

**“FINANCIAL MONITORING SERVICE OF THE  
REPUBLIC OF AZERBAIJAN”**

**International Financial Reporting Standards  
Financial Statements and  
Independent Auditor’s Report**

From the inception date until the  
Year Ended December 31, 2018

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**STATEMENT OF MANAGEMENT’S RESPONSIBILITIES FOR THE PREPARATION  
AND APPROVAL OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2018**

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The following statement, which should be read in conjunction with the independent auditor’s responsibilities stated in the independent auditor’s report set out on page 1, is made with a view to distinguishing the respective responsibilities of the management and those of the independent auditors in relation to the financial statements of “Financial Monitoring Service of the Republic of Azerbaijan” (the “Organisation”).

Management is responsible for the preparation of the financial statements that present fairly the financial position of the Organisation as at December 31, 2018 the result so fits operations, cash flows and changes in equity for the year ended, in accordance with International Financial Reporting Standards (“IFRS”).

In preparing the financial statements, management is responsible for:

- Selecting suitable accounting principles and applying them consistently;
- Making judgments and estimates that are reasonable and prudent;
- Stating whether IFRS have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Preparing the financial statement so on going concern basis, unless it is inappropriate to presume that the Organisation will continue in business for the foreseeable future.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Organisation;
- Maintaining proper accounting records that disclose, with reasonable accuracy at any time, the financial position of the Organisation, and which enable them to ensure that the financial statements of the Organisation comply with IFRS;
- Maintaining statutory accounting records in compliance with legislation and accounting standards of the countries where Organisation’s entities operate;
- Taking such steps as are reasonably available to them to safeguard the assets of the Organisation; and
- Detecting and preventing fraud, errors and other irregularities.

The financial statements for the year ended December 31, 2018 were authorized for issue on April 10, 2019 by the Management of the Organisation.

On behalf of the Management:

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**Kamil Heydarov**  
Acting Chairman of the Management  
Board Directors

April 10, 2019

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**Leyla Aliyeva**  
Senior Specialist of Maintenance and  
Accounting Department

April 10, 2019

## **INDEPENDENT AUDITOR'S REPORT**

To the Management of "Financial Monitoring Service of the Republic of Azerbaijan":

### ***Opinion***

We have audited the financial statements of "Financial Monitoring Service of the Republic of Azerbaijan" (the "Organisation"), which comprise the statement of financial position at year ended December 31, 2018 and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes in accordance with International Financial Reporting Standards (IFRSs).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Organisation at year ended December 31, 2018 and its financial performance as well as its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

### ***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 Organisation in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), 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.

### ***Responsibilities of the Management and those charged with corporate governance***

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 Organisation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting. Guided by this principle, Management takes into account the provisions of the Law of the Republic of Azerbaijan on "Public Legal Entities". In the Articles 5 and 9 of this Law it is noted that the public legal entity cannot be declared bankrupt and the issues related to liquidation, as well as the reorganization of the public legal entity are regulated by its charter and Civil Code of the Republic of Azerbaijan.

The Management Board and Board of Trustees is responsible for overseeing the Organisation's financial reporting process.

### ***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an 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 Organisation'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 Board'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 Organisation'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 Organisation 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 the members of the Management Board 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 make a statement to those charged with governance that we comply with relevant ethical requirements for independence and provide information about all interconnected relationships and other relevant matters that may reasonably be expected to affect our independence, as well as appropriate safeguards.

We define issues the most important for auditing the financial statements of the current period and, include them in key audit matters among those we communicate to those charged with governance. Prohibition of public disclosure of the issue by legislative or statutory acts or rarely advantage of negative consequences of disclosing this issue in our report than public benefit of such disclosure is reasonably supposed. Except the cases where we believe that this issue should not be disclosed in our audit report, we generally provide such matters in our auditor's report.

