

31 December 2019	Debt securities mandatorily measured at FVTPL	Debt securities at FVOCI	Debt securities at AC	Total
Agency	143,371	2,946,656	-	3,090,027
Supranational	30,466	1,593,044	-	1,623,510
Treasury	629,512	884,978	-	1,514,490
Local Authority	29,917	506,054	-	535,971
Corporate	88,083	275,027	-	363,110
Sovereign	2,591	237,749	-	240,340
Covered	5,889	-	-	5,889
Mortgage and Credit Guarantee Fund of the Republic of Azerbaijan	-	607,066	-	607,066
JSCO Aqrarkredit	-	-	9,482,143	9,482,143
Ministry of Finance of the Republic of Azerbaijan	-	-	26,987	26,987
Total debt securities	929,829	7,050,574	9,509,130	17,489,533

Included in Debt Securities at AC were securities of Joint-Stock Credit Organisation Aqrarkredit (Aqrarkredit JSCO) 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 (in total AZN 10,000,000 thousand). In 2017 Aqrarkredit JSCO repurchased the securities in the amount of AZN 517,896 thousand from the Bank.

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As at 31 December 2020, the outstanding balance of the securities in the portfolio of the Bank was AZN 9,482,104 thousand. Repayment of these securities is guaranteed by the Government of Azerbaijan. These securities were purchased based on Decrees of the President of Azerbaijan Republic № 570, dated 15 July 2015 on "Actions for improvement of International Bank of Azerbaijan OJSC's condition to prepare for the privatization of shares owned by government" and № 575 dated 07 August 2015 on "Approval of issue, volume, maturity and payment conditions of securities with government guarantee issued by Aqrarkredit JSCO", respectively. Refer to Note 36 for fair value disclosures.

(a) Debt securities at FVTPL

Debt securities mandatorily classified as at FVTPL by the Bank represent securities held for trading. Debt securities at FVTPL are carried at fair value, which also reflects any credit risk related write-downs and best represents the Bank's maximum exposure to credit risk. Debt securities at FVTPL have excellent credit risk grade.

(b) Debt securities at FVOCI

The table below contains an analysis of the credit risk exposure of debt securities measured at FVOCI at 31 December 2020 and 2019, for which an ECL allowance is recognised, based on credit risk grades. Refer to Note 32 for the description of credit risk grading system used by the Bank and the approach to ECL measurement, including the definition of default and SICR as applicable to debt securities at FVOCI:

	2020		2019	
	Stage 1	Total	Stage 1	Total
Debt securities at FVOCI				
Rated excellent	7,751,687	7,751,687	6,443,508	6,443,508
Rated good	373,023	373,023	607,066	607,066
Total debt securities at FVOCI	8,124,710	8,124,710	7,050,574	7,050,574
Loss allowance	(698)	(698)	(451)	(451)
Total carrying value (fair value)	8,124,710	8,124,710	7,050,574	7,050,574

Movements in the loss allowance for debt securities at FVOCI were as follows:

	2020		2019	
	Stage 1	Total	Stage 1	Total
Debt securities at FVOCI				
Balance at 1 January	451	451	413	413
Net remeasurement of loss allowance	(246)	(246)	(277)	(277)
New financial assets originated or purchased	493	493	315	315
Balance at 31 December	698	698	451	451

Movements in the gross carrying amounts of debt securities at FVOCI that contributed to changes in ECL were as follows:

	2020		2019	
	Stage 1	Total	Stage 1	Total
Debt securities at FVOCI				
Balance at 1 January	7,050,574	7,050,574	5,906,221	5,906,221
Debt securities repaid	(3,978,092)	(3,978,092)	(3,927,127)	(3,927,127)
Debt securities purchased	5,052,228	5,052,228	5,071,480	5,071,480
Balance at 31 December	8,124,710	8,124,710	7,050,574	7,050,574

(c) Debt securities at AC

The following table contains an analysis of debt securities at AC by credit quality at 31 December 2020 and 2019 based on credit risk grades and discloses the balances by stages for the purpose of ECL measurement. Refer to Note 32 for the description of credit risk grading system used by the Bank and the approach to ECL measurement, including the definition of default and SICR as applicable to debt securities

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at AC. The carrying amount of debt securities at AC at 31 December 2020 and 2019 below also represents the Bank's maximum exposure to credit risk on these assets:

	2020		2019	
	Stage 1	Total	Stage 1	Total
Debt securities at AC				
Rated good	9,496,146	9,496,146	9,509,130	9,509,130
Total debt securities at AC	9,496,146	9,496,146	9,509,130	9,509,130

These securities are issued in local currency, Azerbaijani manats, and repayment is guaranteed by the Government of Azerbaijan. Debt securities at AC are included in Stage 1 and assigned with good credit risk grade.

8 Loans to banks

	31 December 2020	31 December 2019
Loans to banks, gross	778,958	725,370
Loss allowance	(379,550)	(454,399)
Loans to banks, net of loss allowance	399,408	270,971

Concentration of loans to banks

As at 31 December 2020 and 2019, the Bank had no banks, whose balance exceed 10% of equity.

Gross carrying amount and loss allowance amount for loans to banks by classes at 31 December 2020 and 31 December 2019 are disclosed in the table below:

	31 December 2020			31 December 2019		
	Gross carrying amount	Loss allowance	Carrying amount	Gross carrying amount	Loss allowance	Carrying amount
Refinancing loans	778,958	(379,550)	399,408	708,502	(438,538)	269,964
Lender of last resort loans	-	-	-	16,868	(15,861)	1,007
Total	778,958	(379,550)	399,408	725,370	(454,399)	270,971

More detailed explanation of classes of loans to legal entities is provided below:

- Refinancing loans - are provided as part of implementing monetary policy of the Central Bank;
- Lender of last resort loans - In case of short-term solvency and liquidity gap of the banks, the Central Bank may grant lender of last resort loans to the banks for a period not exceeding 6 (six) months.

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The following tables disclose the changes in the loss allowance for loans to banks between the beginning and the end of the reporting period:

	2020				2019			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Refinancing loans								
Balance at 1 January	22	12,378	426,138	438,538	-	34,368	409,336	443,704
Transfer to Stage 3	-	(4,884)	4,884	-	-	(8,240)	8,240	-
Net remeasurement of loss allowance	(22)	4,103	(22,135)	(18,054)	-	(13,750)	(7,550)	(21,300)
New financial assets originated or purchased	2,317	-	-	2,317	22	-	-	22
Write-offs	-	-	(55,998)	(55,998)	-	-	-	-
Unwinding of discount on present value of ECLs	-	-	12,747	12,747	-	-	16,112	16,112
Balance at 31 December	2,317	11,597	365,636	379,550	22	12,378	426,138	438,538

	2020				2019			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Lender of last resort loans								
Balance at 1 January	-	-	15,861	15,861	-	-	22,793	22,793
Net remeasurement of loss allowance	-	-	1,146	1,146	-	-	(8,347)	(8,347)
New financial assets originated or purchased	-	-	-	-	-	-	-	-
Write-offs	-	-	(17,007)	(17,007)	-	-	-	-
Unwinding of discount on present value of ECLs	-	-	-	-	-	-	1,415	1,415
Balance at 31 December	-	-	-	-	-	-	15,861	15,861

Central Bank of the Republic of Azerbaijan

Notes to the Financial Statements for the year ended 31 December 2020

(Amounts are presented in thousands of Azerbaijani Manats, unless otherwise stated)

Changes in the gross carrying amount of financial instruments during the period that contributed to changes in loss allowance were as follows:

	2020				2019			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Refinancing loans								
Balance at 1 January	208,018	49,388	451,096	708,502	50,041	291,523	412,803	754,367
Transfer to Stage 2	(25,702)	25,702	-	-	-	-	-	-
Transfer to Stage 3	(25,727)	(5,502)	31,229	-	-	(42,554)	42,554	-
Repaid during the year	(8,240)	(3,082)	(27,136)	(38,458)	(40,036)	(199,581)	(20,373)	(259,990)
Issued during the year	144,256	7,909	-	152,165	198,013	-	-	198,013
Write-offs	-	-	(55,998)	(55,998)	-	-	-	-
Unwinding of discount on present value of ECLs	-	-	12,747	12,747	-	-	16,112	16,112
Balance at 31 December	292,605	74,415	411,938	778,958	208,018	49,388	451,096	708,502