April 10, 2019

Baku, the Republic of Azerbaijan

# FINANCIAL MONITORING SERVICE OF THE REPUBLIC OF AZERBAIJAN

## STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME BEGINNING FROM THE INCEPTION DATE UNTIL THE YEAR ENDED DECEMBER 31, 2018 (In Azerbaijani Manats, unless otherwise indicated)

	Notes	From the inception date until the year ended December 31, 2018
Revenue	5	151,746
<b>Gross profit</b>		<b>151,746</b>
Personnel expenses	6	(114,331)
Administrative and other expenses	7	(37,415)
<b>Profit before income tax</b>		<b>-</b>
Income tax expense		-
<b>Net profit for the year</b>		<b>-</b>
Other comprehensive income		-
<b>Net profit and other comprehensive income for the year</b>		<b>-</b>

On behalf of the Management:

\_\_\_\_\_  
**Kamil Heydarov**  
Acting Chairman of the Management  
Board Directors

April 10, 2019  
Baku, the Republic of Azerbaijan

\_\_\_\_\_  
**Leyla Aliyeva**  
Senior Specialist of Maintenance and  
Accounting Department

April 10, 2019  
Baku, the Republic of Azerbaijan

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The notes on pages 8-27 form an integral part of these financial statements.

# FINANCIAL MONITORING SERVICE OF THE REPUBLIC OF AZERBAIJAN

## STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2018

(In Azerbaijani Manats, unless otherwise indicated)

	Notes	December 31, 2018
<b>ASSETS</b>		
<b>Longterm assets</b>		
Property, equipment and intangible assets	9	3,021,282
<b>Total longterm assets</b>		<b>3,021,282</b>
<b>Current assets</b>		
Cash and cash equivalents	8	170,782
<b>Total current assets</b>		<b>170,782</b>
<b>TOTAL ASSETS</b>		<b>3,192,064</b>
<b>EQUITY</b>		
Charter capital	12	10,000
Other capital	13	3,024,470
Retained earnings		-
<b>TOTAL EQUITY</b>		<b>3,034,470</b>
<b>LIABILITIES</b>		
<b>Longterm liabilities</b>		
<b>Total longterm liabilities</b>		<b>-</b>
<b>Current liabilities</b>		
Deferred income	10	148,254
Other financial liabilities	11	9,340
<b>Total current liabilities</b>		<b>157,594</b>
<b>TOTAL LIABILITIES</b>		<b>157,594</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>3,192,064</b>

On behalf of the Management:

\_\_\_\_\_  
**Kamil Heydarov**  
Acting Chairman of the Management  
Board Directors

April 10, 2019  
Baku, the Republic of Azerbaijan

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**Leyla Aliyeva**  
Senior Specialist of Maintenance and  
Accounting Department

April 10, 2019  
Baku, the Republic of Azerbaijan

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# FINANCIAL MONITORING SERVICE OF THE REPUBLIC OF AZERBAIJAN

## STATEMENT OF CASH FLOWS

BEGINNING FROM THE INCEPTION DATE UNTIL THE YEAR ENDED DECEMBER 31, 2018

(In Azerbaijani Manats, unless otherwise indicated)

	Notes	From the inception date until the year ended December 31, 2018
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit before income tax		-
Adjustments:		
Contributions by government	5	(151,746)
Depreciation and amortization expenses	9	3,188
<b>Cash flows from operating activities before changes in operating assets and liabilities</b>		<b>(148,558)</b>
Net increase in other financial liabilities	11	9,340
<b>Net cash flows from operating activities before tax</b>		<b>(139,218)</b>
Receipts of contributions by government	10	300,000
<b>Net cash used for operating activities</b>		<b>160,782</b>
<b>Cash inflows from investing activities</b>		
<b>Net cash used for investing activities</b>		<b>-</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Increase in charter capital	12	10,000
<b>Cash inflows from financing activities</b>		<b>10,000</b>
Effect of exchange rates on cash and cash equivalents		-
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>170,782</b>
<b>Cash and cash equivalents in the beginning of the year</b>	8	<b>-</b>
<b>Cash and cash equivalents at the end of the year</b>		<b>170,782</b>

On behalf of the Management:

\_\_\_\_\_  
**Kamil Heydarov**  
Acting Chairman of the Management  
Board Directors

April 10, 2019  
Baku, the Republic of Azerbaijan

\_\_\_\_\_  
**Leyla Aliyeva**  
Senior Specialist of Maintenance and  
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April 10, 2019  
Baku, the Republic of Azerbaijan

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## FINANCIAL MONITORING SERVICE OF THE REPUBLIC OF AZERBAIJAN

### STATEMENT OF CHANGES IN EQUITY

BEGINNING FROM THE INCEPTION DATE UNTIL THE YEAR ENDED DECEMBER 31, 2018

*(In Azerbaijani Manats, unless otherwise indicated)*

	Charter capital	Other capital	Retained earnings	Total equity
<b>Balance as at January 1, 2018</b>	-	-	-	-
Increase in charter capital	10,000	-	-	10,000
Increase in other capital	-	3,024,470	-	3,024,470
Total profit and other comprehensive income for the year	-	-	-	-
<b>Balance as at December 31, 2018</b>	<b>10,000</b>	<b>3,024,470</b>	-	<b>3,034,470</b>

On behalf of the Management:

\_\_\_\_\_  
**Kamil Heydarov**  
Acting Chairman of the Management  
Board Directors

April 10, 2019  
Baku, the Republic of Azerbaijan

\_\_\_\_\_  
**Leyla Aliyeva**  
Senior Specialist of Maintenance and  
Accounting Department

April 10, 2019  
Baku, the Republic of Azerbaijan

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# FINANCIAL MONITORING SERVICE OF THE REPUBLIC OF AZERBAIJAN

## NOTES ON FINANCIAL STATEMENTS

**BEGINNING FROM THE INCEPTION DATE UNTIL THE YEAR ENDED DECEMBER 31, 2018**

*(In Azerbaijani Manats, unless otherwise indicated)*

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### **1. Introduction**

#### **Organisation and operations**

These financial statements include the financial statements of “Financial Monitoring Service of the Republic of Azerbaijan” public legal entity (the “Organisation”). The Organisation was established by the Decree of the President of the Republic of Azerbaijan numbered 95, dated May 25, 2018. The Charter and Organisational Structure of the Organisation were approved by the Decree of the President of the Republic of Azerbaijan numbered 215, dated July 18, 2018.

The principal purpose of the Organisation is to monitor the compliance with the legal requirements for the prevention of legalization of money or other property acquired in the Azerbaijan Republic and financing of terrorism, to implement a single regulation in the relevant area, as well as monitoring participants, other persons involved in monitoring, coordinating the activities of other governmental entities, ensuring transparency and efficiency.

The charter capital of the Organisation comprises AZN 10,000.

The Organisation is governed by the Management Board.

The Organisation’s administrative office is 40 Bul-Bul avenue, Baku AZ1014, Republic of Azerbaijan.

All assets and liabilities of the Organisation are located in the Republic of Azerbaijan.

#### **Business environment**

Further development of business and investment environment in order to ensure the competitiveness, inclusiveness and enhancement of social welfare of the economy on the basis of sustainable economic development in Azerbaijan, expanding access to financial resources of entrepreneurs, improvement of public-private relations in line with new challenges, targeted reforms aimed at improving the living conditions are being continued. A number of achievements have been recorded as a result of reforms and implementation of strategic roadmaps on major sectors of national economy and economy, approved by Presidential Decree numbered 1138, dated December 6, 2016, a progressive legal framework was formulated, and in 2018 the foundations of macroeconomic stability and sustainability were established. Balance of payments has been corrected, pressure on foreign exchange reserves decreased, Azerbaijani Manat’s exchange rate against foreign currencies and inflation expectations has been stabilized. The emergence of macroeconomic stability trends in 2018 has contributed to the economic growth in the non-oil sector. Thus, according to the State Statistics Committee of the Republic of Azerbaijan, the gross domestic product in the non-oil sector increased by 1.9% in real terms.

In order to further improve the entrepreneurship and develop the business environment in the country, in 2018 the tax legislation project was drafted in several directions and the amendments were adopted by Milli Majlis. These include business support, reducing tax evasion and the scale of “shadow economy”, expansion of tax base, improving tax administration and improving the effectiveness of existing, also new tax incentives.