	2020				2019			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Lender of last resort loans								
Balance at 1 January	-	-	16,868	16,868	-	-	22,997	22,997
Repaid during the year	-	-	-	-	-	-	(7,544)	(7,544)
Issued during the year	-	-	139	139	-	-	-	-
Write-offs	-	-	(17,007)	(17,007)	-	-	-	-
Unwinding of discount on present value of ECLs	-	-	-	-	-	-	1,415	1,415
Balance at 31 December	-	-	-	-	-	-	16,868	16,868

Loans to banks issued during 2020 and 2019 include low interest rate loans in the amount of AZN 36,725 thousand and AZN 196,012 thousand respectively, provided to banks under the state guarantee as per the decree "On the additional measures related to the solution of problem loans of individuals in the Republic of Azerbaijan" signed by the President of the Republic of Azerbaijan on 28 February 2019.

The credit loss allowance for loans to banks recognised in the period is impacted by a variety of factors, details of ECL measurement are provided in Note 32.

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Notes to the Financial Statements for the year ended 31 December 2020

(Amounts are presented in thousands of Azerbaijani Manats, unless otherwise stated)

The credit quality of loans to banks carried at amortised cost is as follows at 31 December 2020 and 2019:

	2020				2019			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Refinancing loans								
- Good	177,166	33,611	-	210,777	196,013	-	-	196,013
- Satisfactory	115,439	-	-	115,439	12,006	33,136	-	45,142
- Special monitoring	-	40,804	-	40,804	-	16,252	-	16,252
- Default	-	-	411,938	411,938	-	-	451,095	451,095
Gross carrying amount	292,605	74,415	411,938	778,958	208,019	49,388	451,095	708,502
Loss allowance	(2,317)	(11,597)	(365,636)	(379,550)	(22)	(12,378)	(426,138)	(438,538)
Carrying amount	290,288	62,818	46,302	399,408	207,997	37,010	24,957	269,964
	2020				2019			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Lender of last resort loans								
- Default	-	-	-	-	-	-	16,868	16,868
Gross carrying amount	-	-	-	-	-	-	16,868	16,868
Loss allowance	-	-	-	-	-	-	(15,861)	(15,861)
Carrying amount	-	-	-	-	-	-	1,007	1,007

For description of the credit risk grading used in the tables above refer to Note 32.

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Notes to the Financial Statements for the year ended 31 December 2020

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The Bank's policies regarding obtaining collateral have not significantly changed during the reporting period and there has been no significant change in the overall quality of the collateral held by the Bank since the prior period. Description of collateral held for loans to banks is as follows at 31 December 2020:

	Refinancing loans	Lender of last resort loans	Total
Loans collateralised by:			
- government guaranteed	210,777	-	210,777
- residential real estate	247	-	247
- commercial real estate	54,166	-	54,166
Carrying value of loans to banks secured	265,190	-	265,190
Unsecured exposures	134,218	-	134,218
Total carrying value of loans to banks	399,408	-	399,408

Information about collateral for loans to banks is as follows at 31 December 2019:

	Refinancing loans	Lender of last resort loans	Total
Loans collateralised by:			
- government guaranteed	196,013	-	196,013
- residential real estate	128	-	128
- commercial real estate	54,479	1,007	55,486
- blocked deposits	10,005	-	10,005
Carrying value of loans to banks secured	260,625	1,007	261,632
Unsecured exposures	9,339	-	9,339
Total carrying value of loans to banks	269,964	1,007	270,971

Information about collateral for loans to banks that are credit-impaired is as follows at 31 December 2020:

	Refinancing loans	Lender of last resort loans	Total
Loans collateralised by:			
- residential real estate	247	-	247
- commercial real estate	24,959	-	24,959
Carrying value of loans to banks secured	25,206	-	25,206
Unsecured exposures	21,096	-	21,096
Total carrying value of loans to banks	46,302	-	46,302

Information about collateral for loans to banks that are credit-impaired is as follows at 31 December 2019:

	Refinancing loans	Lender of last resort loans	Total
Loans collateralised by:			
- residential real estate	128	-	128
- commercial real estate	15,490	1,007	16,497
Carrying value of loans to banks secured	15,618	1,007	16,625
Unsecured exposures	9,339	-	9,339
Total carrying value of loans to banks	24,957	1,007	25,964

All loans of the Bank other than unsecured loans are over-collateralized before discounting for time to sell and costs to sell.

Central Bank of the Republic of Azerbaijan

Notes to the Financial Statements for the year ended 31 December 2020

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Repossessed collateral

During the year ended 31 December 2020, the Bank obtained certain assets by taking possession of collateral for loans to banks comprising real estate with a net carrying amount of AZN 41,640 thousand (as at 31 December 2019: AZN 2,824 thousand). The Bank's policy is to sell these assets as soon as it is practicable.

9 Loans to non-bank credit organisations

Loans to non-bank credit organisations include low interest rate loans provided to non-bank credit organisations under the state guarantee as per the decree "On the additional measures related to the solution of problem loans of individuals in the Republic of Azerbaijan" signed by the President of the Republic of Azerbaijan on 28 February 2019.

10 Loans to Deposit Insurance Fund

Loans to Deposit Insurance Fund include low interest rate loans provided to Azerbaijan Deposit Insurance Fund under the state guarantee to compensate money deposited by individuals in banks whose licenses have been revoked.

During 2020, the Bank issued loans to Azerbaijan Deposit Insurance Fund in the amount of AZN 280,000 thousand with annual interest rate of 0.15% as per the respective legislation. These loans were recorded at fair value on initial recognition calculated by applying the Bank's refinancing rate of 6.5%. See Note 28. As at 31 December 2020, the amortized carrying amount of these loans was AZN 207,222 thousand.

Central Bank of the Republic of Azerbaijan

Notes to the Financial Statements for the year ended 31 December 2020

(Amounts are presented in thousands of Azerbaijani Manats, unless otherwise stated)

11 Property and equipment

The following table provides information on the movement of property and equipment for the year ended at 31 December 2020:

	Land	Buildings	Furniture and fixtures	Computers and communication equipment	Motor vehicles	Construction in progress	Total
Cost							
Balance at 1 January 2020	15,976	51,831	56,712	31,796	3,301	7,123	166,739
Additions	-	-	8,194	7,321	-	-	15,515
Disposals	-	(285)	(22)	-	(12)	-	(319)
Transfers	-	-	(4)	4	-	-	-
Balance at 31 December 2020	15,976	51,546	64,880	39,121	3,289	7,123	181,935
Depreciation							
Balance at 1 January 2020	-	(19,910)	(48,969)	(15,104)	(2,216)	-	(86,199)
Depreciation for the year	-	(1,555)	(1,933)	(5,576)	(259)	-	(9,323)
Disposals	-	14	22	-	12	-	48
Transfers	-	-	2	(2)	-	-	-
Balance at 31 December 2020	-	(21,451)	(50,878)	(20,682)	(2,463)	-	(95,474)
Carrying amount							
At 31 December 2020	15,976	30,095	14,002	18,439	826	7,123	86,461

Central Bank of the Republic of Azerbaijan*Notes to the Financial Statements for the year ended 31 December 2020**(Amounts are presented in thousands of Azerbaijani Manats, unless otherwise stated)*

The following table provides information on the movement of property and equipment for the year ended at 31 December 2019:

	Land	Buildings	Furniture and fixtures	Computers and communication equipment	Motor vehicles	Construction in progress	Total
Cost							
Balance at 1 January 2019	15,726	43,879	51,934	24,774	3,157	14,293	153,763
Additions	250	7,952	1,095	8,167	178	-	17,642
Disposals	-	-	(690)	(3,942)	(34)	-	(4,666)
Transfers	-	-	4,373	2,797	-	(7,170)	-
Balance at 31 December 2019	15,976	51,831	56,712	31,796	3,301	7,123	166,739
Depreciation							
Balance at 1 January 2019	-	(18,476)	(48,608)	(14,989)	(2,011)	-	(84,084)
Depreciation for the year	-	(1,434)	(1,051)	(4,057)	(239)	-	(6,781)
Disposals	-	-	690	3,942	34	-	4,666
Balance at 31 December 2019	-	(19,910)	(48,969)	(15,104)	(2,216)	-	(86,199)
Carrying amount							
At 31 December 2019	15,976	31,921	7,743	16,692	1,085	7,123	80,540

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Notes to the Financial Statements for the year ended 31 December 2020

(Amounts are presented in thousands of Azerbaijani Manats, unless otherwise stated)

12 Intangible assets

The following table provides information on the movement of intangible assets for the year ended at 31 December 2020:

	Total intangible assets
Cost	
Balance at 1 January 2020	94,860
Additions	29,608
Disposals	-
Balance at 31 December 2020	124,468
Amortization	
Balance at 1 January 2020	(40,464)
Amortization for the year	(10,477)
Disposals	-
Balance at 31 December 2020	(50,941)
Carrying amount	
At 31 December 2020	73,527

The following table provides information on the movement of intangible assets for the year ended at 31 December 2019:

	Total intangible assets
Cost	
Balance at 1 January 2019	84,363
Additions	11,416
Disposals	(919)
Balance at 31 December 2019	94,860
Amortization	
Balance at 1 January 2019	(33,189)
Amortization for the year	(8,194)
Disposals	919
Balance at 31 December 2019	(40,464)
Carrying amount	
At 31 December 2019	54,396

13 Other financial assets

	31 December 2020	31 December 2019
Receivables from trade securities disposed	48,617	12,121
Amounts in the course of settlement	239	679
Loans to employees	579	629
Loss allowance	(65)	(49)
	49,370	13,380

Other financial assets are included in Stage 1 and assigned with good credit risk grade.

Central Bank of the Republic of Azerbaijan*Notes to the Financial Statements for the year ended 31 December 2020**(Amounts are presented in thousands of Azerbaijani Manats, unless otherwise stated)***14 Other assets**

	31 December 2020	31 December 2019
Prepayments to suppliers	24,344	19,323
Investment property	4,400	4,400
Repossessed collateral	44,464	2,824
Other non-financial assets	505	171
	73,713	26,718

15 Money in circulation

Money and coins in circulation represents the banknotes in national currency of the Republic of Azerbaijan issued by the Bank. This comprises the AZN issued into circulation from 1 January 2006, old Azerbaijani Manats ("AZM") issued into circulation since the introduction of the national currency in 1992 and currently withdrawn from the circulation and commemorative coins. 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 2020 the Bank accepted new banknotes and coins amounting to AZN 3,378,007 thousand from printing and minting companies (2019: AZN 2,012 thousand).

	31 December 2020	31 December 2019
Balance at the beginning of the year	10,405,513	8,364,129
Net amount of banknotes and coins put into circulation	1,434,151	2,041,384
Balance at the end of the year	11,839,664	10,405,513

16 Short-term deposits of resident banks

At 31 December 2020, short-term deposits of resident banks (including accrued interests on them) amounted to AZN 2,713,336 thousand (31 December 2019: AZN 3,075,773 thousand). This amount includes the deposits of AZN 300,304 thousand obtained through deposit auctions as a part of monetary policy tools (including accrued interests on them) (31 December 2019: AZN 250,224 thousand) and deposits of AZN 2,413,032 thousand placed with the Bank out of deposit auction (including accrued interests on them) (31 December 2019: AZN 2,825,549 thousand).

During 2020, the Bank obtained deposits of AZN 2,465,000 thousand placed with the Bank out of auction with annual interest rate of 3.5%. These deposits were recorded at fair value on initial recognition calculated by applying the Bank's corridor floor rate of 5.75%. See Note 27. As at 31 December 2020, the amortized carrying amount of these deposits was AZN 2,413,032 thousand.

17 Amounts due to government organisations

	31 December 2020	31 December 2019
Amounts due to the Central Treasury of the Republic of Azerbaijan	3,208,595	2,400,510
Amounts due to State Oil Fund of the Republic of Azerbaijan and Azerbaijan Deposit Insurance Fund	1,532,953	188,828
Other current/demand accounts	179,770	145,090
	4,921,318	2,734,428

Interest rate, currency and maturity analysis of amounts due to government organisations are disclosed in Note 32.

Central Bank of the Republic of Azerbaijan

Notes to the Financial Statements for the year ended 31 December 2020

(Amounts are presented in thousands of Azerbaijani Manats, unless otherwise stated)

18 Amounts due to credit institutions

	31 December 2020	31 December 2019
Current accounts	3,055,426	2,543,233
Mandatory reserves	149,527	165,400
Blocked accounts	-	12,736
	3,204,953	2,721,369

19 Amounts due to other organisations

	31 December 2020	31 December 2019
Public organisations	6,531	11,064
Other financial institutions	2,535	66
	9,066	11,130

20 Debt securities in issue

	31 December 2020	31 December 2019
Short-term notes	648,213	697,325
	648,213	697,325

21 Amounts due to international financial institutions

	31 December 2020	31 December 2019
Borrowings from International Development Association (IDA)	528	1,192
Amounts due to other international financial institutions	877	255
	1,405	1,447

22 Other financial liabilities

	31 December 2020	31 December 2019
Amounts payable for trading securities purchased	137,092	27,713
Amounts in the course of settlement	2,093	3,122
Other financial liabilities	3,074	440
	142,259	31,275

23 Charter fund and reserves

The Bank capital consists of its charter fund and capital reserves. The Charter fund of the Bank is AZN 500,000 thousand. The Bank's capital reserves shall not fall below its charter fund. At the beginning of the previous reporting year, Bank's capital reserves were AZN 500,000 thousand.

On 28 November 2019, as a result of abolishment of Financial Market Supervision Authority of Azerbaijan and transfer of its powers as defined in the laws of the Republic of Azerbaijan, as well as its licensing in the financial services market, regulation and supervision, its duties and rights in the field of protection of the rights of investors and consumers of financial services, as well its property to the Central Bank of the Republic of Azerbaijan, the capital reserves of the Bank were determined to be AZN 526,968 thousand by transferring total amount of AZN 26,968 thousand during 2020 and 2019 from the Financial Market Supervision Authority.

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24 Net interest income

	2020	2019
Interest income calculated using the effective interest method		
Debt securities at FVOCI	117,994	119,124
Debt securities at AC	14,060	14,088
Placements with non-resident banks	8,749	55,492
Loans to banks	6,892	17,043
Amortisation of loss on initial recognition of financial assets	2,962	-
SDR holdings with the IMF	1,078	3,607
Loans to Deposit Insurance Fund	107	
Other assets	39	45
	151,881	209,399
Other interest income		
Debt securities at FVTPL	15,690	17,651
Investments in money market funds	1,680	4,628
	17,370	22,279
Interest expense		
Deposits of resident banks	111,973	172,226
Debt securities in issue	35,915	57,578
Liabilities on transactions with the IMF	1,131	3,779
Amounts due to State Oil Fund of the Republic of Azerbaijan and Azerbaijan Deposit Insurance Fund	101	676
Amounts due to international financial institutions	7	14
	149,127	234,273
	20,124	(2,595)

25 Fee and commission income

	2020	2019
Settlement	6,894	8,761
Cash withdrawal	3,200	8,206
Other	157	3
	10,251	16,970

26 Fee and commission expense

	2020	2019
Service fee	1,615	2,002
Securities operations (management and custodian)	1,824	1,841
Cash withdrawal	2,963	400
Settlement	83	50
Other	16	15
	6,501	4,308

27 Gain on initial recognition of financial liabilities

During 2020, the Bank obtained deposits from International Bank of Azerbaijan placed out of auction with an annual interest rate of 3.5%. These deposits were recorded at fair value on initial recognition calculated by applying the Bank's corridor floor rate of 5.75%. See Note 16. Therefore, the difference of AZN 52,447 thousand between the nominal value and fair value at the date of initial recognition was recognised as a gain and this amount will be fully amortised till the end of the deposit period.