As a result of the implemented reforms, Azerbaijan ranks 25th in the 2018 World Bank's Doing Business report out of 190 countries ranking ahead 32 levels. In addition, in the report, Azerbaijan was included in the list of 10 most reforming countries in the world and was declared the most reforming country in the world.

# FINANCIAL MONITORING SERVICE OF THE REPUBLIC OF AZERBAIJAN

## NOTES ON FINANCIAL STATEMENTS

BEGINNING FROM THE INCEPTION DATE UNTIL THE YEAR ENDED DECEMBER 31, 2018

*(In Azerbaijani Manats, unless otherwise indicated)*

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### **1. Introduction (continued)**

According to the report, our country has achieved a great success by moving to 100 levels on each of the "Dealing with Construction Permits" and "Getting Credit" Indicators. Meanwhile, the indicator of "Protecting Minority Investors" has risen to the 2nd rank in the world and the top ten in the "Starting a Business" (9th rank) indicator. In general, progress in 8 out of 10 indicators of "Doing Business 2019" report was recorded.

The Organisation's Management follows changes in existing business environment and implements preventive measures that it deems important to continue and develop the Organisation's predictable activities in the future.

### **2. Basis of Preparation of Financial Statements**

#### **Statement of compliance**

The accompanying financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

#### **Basis of measurement**

The financial statements are prepared on the historical cost basis.

#### **Functional and presentation currency**

The functional currency of the Organisation is Azerbaijani Manat ("AZN"), as being the national currency of the Republic of Azerbaijan it reflects the economic substance of the majority of underlying events and circumstances relevant to them. The AZN is also the presentation currency for the purposes of these financial statements. Financial information presented in AZN is rounded to the nearest digit.

#### **Use of estimates and judgments**

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

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

#### **Recognition of non-monetary capital investment**

IAS 16 Property, Plant and Equipment requires entities to measure the property, plant and equipment acquired in a non-monetary form in their fair value.

#### **Going Concern**

These Financial Statements have been prepared considering the likelihood that the Organisation will continue to function in the foreseeable future under normal circumstances.

The Management believes that the Organisation will continue its activities in the foreseeable future and suspend its activities without the need to seek protection against creditors on the basis of the laws or regulations of the Republic of Azerbaijan. Therefore, assets and liabilities are reported in the reports with the assumption that the Organisation has the ability to perform its assets and perform its obligations under ordinary activities.

# FINANCIAL MONITORING SERVICE OF THE REPUBLIC OF AZERBAIJAN

## NOTES ON FINANCIAL STATEMENTS

BEGINNING FROM THE INCEPTION DATE UNTIL THE YEAR ENDED DECEMBER 31, 2018

(In Azerbaijani Manats, unless otherwise indicated)

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### 2. Basis of Preparation of Financial Statements (continued)

It is important to make certain assumptions about future events or conditions that are unknown when estimating the Guidance for Sustainability.

#### Changes in accounting policies and presentation

##### IFRS 9 *Financial Instruments*

IFRS 9 replaces IAS 39 *Financial Instruments: Recognition and Measurement* for annual periods on or after January 1, 2018.

##### (a) *Classification and measurement*

Under IFRS 9, all debt financial assets that do not meet a "solely payment of principal and interest" (SPPI) criterion, are classified at initial recognition as fair value through profit or loss (FVPL). Under this criterion, debt instruments that do not correspond to a "basic lending arrangement, such as instruments containing embedded conversion options or "non-recourse" loans, are measured at FVPL. For debt financial assets that meet the SPPI criterion, classification at initial recognition is determined based on the business model, under which these instruments are managed:

- Instruments that are managed on a "hold to collect" basis are measured at amortised cost;
- Instruments that are managed on a "hold to collect and for sale" basis are measured at fair value through other comprehensive income (FVOCI);
- Instruments that are managed on other basis, including trading financial assets, will be measured at FVPL.

Equity financial assets are required to be classified at initial recognition as FVPL unless an irrevocable designation is made to classify the instrument as FVOCI. For equity investments classified as FVOCI, all realised and unrealised gains and losses, except for dividend income, are recognised in other comprehensive Income with no subsequent reclassification to profit and loss.