Central Bank of the Republic of Azerbaijan*Notes to the Financial Statements for the year ended 31 December 2020**(Amounts are presented in thousands of Azerbaijani Manats, unless otherwise stated)***28 Loss on initial recognition of financial assets**

During 2020, loans were issued to Azerbaijan Deposit Insurance Fund with an annual interest rate of 0.15%, in order to return the protected deposits of individuals in banks whose licences have been revoked, in accordance with the requirements of the legislation. These loans were recorded at fair value on initial recognition calculated by applying the Bank's refinancing rate of 6.5%. See Note 10. Therefore, the difference of AZN 75,742 thousand between the nominal value and fair value at the date of initial recognition was recognised as a loss and this amount will be fully recovered till the end of the loan period.

29 Net gains/(losses) from foreign exchange translation

During 2020 the excess of positive unrealized exchange rate differences which arose during daily revaluation of balances in foreign currency over negative exchange rate differences constituted AZN 66,044 thousand as a gain (2019: AZN 2,840 thousand as a loss).

30 Recovery of impairment loss

	2020	2019
Loans to banks	14,591	29,625
Other financial assets	(216)	1
	14,375	29,626

31 Administrative and other operating expenses

	2020	2019
Banknotes and coin production	31,207	2,831
Staff costs	21,217	16,220
Amortisation of software and other intangible assets	10,477	8,194
Depreciation of premises and equipment	9,323	6,781
Software maintenance	8,302	6,741
Contributions to Social Security Pension Fund	4,658	3,551
Security	1,864	1,437
Donations to Armed Forces Assistance Fund and the Coronavirus Response Fund of the Republic of Azerbaijan	1,500	-
Repair and maintenance	1,223	1,257
Social	1,049	799
Communication	913	742
Office supplies	734	533
Consultancy (under contract with "Rotshchild & Cie" Bank)	834	2,463
Heating and lighting	578	520
Audit	327	208
Business travel	114	310
Representation	102	205
Insurance	101	322
Literature, printing and membership fee	147	56
Utilities	48	51
Other	1,511	1,177
	96,229	54,398

32 Risk management

Bank's risks are classified in the following four categories:

- *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 Committee and Financial Stability Committee;
- *Financial risks* – is targeted at the identification, management of credit, market and liquidity risks. Financial Risk Management is performed by Management Board of the Bank, Investment Committee, Foreign Exchange Reserves Management Department in accordance with relevant rules and procedures. 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 behavior 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 Corporate Management Department, it is carried out on the basis of 3 lines of defense.

The first line of defense consists of the Bank's all structural units of the model, the second and the third lines include the Corporate Management Department and the Internal Audit Department, respectively. Functions of the Bank's corporate management department include preparation, development, communication and training of the policy and methodology documents for the Bank's Operational Risks Management (ORM) system and relevant supporting systems; coordination, facilitation, monitoring and reporting of the ORM process 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, behavior 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. 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. Bank's reputational risks are managed by the Management Board, General Directors and International Cooperation and Communications Department.

Financial risk management policies and procedures

Risk management of the Bank 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.

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

Foreign Exchange Reserves Management Department. The Risk Management Unit of the Foreign Exchange Reserves Management Department regularly controls the limits and exposures 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."

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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" and "Instruction on operations for maintenance and management of currency reserves 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". The respective documents are defined by the Investment Committee and approved by the Management Board.

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. 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 corporations, state agencies without government guarantees and regional self-governing authorities is defined as 5% of the investment portfolio. Subject to the terms of the investment instrument, minimal credit rating is defined as A- / A3 (Standard & Poor's, Fitch, Moody's) for investment instruments with a term of up to twelve months, and A / A2 (Standard & Poor's, Fitch, Moody's) 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 2020 and 2019, loans granted to credit institutions as part of monetary policy were secured by relevant collaterals. Exposure to credit risk is managed by obtaining collateral with the value of not less than the amount defined under the "Rules on loan issuance to the banks by the Central Bank of the Republic of Azerbaijan" depending on the type of collateral. In order to monitor credit risk exposures, the Financial Market Operations Department regularly controls overdue loan balances and produces appropriate reports.

Credit risk grading system. For measuring credit risk and grading financial instruments by the amount of credit risk, the Bank applies two approaches – an Internal Risk-Based (IRB) rating system or risk grades estimated by external international rating agencies (Standard & Poor's - "S&P", Fitch, Moody's). Internal and external credit ratings are mapped on an internally defined master scale with a specified range of probabilities of default as disclosed in the table below:

Master scale credit risk grade	Corresponding ratings of external international rating agencies (S&P)	Corresponding PD interval
Excellent	AAA to A-	0,01% - 0,2%
Good	BBB+ to B+	0,21% - 3%
Satisfactory	B, B-	3,1% - 10%
Special monitoring	CCC+ to CC-	10,1% - 99,9%
Default	C, D-I, D-II	100%

Each master scale credit risk grade is assigned a specific degree of creditworthiness:

- *Excellent* – strong credit quality with low expected credit risk;

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- *Good* – adequate credit quality with a moderate credit risk;
- *Satisfactory* – moderate credit quality with a satisfactory credit risk;
- *Special monitoring* – facilities that require closer monitoring and remedial management; and
- *Default* – facilities in which a default has occurred.

If the borrower is not provided with credit ratings by the leading international rating agencies, a credit rating is assigned by the Bank using the CAEL rating system and these ratings are estimated by management. Relevant credit rating is estimated based on the borrower's financial ratios such as: the Tier 1 capital ratio, Non-Performing Loans Ratio, Return on Equity and Return on Assets. The Bank monitors adverse changes in economic and business conditions in the longer term that may impact the ability of borrowers to fulfil contractual cash flow obligations at each reporting date.

Expected credit loss (ECL) measurement

ECL is a probability-weighted estimate of the present value of future cash shortfalls. An *ECL* measurement is unbiased and is determined by evaluating a range of possible outcomes. *ECL* measurement is based on four components used by the Bank: Probability of Default (“PD”), Exposure at Default (“EAD”), Loss Given Default (“LGD”) and Discount Rate.

EAD represents the expected exposure in the event of a default. The Bank derives the *EAD* from the current exposure to the counterparty and potential changes to the current amount allowed under the contract and arising from amortisation. The *EAD* of a financial asset is its gross carrying amount at the time of default.

PD is an estimate of the likelihood of default to occur over a given time period. *LGD* is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the Bank would expect to receive, including from any collateral. It is usually expressed as a percentage of the *EAD*. The expected losses are discounted to present value at the end of the reporting period. The discount rate represents the effective interest rate (“*EIR*”) for the financial instrument or an approximation thereof.

Expected credit losses are modelled over instrument's *lifetime period*. The *lifetime period* is equal to the remaining contractual period to maturity of debt instruments, adjusted for expected prepayments, if any.

Management models *Lifetime ECL*, that is, losses that result from all possible default events over the remaining lifetime period of the financial instrument. The *12-month ECL*, represents a portion of lifetime *ECLs* that result from default events on a financial instrument that are possible within 12 months after the reporting period, or remaining *lifetime period* of the financial instrument if it is less than a year.

Forward looking macroeconomic information is used in the estimates of lifetime expected credit losses. For the financial instruments that remaining lifetime period is less than a year, long term macroeconomic development does not play significant role in shaping risk profiles and no forward looking adjustment is implemented.

The Bank considers a financial instrument to have experienced a *significant increase in credit risk* when one or more of the following criteria have been met:

- contractual payment is overdue for 31-90 days (90-s day inclusive) except for debt securities for which overdue more than 1 day is considered to be a significant increase in credit risk, unless it is due to technical operating reasons
- financial assets are downgraded by the leading international credit rating agencies of the long-term credit rating by 3 grades since initial recognition
- bank does not meet capital and liquidity prudential requirements that cause credit risk according to the issued latest audit report
- evidences that other institutions (except for the Bank) filed lawsuits against the borrower that may deteriorate their financial position.

The Bank decided to use the low credit risk assessment exemption for the financial instruments which have “Excellent” credit risk grade.

The Bank defines a financial instrument as in default, which is fully aligned with the definition of credit-impaired, when it meets one or more of the following criteria:

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- the credit rating of a financial asset is downgraded to “D” (C) by leading international rating agencies
- licence of the borrower to operate in banking industry is revoked
- the payment of principal amount and interest on loans past due over 90 days
- when the borrower’s loans are restructured due to significant deterioration in a bank's position
- the Bank raises claims against the borrower in accordance with the law

For purposes of disclosure, the Bank fully aligned the definition of default with the definition of credit-impaired assets. The default definition stated above is applied to all types of financial assets of the Bank, except for debt securities for which the criterion of 7 days or less is applied.

An instrument is considered to no longer be in default (i.e. to have cured) when it no longer meets any of the default criteria for a consecutive period of two payments (six months). This period of two payments (six months) has been determined based on an analysis that considers the likelihood of a financial instrument returning to default status after curing.

The amount of ECL that is recognised in these financial statements depends on whether the credit risk of the borrower has increased significantly since initial recognition. This is a three-stage model for ECL measurement. A financial instrument that is not credit-impaired on initial recognition and its credit risk has not increased significantly since initial recognition has a credit loss allowance based on 12-month ECLs (Stage 1). If a SICR since initial recognition is identified, the financial instrument is moved to Stage 2 but is not yet deemed to be credit-impaired and the loss allowance is based on lifetime ECLs. If a financial instrument is credit-impaired, the financial instrument is moved to Stage 3 and loss allowance is based on lifetime ECLs. The consequence of an asset being in Stage 3 is that the entity ceases to recognise interest income based on gross carrying value and applies the asset’s effective interest rate to the carrying amount, net of ECL, when calculating interest income.

If there is evidence that the SICR criteria are no longer met, the instrument is transferred back to Stage 1. If an exposure has been transferred to Stage 2 based on a qualitative indicator, the Bank monitors whether that indicator continues to exist or has changed.

The Bank performs ECL assessment on an individual basis for all financial assets based on external ratings.

The ECL is determined by predicting credit risk parameters (EAD, PD and LGD) for each future year during the lifetime period for each individual exposure.

The key principles of calculating the credit risk parameters

The EADs are determined based on the expected payment profile including contractual principal plus interest. EAD is based on the contractual repayments owed by the borrower over a 12-month or lifetime basis for amortising products. This will also be adjusted for any expected overpayments made by a borrower. Early repayment or refinancing assumptions are also incorporated into the calculation.

LGD represents the Bank’s expectation of the extent of loss on a defaulted exposure. LGD varies by the type of counterparty, type and seniority of the claim, and the availability of collateral or other credit support. The 12-month and lifetime LGDs are determined based on the factors that impact the expected recoveries after a default event. The approach to LGD measurement for the loans to banks is as follows: LGD is calculated based on the history of cash inflows for the last five financial years from realisation of the collaterals pledged against licensed removed banks since 2010.

Principles of assessment based on external ratings

Certain exposures have external credit risk ratings and these are used to estimate credit risk parameters PD and LGD from the default and recovery statistics published by the respective rating agencies. This approach is applied for the debt securities in foreign currencies and short-term deposits.

The Bank regularly reviews its methodology and assumptions to reduce any difference between the estimates and the actual loss of credit.

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.

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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.

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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 2020 is as follows:

	Less than 3 months	3-6 months	6-12 months	More than 1 year	Non-interest bearing	Carrying amount
31 December 2020						
ASSETS						
Cash and cash equivalents	939,483	-	-	-	4,675,790	5,615,273
Special Drawing Rights with the IMF	375,543	-	-	-	-	375,543
Derivative Financial Instruments	-	-	-	-	449	449
Debt securities						-
- Debt securities at AC	233	-	-	9,495,913	-	9,496,146
- Debt securities at FVOCI	2,325,300	903,748	1,464,497	3,431,165	-	8,124,710
- Debt securities mandatorily measured at FVTPL	958,818	-	-	-	-	958,818
Loans to banks	18,623	50,589	6,297	323,899	-	399,408
Loans to non-bank credit organizations	-	-	-	25,330	-	25,330
Loans to Deposit Insurance Fund	-	-	-	207,222	-	207,222
Other financial assets	2	9	50	518	48,791	49,370
Total Financial Assets	4,618,002	954,346	1,470,844	13,484,047	4,725,030	25,252,269
LIABILITIES						
Money in circulation	-	-	-	-	11,839,664	11,839,664
Short-term deposits of resident banks	300,304	-	2,413,032	-	-	2,713,336
Amounts due to government organisations	1,325	-	-	-	4,919,993	4,921,318
Amounts due to credit institutions	-	-	-	-	3,204,953	3,204,953
Amounts due to other organisations	-	-	-	-	9,066	9,066
Debt securities in issue	648,213	-	-	-	-	648,213
Liabilities on transactions with the IMF	378,505	-	-	-	-	378,505
Amounts due to international financial institutions	1,133	-	254	18	-	1,405
Derivative financial instruments	-	-	-	-	3,556	3,556
Other financial liabilities	-	-	-	-	142,259	142,259
Total Financial Liabilities	1,329,480	-	2,413,286	18	20,119,491	23,862,275

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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 2019 is as follows:

	Less than 3 months	3-6 months	6-12 months	More than 1 year	Non-interest bearing	Carrying amount
31 December 2019						
ASSETS						
Cash and cash equivalents	1,923,236	-	-	-	2,386,076	4,309,312
Special Drawing Rights with the IMF	359,921	-	-	-	-	359,921
Derivative Financial Instruments	-	-	-	-	152	152
Debt securities						
- Debt securities at AC	-	6,196	-	9,502,934	-	9,509,130
- Debt securities at FVOCI	2,019,598	810,534	632,100	3,588,342	-	7,050,574
- Debt securities mandatorily measured at FVTPL	929,829	-	-	-	-	929,829
Loans to banks	29,023	18,565	5,208	218,175	-	270,971
Loans to non-bank credit organizations	-	-	-	18,866	-	18,866
Other financial assets	2	14	44	562	12,758	13,380
Total Financial Assets	5,261,609	835,309	637,352	13,328,879	2,398,986	22,462,135
LIABILITIES						
Money in circulation	-	-	-	-	10,405,513	10,405,513
Short-term deposits of resident banks	250,224	-	2,825,549	-	-	3,075,773
Amounts due to government organisations	35,419	-	-	-	2,699,009	2,734,428
Amounts due to credit institutions	-	-	-	-	2,721,369	2,721,369
Amounts due to other organisations	-	-	-	-	11,130	11,130
Debt securities in issue	668,173	29,152	-	-	-	697,325
Liabilities on transactions with the IMF	362,811	-	-	-	-	362,811
Amounts due to international financial institutions	1,447	-	-	-	-	1,447
Derivative financial instruments	-	-	-	-	3,865	3,865
Other financial liabilities	-	-	-	-	31,275	31,275
Total Financial Liabilities	1,318,074	29,152	2,825,549	-	15,872,161	20,044,936

Central Bank of the Republic of Azerbaijan*Notes to the Financial Statements for the year ended 31 December 2020**(Amounts are presented in thousands of Azerbaijani Manats, unless otherwise stated)***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 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 2020 and 2019 is as follows:

	<u>2020</u>	<u>2019</u>
100 bp parallel fall	(13,519)	(19,661)
100 bp parallel rise	<u>13,519</u>	<u>19,661</u>