The classification and measurement of financial liabilities remains largely unchanged from the current IAS 39 requirements. Derivatives will continue to be measured at FVPL. Embedded derivatives are no longer separated from a host financial asset.

### 3. Significant Accounting Policies

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

#### Foreign currency

Transactions in foreign currencies are translated to the respective functional currencies of the Organisation at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are re-translated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value is determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Foreign currency differences arising on re-translation are recognised in profit or loss.

# FINANCIAL MONITORING SERVICE OF THE REPUBLIC OF AZERBAIJAN

## NOTES ON FINANCIAL STATEMENTS

BEGINNING FROM THE INCEPTION DATE UNTIL THE YEAR ENDED DECEMBER 31, 2018

(In Azerbaijani Manats, unless otherwise indicated)

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### 3. Significant Accounting Policies (continued)

#### Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand and current accounts held with the Central Bank of the Republic of Azerbaijan (CBAR). Cash and cash equivalents are carried at amortised cost in the statement of financial position.

#### Financial instruments

##### *Classification*

*Financial instruments at fair value through profit or loss* are financial assets or liabilities that are:

- acquired or incurred principally for the purpose of selling or repurchasing in the near term;
- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking;
- upon initial recognition, designated as at fair value through profit or loss.

The Organisation may designate financial assets and liabilities at fair value through profit or loss where either:

- the assets or liabilities are managed, evaluated and reported internally on a fair value basis;
- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise or;
- the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

Net fair value of all commercial derivatives (positive fair value), as well as purchased options are accounted for as assets receivable. Net realizable value (negative fair value) of all commercial derivatives and deferred options are accounted for as liabilities payable.

Management determines the appropriate classification of financial instruments in this category at the time of the initial recognition. Derivative financial instruments and financial instruments designated as at fair value through profit or loss upon initial recognition are not reclassified out of at fair value through profit or loss category. Financial assets that would have met the definition of loan and receivables may be reclassified out of the fair value through profit or loss or available-for-sale category if the entity has an intention and ability to hold it for the foreseeable future or until maturity. Other financial instruments may be reclassified out of at fair value through profit or loss category only in rare circumstances. Rare circumstances arise from a single event that is unusual and highly unlikely to recur in the near term.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the Organisation:

# FINANCIAL MONITORING SERVICE OF THE REPUBLIC OF AZERBAIJAN

## NOTES ON FINANCIAL STATEMENTS

BEGINNING FROM THE INCEPTION DATE UNTIL THE YEAR ENDED DECEMBER 31, 2018

*(In Azerbaijani Manats, unless otherwise indicated)*

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### 3. Significant Accounting Policies (continued)

#### Financial instruments (continued)

- intends to sell immediately or in the near term;
- upon initial recognition designates as at fair value through profit or loss;
- upon initial recognition designates as available-for-sale or;
- may not recover substantially all of its initial investment, other than because of credit deterioration.

#### Recognition

Financial assets and liabilities are recognised in the statement of financial position when the Organisation becomes a party to the contractual provisions of the instrument. All regular way purchases of financial assets are accounted for at the settlement date.

#### Measurement

Financial assets and liabilities are recognised in the statement of financial position when the Organisation becomes a party to the contractual provisions of the instrument. All regular way purchases of financial assets are accounted for at the settlement date.

Subsequent to initial recognition, financial assets, including derivatives that are assets, are measured at their fair values, without any deduction for transaction costs that may be incurred on sale or other disposal, except for:

- Loans and receivables which are measured at amortised cost using the effective interest method;
- Held-to-maturity investments that are measured at amortised cost using the effective interest method;
- Investments in equity instruments measured at initial cost that do not have a quoted market price in an active market and whose fair value cannot be reliably measured.