An analysis of the sensitivity of profit or loss and equity as a result of changes in the fair value of financial instruments at fair value through profit or loss and financial assets at fair value through other comprehensive income due to changes in the interest rates, based on positions existing as at 31 December 2020 and 2019 and a simplified scenario of a 100 bp symmetrical fall or rise in all yield curves, is as follows:

	<u>2020</u>		<u>2019</u>	
	<u>Net profit or loss</u>	<u>Equity</u>	<u>Net profit or loss</u>	<u>Equity</u>
100 bp parallel fall	16,203	114,375	14,920	129,998
100 bp parallel rise	<u>(16,962)</u>	<u>(123,659)</u>	<u>(15,667)</u>	<u>(144,363)</u>

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The table below displays average effective interest rates for interest bearing assets and liabilities as at 31 December 2020 and 2019. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	31 December 2020				31 December 2019			
	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	-	0.35	(0.50)	-	-	1.98	(0.50)	-
Special Drawing Rights with the IMF	-	-	-	0.08	-	-	-	0.74
Debt securities								
-Debt securities at AC	0.15	-	-	-	0.15	-	-	-
-Debt securities at FVOCI	3.04	1.29	0.80	0.95	3.00	1.58	0.78	0.94
-Debt securities mandatorily measured at FVTPL	-	1.48	0.85	1.46	-	2.03	1.62	2.62
Loans to banks	2.35	-	-	-	3.59	-	-	-
Loans to non-bank credit organizations	0.10	-	-	-	0.10	-	-	-
Loans to Deposit Insurance Fund	6.25	-	-	-	-	-	-	-
Other financial assets	6.18	-	-	-	6.32	-	-	-
Interest bearing liabilities								
Short-term deposits of resident banks	5.75	-	-	-	3.68	-	-	-
Amounts due to government organisations	-	-	(0.50)	-	-	1.45	-	-
Debt securities in issue	5.88	-	-	-	5.90	-	-	-
Liabilities on transactions with the IMF	-	-	-	0.08	-	-	-	0.74

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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 12 December 2018. This document is taken as a basis by the Foreign Exchange Reserves Management 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).

The following table shows the foreign currency exposure structure of financial assets and liabilities as at 31 December 2020:

	USD	EUR	Other foreign currencies	Total
ASSETS				
Cash and cash equivalents	4,641,538	913,414	60,321	5,615,273
Special Drawing Rights with the IMF	-	-	375,543	375,543
Debt securities	8,001,169	515,042	194,294	8,710,505
Derivative financial instruments	449	-	-	449
Other financial assets	48,617	110	-	48,727
Total assets	12,691,773	1,428,566	630,158	14,750,497
LIABILITIES				
Amounts due to government organisations	1,861,431	394,346	3,196	2,258,973
Amounts due to credit institutions	1,198,948	268,191	21,570	1,488,709
Amounts due to other organisations	6	-	-	6
Liabilities on transactions with the IMF	-	-	376,031	376,031
Amounts due to international financial institutions	528	-	-	528
Derivative financial instruments	3,556	-	-	3,556
Other financial liabilities	137,092	1,659	-	138,751
Total liabilities	3,201,561	664,196	400,797	4,266,554
Net recognized position	9,490,212	764,370	229,361	10,483,943
The effect of derivatives	260,592	(176,256)	(69,729)	14,607
Net position	9,750,804	588,114	159,632	10,498,550

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The following table shows the foreign currency exposure structure of financial assets and liabilities as at 31 December 2019:

	USD	EUR	Other foreign currencies	Total
ASSETS				
Cash and cash equivalents	4,044,314	246,149	18,849	4,309,312
Special Drawing Rights with the IMF	-	-	359,921	359,921
Debt securities	6,560,803	547,540	264,995	7,373,338
Derivative financial instruments	152	-	-	152
Other financial assets	12,121	-	-	12,121
Total assets	10,617,390	793,689	643,765	12,054,844
LIABILITIES				
Amounts due to government organisations	355,292	32,651	8,029	395,972
Amounts due to credit institutions	778,468	195,942	10,607	985,017
Amounts due to other organisations	61	-	-	61
Liabilities on transactions with the IMF	-	-	360,336	360,336
Amounts due to international financial institutions	1,447	-	-	1,447
Derivative financial instruments	3,865	-	-	3,865
Other financial liabilities	31,275	-	-	31,275
Total liabilities	1,170,408	228,593	378,972	1,777,973
Net recognized position	9,446,982	565,096	264,793	10,276,871
The effect of derivatives	233,531	(168,577)	(64,954)	-
Net position	9,680,513	396,519	199,839	10,276,871

A weakening of the AZN, as indicated below, against the following currencies at 31 December 2020 and 2019 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.

	31 December 2020	31 December 2019
10% appreciation of USD against AZN (2019: 10%)	975,080	968,051
10% appreciation of EUR against AZN (2019: 10%)	58,811	39,652

A strengthening of the AZN against the above currencies at 31 December 2020 and 2019 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.

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 2020 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.

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The maturity analysis of financial instruments at 31 December 2020 is as follows:

	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 in circulation	-	-	-	-	-	11,839,664	11,839,664
Short-term deposits of resident banks	300,736	-	2,550,316	-	-	-	2,851,052
Amounts due to government organisations	4,921,318	-	-	-	-	-	4,921,318
Amounts due to credit institutions	3,204,953	-	-	-	-	-	3,204,953
Amounts due to other organisations	9,066	-	-	-	-	-	9,066
Debt securities in issue	649,978	-	-	-	-	-	649,978
Liabilities on transactions with the IMF	-	-	-	-	-	378,505	378,505
Amounts due to international financial institutions	1,133	-	254	18	-	-	1,405
Gross Settled Derivatives							
- Inflow	(568,023)	-	-	-	-	-	(568,023)
- Outflow	571,579	-	-	-	-	-	571,579
Other financial liabilities	142,259	-	-	-	-	-	142,259
Total potential future payments for financial obligations	9,232,999	-	2,550,570	18	-	12,218,169	24,001,756

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The maturity analysis of financial instruments at 31 December 2019 is as follows:

	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 in circulation	-	-	-	-	-	10,405,513	10,405,513
Short-term deposits of resident banks	250,600	-	2,924,424	-	-	-	3,175,024
Amounts due to government organisations	2,734,428	-	-	-	-	-	2,734,428
Amounts due to credit institutions	2,721,369	-	-	-	-	-	2,721,369
Amounts due to other organisations	11,130	-	-	-	-	-	11,130
Debt securities in issue	610,002	89,998	-	-	-	-	700,000
Liabilities on transactions with the IMF	-	-	-	-	-	362,811	362,811
Amounts due to international financial institutions	1,447	-	-	-	-	-	1,447
Gross Settled Derivatives							
- Inflow	(480,375)	-	-	-	-	-	(480,375)
- Outflow	484,240	-	-	-	-	-	484,240
Other financial liabilities	31,275	-	-	-	-	-	31,275
Total potential future payments for financial obligations	6,364,116	89,998	2,924,424	-	-	10,768,324	20,146,862

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The table below shows the maturity analysis of non-derivative financial assets at their carrying amounts and based on their contractual maturities, except for debt securities measured at fair value which 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 the maturity analysis of the amounts recognized in the statement of financial position as at 31 December 2020:

	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	5,615,273	-	-	-	-	-	-	5,615,273
Special Drawing Rights with the IMF	-	-	-	-	-	375,543	-	375,543
Derivative financial instruments	449	-	-	-	-	-	-	449
Debt securities	1,203,384	1,056,670	2,599,572	3,876,520	9,843,528	-	-	18,579,674
Loans to banks	7,444	10,954	56,886	323,899	-	-	225	399,408
Loans to non-bank credit organizations	-	-	-	25,330	-	-	-	25,330
Loans to Deposit Insurance Fund	-	-	-	-	207,222	-	-	207,222
Other financial assets	48,791	2	59	47	471	-	-	49,370
Total financial assets	6,875,341	1,067,626	2,656,517	4,225,796	10,051,221	375,543	225	25,252,269
LIABILITIES								
Money in circulation	-	-	-	-	-	11,839,664	-	11,839,664
Amounts due to government organisations	4,921,318	-	-	-	-	-	-	4,921,318
Short-term deposits of resident banks	300,304	-	2,413,032	-	-	-	-	2,713,336
Amounts due to credit institutions	3,204,953	-	-	-	-	-	-	3,204,953
Amounts due to other organisations	9,066	-	-	-	-	-	-	9,066
Derivative financial instruments	3,556	-	-	-	-	-	-	3,556
Debt securities in issue	648,213	-	-	-	-	-	-	648,213
Liabilities on transactions with the IMF	-	-	-	-	-	378,505	-	378,505
Amounts due to international financial institutions	1,133	-	254	18	-	-	-	1,405
Other financial liabilities	142,259	-	-	-	-	-	-	142,259
Total financial liabilities	9,230,802	-	2,413,286	18	-	12,218,169	-	23,862,275
Net position	(2,355,461)	1,067,626	243,231	4,225,778	10,051,221	(11,842,626)	225	1,389,994

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

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The table below shows the maturity analysis of the amounts recognized in the statement of financial position as at 31 December 2019:

	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	4,309,312	-	-	-	-	-	-	4,309,312
Special Drawing Rights with the IMF	-	-	-	-	-	359,921	-	359,921
Derivative financial instruments	152	-	-	-	-	-	-	152
Debt securities	704,410	1,957,991	890,803	3,983,436	9,952,893	-	-	17,489,533
Loans to banks	3,837	21,032	27,807	206,137	12,038	-	120	270,971
Loans to non-bank credit organizations	-	-	-	18,866	-	-	-	18,866
Other financial assets	12,758	16	44	67	495	-	-	13,380
Total financial assets	5,030,469	1,979,039	918,654	4,208,506	9,965,426	359,921	120	22,462,135
LIABILITIES								
Money in circulation	-	-	-	-	-	10,405,513	-	10,405,513
Amounts due to government organisations	2,734,428	-	-	-	-	-	-	2,734,428
Short-term deposits of resident banks	250,224	-	2,825,549	-	-	-	-	3,075,773
Amounts due to credit institutions	2,721,369	-	-	-	-	-	-	2,721,369
Amounts due to other organisations	11,130	-	-	-	-	-	-	11,130
Derivative financial instruments	3,865	-	-	-	-	-	-	3,865
Debt securities in issue	608,885	59,288	29,152	-	-	-	-	697,325
Liabilities on transactions with the IMF	-	-	-	-	-	362,811	-	362,811
Amounts due to international financial institutions	1,447	-	-	-	-	-	-	1,447
Other financial liabilities	31,275	-	-	-	-	-	-	31,275
Total financial liabilities	6,362,623	59,288	2,854,701	-	-	10,768,324	-	20,044,936
Net position	(1,332,154)	1,919,751	(1,936,047)	4,208,506	9,965,426	(10,408,403)	120	2,417,199

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(Amounts are presented in thousands of Azerbaijani Manats, unless otherwise stated)

33 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 23, at 31 December 2020 the authorized and fully paid charter fund of the Bank was AZN 500,000 thousand (31 December 2019: AZN 500,000 thousand).

The Bank has made total profit in the amount of AZN 52,485 thousand (2019: AZN 69,184 thousand profit) for the year ended 31 December 2020. Based on the article 12 of the Law, reporting year profit shall, in the first place, be directed to formation of capital reserves of the Bank. Upon formation of capital reserves and approval of the Bank's annual financial statements by the auditor's opinion, a clear balance of realized gains shall be transferred to the state budget (including to the Guarantee Fund for Liabilities on Government Debt and Guarantee coordinating with the relevant executive authority based upon an appeal by the relevant executive authority).

There was transfer to the State Budget amounting to AZN 1,000 million in 2020 (2019: AZN 1,974 million).

34 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.

35 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 include the Mortgage and Credit Guarantee Fund of the Republic of Azerbaijan, Ministry of Finance, International Bank of Azerbaijan, State Oil Fund of Azerbaijan, Aqrarkredit JSCO, Azerbaijan Deposit Insurance Fund and AzerTurk Bank.

Transactions with the members of the Management

Total remuneration included in personnel expenses for the years ended 31 December 2020 and 2019 is as follows:

	2020	2019
Short-term employee benefits (salary)	1,256	868

According to the Decree 1616 of the President of the Republic of Azerbaijan on "Improvement of the management of the system of regulation and supervision in the financial services market" dated 28 November 2019, the Financial Markets Supervisory Authority was abolished and structural changes were made and the number of managers in upper management was increased due to transfer of powers of the financial markets supervisory authority defined by laws of the Republic of Azerbaijan, including licensing, regulation and supervision in the financial services market, and duties and responsibilities on protection of rights of investors and consumers of financial services to the Bank.

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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 and expenses.

The outstanding balances and the related average effective interest rates as at 31 December 2020 and related profit or loss amounts of transactions for the year ended 31 December 2020 with other related parties are as follows:

	Government bodies of Azerbaijan		Entities under government control		Total
	Amount	Effective interest rate, %	Amount	Effective interest rate, %	Amount
Statement of financial position					
ASSETS					
Debt securities					
-Debt securities at AC	14,003	0.15	9,482,143	0.15	9,496,146
-Debt securities at FVOCI	-	-	373,023	from 3.0 to 3.25	373,023
Loans to banks	-	-	113,502	from 0.1 to 0.5	113,502
Loans to Deposit Insurance Fund	-	-	207,222	6.50	207,222
LIABILITIES					
Amounts due to government organisations	3,213,012	-	1,708,306		4,921,318
Short-term deposits of resident banks	-	-	2,423,994	5.75	2,423,994
Amounts due to credit institutions	-	-	212,967	-	212,967
Amounts due to other organisations	6,529	-	2,537	-	9,066
Liabilities on transactions with the IMF	378,505	-	-	-	378,505
Amounts due to international financial institutions	1,405	-	-	-	1,405
Debt securities in issue	-	-	84,034	from 5.76 to 6.01	84,034
Profit (loss)					
Interest income	31	-	30,071	-	30,102
Interest expense	-	-	(91,533)	-	(91,533)

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(Amounts are presented in thousands of Azerbaijani Manats, unless otherwise stated)

The outstanding balances and the related average effective interest rates as at 31 December 2019 and related profit or loss amounts of transactions for the year ended 31 December 2019 with other related parties are as follows:

	Government bodies of Azerbaijan		Entities under government control		Total
	Amount	Effective interest rate, %	Amount	Effective interest rate, %	Amount
Statement of financial position					
ASSETS					
Debt securities					
-Debt securities at AC	26,987	from 0.15 to 0.30	9,482,143	0.15	9,509,130
-Debt securities at FVOCI	-	-	607,066	from 3 to 3.20	607,066
Loans to banks	-	-	380	0.10	380
LIABILITIES					
Amounts due to government organisations	2,408,272	-	326,156	-	2,734,428
Short-term deposits of resident banks	-	-	2,833,361	from 3.5 to 5.76	2,833,361
Amounts due to credit institutions	-	-	317,356	-	317,356
Amounts due to other organisations	11,049	-	66	-	11,115
Liabilities on transactions with the IMF	362,811	-	-	-	362,811
Amounts due to international financial institutions	1,447	-	-	-	1,447
Debt securities in issue	-	-	33,828	from 5.5 to 6.01	33,828
Profit (loss)					
Interest income	35	-	31,266	-	31,301
Interest expense	-	-	(146,124)	-	(146,124)

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(Amounts are presented in thousands of Azerbaijani Manats, unless otherwise stated)

36 Financial assets and liabilities: fair values and accounting classifications**Accounting classifications and fair values**

For the purposes of measurement, IFRS 9 “Financial Instruments” classifies financial assets into the following categories: (a) financial assets at FVTPL; (b) debt instruments at FVOCI, (c) financial assets at AC.