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

# FINANCIAL MONITORING SERVICE OF THE REPUBLIC OF AZERBAIJAN

## NOTES ON FINANCIAL STATEMENTS

BEGINNING FROM THE INCEPTION DATE UNTIL THE YEAR ENDED DECEMBER 31, 2018

*(In Azerbaijani Manats, unless otherwise indicated)*

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### 3. Significant Accounting Policies (continued)

#### **Amortised cost**

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

#### ***Fair value measurement principles***

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Organisation has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Organisation measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no active market for a financial instrument, the Organisation determines fair value using the valuation method.

The selected appraisal method uses maximum market data. It is based on the assumptions that are available to the Organisation as little as possible, and incorporates all the factors that market participants take into account while pricing and complies with the economic methods adopted for the valuation of financial instruments.

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

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

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

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

For financial assets and liabilities carried at amortised cost, a gain or loss is recognised in profit or loss when the financial asset or liability is derecognised or impaired, and through the amortisation process.

# FINANCIAL MONITORING SERVICE OF THE REPUBLIC OF AZERBAIJAN

## NOTES ON FINANCIAL STATEMENTS

BEGINNING FROM THE INCEPTION DATE UNTIL THE YEAR ENDED DECEMBER 31, 2018

*(In Azerbaijani Manats, unless otherwise indicated)*

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### 3. Significant Accounting Policies (continued)

#### Amortised cost (continued)

##### *Derecognition*

The Organisation derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Organisation neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset.

Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Organisation is recognised as a separate asset or liability in the statement of financial position. The Organisation derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

The Organisation enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all risks, and rewards of the transferred assets or a portion of them.

If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised.

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

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

If the Organisation 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.

The Organisation writes off assets deemed to be uncollectible.

##### *Offset*

Financial assets and liabilities can be deducted and included in the statement of financial position in case the statutory right to offset, or the offsetting of an impairment loss, or the intent of the asset to settle the obligation exists.

##### *Property and equipment*

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

Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

# FINANCIAL MONITORING SERVICE OF THE REPUBLIC OF AZERBAIJAN

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### 3. Significant Accounting Policies (continued)

#### *Depreciation*

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. Land depreciation is not calculated. The estimated useful lives are as follows:

Buildings	50 years
Computers and communication equipment	5-9 years
Motor vehicles	10 years
Other fixed assets	4-9 years

#### **Intangible assets**

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

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Amortisation is charged to profit or loss on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives range from 3 to 10 years.

#### **Employee benefits and appropriate deductions**

Wages, salaries, payments to the State Social Protection Fund of the Republic of Azerbaijan, annual payments on vacations and leaflets, remunerations and non-monetary benefits are calculated on the basis of the relevant services provided by the employees of the Organisation.

#### **Provisions**

A provision is recognised in the statement of financial position when the Organisation has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for restructuring is recognised when the Organisation has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

# FINANCIAL MONITORING SERVICE OF THE REPUBLIC OF AZERBAIJAN

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### 3. Significant Accounting Policies (continued)

#### Contributions by government

Contributions by government were classified as deferred income and recognized in liability line of financial statements by that date. Contributions by government are comprised of cash contributions from the State Budget of the Republic of Azerbaijan in order to cover the operational expenses of the Organisation.

#### Taxes

The Organisation is exempt from the corporate income tax liability in accordance with Article 106.1.4 of the Tax Code, from the property tax in accordance with paragraph 199.1 and from land tax payment under Article 207.1.2.

The Organisation calculates and declares the individual income tax and social payments for salaries and similar payments to employees. These financial statements have been prepared by reference to management's judgment on tax issues and assumptions.

### 4. Application of New or Revised Standards and Pronouncements

In the current year, the Organisation has adopted all of the applicable new and revised Standards and Interpretations issued by the IASB and the IFRIC of the IASB that are relevant to its operations and effective for annual reporting periods ending on December 31, 2018. The adoption of these new and revised Standards and Interpretations has not resulted in significant changes to the Organisation's accounting policies that have affected the amounts reported for the current or prior years.

For the preparation of these financial statements, the following amendments to Standards are mandatory for the first time for the financial year beginning January 1, 2018.