The following table provides a reconciliation of financial assets with these measurement categories as of 31 December 2020:

	Financial assets measured at AC	Financial assets measured at FVOCI	Financial assets measured at FVTPL	Total
ASSETS				
Cash and cash equivalents	4,764,320	-	850,953	5,615,273
Debt securities				
Agency	-	3,588,626	176,687	3,765,313
Supranational	-	1,365,851	57,875	1,423,726
Treasury	-	1,287,564	580,700	1,868,264
Local Authority	-	851,370	34,448	885,818
Corporate	-	309,549	80,199	389,748
Sovereign	-	348,727	4,138	352,865
Covered	-	-	24,771	24,771
Mortgage and Credit Guarantee Fund of the Republic of Azerbaijan	-	373,023	-	373,023
JSCO Aqrarkredit	9,482,143	-	-	9,482,143
Ministry of Finance of the Republic of Azerbaijan	14,003	-	-	14,003
Loans to banks				
- Refinancing loans	399,408	-	-	399,408
Loans to non-bank credit organizations	25,330	-	-	25,330
Loans to Deposit Insurance Fund	207,222	-	-	207,222
Special Drawing Rights with the IMF	375,543	-	-	375,543
Derivative financial instruments	-	-	449	449
Other financial assets:				
- Receivables from trade securities disposed	48,617	-	-	48,617
- Loans to employees	555	-	-	555
- Amounts in course of settlement	198	-	-	198
TOTAL FINANCIAL ASSETS	15,317,339	8,124,710	1,810,220	25,252,269

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(Amounts are presented in thousands of Azerbaijani Manats, unless otherwise stated)

The following table provides a reconciliation of financial assets with these measurement categories as of 31 December 2019:

	Financial assets measured at AC	Financial assets measured at FVOCI	Financial assets measured at FVTPL	Total
ASSETS				
Cash and cash equivalents	3,239,432		1,069,880	4,309,312
Debt securities				
Agency	-	2,946,656	143,371	3,090,027
Supranational	-	1,593,044	30,466	1,623,510
Treasury	-	884,978	629,512	1,514,490
Local Authority	-	506,054	29,917	535,971
Corporate	-	275,027	88,083	363,110
Sovereign	-	237,749	2,591	240,340
Covered	-	-	5,889	5,889
Mortgage and Credit Guarantee Fund of the Republic of Azerbaijan	-	607,066	-	607,066
JSCO Aqrarkredit	9,482,143	-	-	9,482,143
Ministry of Finance of the Republic of Azerbaijan	26,987	-	-	26,987
Loans to banks				
- Refinancing loans	269,964			269,964
- Lender of last resort loans	1,007			1,007
Loans to non-bank credit organizations	18,866			18,866
Special Drawing Rights with the IMF	359,921	-	-	359,921
Derivative financial instruments	-	-	152	152
Other financial assets:				
- Receivables from trade securities disposed	12,121	-	-	12,121
- Loans to employees	621	-	-	621
- Amounts in course of settlement	638	-	-	638
TOTAL FINANCIAL ASSETS	13,411,700	7,050,574	1,999,861	22,462,135

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.

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.

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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.

There were no changes in valuation techniques as at 31 December 2020 (2019: none).

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 2020, by the level in the fair value hierarchy into which the recurring

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fair value measurement is categorised. The amounts are based on the values recognized in the statement of financial position:

	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Financial assets			
Cash and cash equivalents	-	850,953	850,953
Debt securities			-
- Agency	3,765,313	-	3,765,313
- Supranational	1,423,726	-	1,423,726
- Treasury	1,868,264	-	1,868,264
- Mortgage and Credit Guarantee Fund of the Republic of Azerbaijan	373,023	-	373,023
- Local Authority	885,818	-	885,818
- Corporate	389,748	-	389,748
- Sovereign	352,865	-	352,865
- Covered	24,771	-	24,771
Derivative financial instruments	-	449	449
	9,083,528	851,402	9,934,930

Financial liabilities

Derivative financial instruments	-	3,556	3,556
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The table below analyses financial instruments measured at fair value at 31 December 2019, by the level in the fair value hierarchy into which the recurring fair value measurement is categorized. The amounts are based on the values recognized in the statement of financial position:

	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Financial assets			
Cash and cash equivalents	-	1,069,880	1,069,880
Debt securities			-
- Agency	3,090,027	-	3,090,027
- Supranational	1,623,510	-	1,623,510
- Treasury	1,514,490	-	1,514,490
- Mortgage and Credit Guarantee Fund of the Republic of Azerbaijan	607,066	-	607,066
- Local Authority	535,971	-	535,971
- Corporate	363,110	-	363,110
- Sovereign	240,340	-	240,340
- Covered	5,889	-	5,889
Derivative financial instruments	-	152	152
	7,980,403	1,070,032	9,050,435

Financial liabilities

Derivative financial instruments	-	3,865	3,865
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The valuation of level 1 securities is regularly performed by the Bank using available sources.

Derivative products valued using a valuation technique with market-observable inputs are mainly currency forward (including forward made on the basis of mutual settlement) exchange and swap contracts. The fair value of forward foreign exchange and swap 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.

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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 2020, by the level in the fair value hierarchy:

	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
ASSETS					
Cash and cash equivalents	-	4,764,320	-	4,764,320	4,764,320
Special Drawing Rights with the IMF	-	375,543	-	375,543	375,543
Debt securities:					
<i>JSCO Aqrarkredit</i>	-	-	9,482,143	9,482,143	9,482,143
<i>Ministry of Finance of the Republic of Azerbaijan</i>	-	14,003	-	14,003	14,003
Loans to banks	-	303,733	44,407	348,140	399,408
Loans to non-bank credit organizations	-	20,610	-	20,610	25,330
Loans to Deposit Insurance Fund	-	207,222	-	207,222	207,222
Other financial assets	-	49,370	-	49,370	49,370
LIABILITIES					
Money in circulation	11,839,664	-	-	11,839,664	11,839,664
Short-term deposits of resident banks	-	2,713,336	-	2,713,336	2,713,336
Amounts due to government organisations	-	4,921,318	-	4,921,318	4,921,318
Amounts due to credit institutions	-	3,204,953	-	3,204,953	3,204,953
Amounts due to other organisations	-	9,066	-	9,066	9,066
Debt securities in issue	-	648,213	-	648,213	648,213
Liabilities on transactions with the IMF	-	378,505	-	378,505	378,505
Amounts due to international financial institutions	-	1,405	-	1,405	1,405
Other financial liabilities	-	142,259	-	142,259	142,259

The table below analyses financial instruments not measured at fair value at 31 December 2019, by the level in the fair value hierarchy:

	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
ASSETS					
Cash and cash equivalents	-	3,239,432	-	3,239,432	3,239,432
Special Drawing Rights with the IMF	-	359,921	-	359,921	359,921
Debt securities:					
<i>JSCO Aqrarkredit</i>	-	-	9,482,143	9,482,143	9,482,143
<i>Ministry of Finance of the Republic of Azerbaijan</i>	-	26,987	-	26,987	26,987
Loans to banks	-	202,828	22,864	225,692	270,971
Loans to non-bank credit organizations	-	14,737	-	14,737	18,866
Other financial assets	-	13,380	-	13,380	13,380
LIABILITIES					
Money in circulation	10,405,513	-	-	10,405,513	10,405,513
Short-term deposits of resident banks	-	3,015,667	-	3,015,667	3,075,773
Amounts due to government organisations	-	2,734,428	-	2,734,428	2,734,428
Amounts due to credit institutions	-	2,721,369	-	2,721,369	2,721,369
Amounts due to other organisations	-	11,130	-	11,130	11,130
Debt securities in issue	-	697,325	-	697,325	697,325
Liabilities on transactions with the IMF	-	362,811	-	362,811	362,811
Amounts due to international financial institutions	-	1,447	-	1,447	1,447
Other financial liabilities	-	31,275	-	31,275	31,275

The fair values in level 2 and 3 fair value hierarchies were estimated using the discounted cash flows valuation technique, except for JSCO Aqrarkredit. 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.