- Amendments to IAS 28 (Annual Improvements to IFRS Standards 2014–2016 Cycle, issued in December 2016) - The amendments, applicable to annual periods beginning on or after January 1, 2018 (earlier application permitted), clarify that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is a venture capital organisation, mutual Organisation, unit trust or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition. The amendments are not expected to have an effect on the Organisation's financial statements.
- Amendments to IAS 40 titled Transfers of Investment Property (issued in December 2016) - The amendments, applicable to annual periods beginning on or after January 1, 2018 (earlier application permitted), clarify that transfers to, or from, investment property (including assets under construction and development) should be made when, and only when, there is evidence that a change in use of a property has occurred. The amendments are not expected to have a material effect on the Organisation's financial statements.
- Amendments to IFRS 2 titled Classification and Measurement of Share-based Payment Transactions (issued in June 2016) - The amendments, applicable to annual periods beginning on or after January 1, 2018 (earlier application permitted), clarify the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payment (SBP) transactions, the accounting for SBP transactions with a net settlement feature for withholding tax obligations, and the effect of a modification to the terms and conditions of a SBP that changes the classification of the transaction from cash-settled to equity-settled. The amendments are not expected to have a material effect on the Organisation's financial statements.

# FINANCIAL MONITORING SERVICE OF THE REPUBLIC OF AZERBAIJAN

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### **4. Application of New or Revised Standards and Pronouncements (continued)**

- Amendments to IFRS 4 titled Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (issued in September 2016) - The amendments, applicable to annual periods beginning on or after January 1, 2018, give all insurers the option to recognise in other comprehensive income, rather than in profit or loss, the volatility that could arise when IFRS 9 is applied before implementing IFRS 17 ('the overlay approach'). Also, entities whose activities are predominantly connected with insurance are given an optional temporary exemption (until 2021) from applying IFRS 9, thus continuing to apply IAS 39 instead ('the deferral approach'). As the Organisation has not issued insurance contracts, the amendments are not expected to have an effect on its financial statements.

The Organisation has adopted all of the new or amended Accounting Standards and Interpretations issued by the International Accounting Standards Board ('IASB') that are mandatory for the current reporting period. Any new or amended Accounting Standards or Interpretations that are not yet mandatory, have not been early adopted.

#### **New Interpretations**

- IFRIC 22 Foreign Currency Transactions and Advance Consideration (issued in December 2016) - The Interpretation, applicable to annual periods beginning on or after January 1, 2018 (earlier application permitted), provides guidance clarifying that the exchange rate to use in transactions that involve advance consideration paid or received in a foreign currency is the one at the date of initial recognition of the non-monetary prepayment asset or deferred income liability. The Interpretation is not expected to have a material effect on the Organisation's financial statements.
- IFRIC 23 Uncertainty over Income Tax Treatments (issued in June 2017) – The Interpretation, applicable to annual periods beginning on or after January 1, 2019 (earlier application permitted), provides guidance on how to reflect the effects of uncertainty in accounting for income taxes under IAS 12, in particular (i) whether uncertain tax treatments should be considered separately, (ii) assumptions for taxation authorities' examinations, (iii) determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits, and tax rates, and (iv) effect of changes in facts and circumstances. The Interpretation is not expected to have a material effect on the Organisation's financial statements.
- The Interpretations Committee came to the following conclusion that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt. The interpretation applies to annual reporting periods beginning or after January 1, 2018. The Interpretation is not expected to have a material effect on the Organisation's financial statements.

#### **New Standards**

##### **IFRS 9 Financial Instruments**

- The Organisation has adopted IFRS 9 from January 1, 2018. The standard introduced new classification and measurement models for financial assets. A financial asset shall be measured at amortised cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows which arise on specified dates and that are solely principal and interest. A debt investment shall be measured at fair value through other comprehensive income if it is held within a business model whose objective is to both hold assets in order to collect contractual cash flows which arise on specified dates that are solely principal and interest as well as selling the asset on the basis of its fair value.

# FINANCIAL MONITORING SERVICE OF THE REPUBLIC OF AZERBAIJAN

## NOTES ON FINANCIAL STATEMENTS

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### 4. Application of New or Revised Standards and Pronouncements (continued)

- All other financial assets are classified and measured at fair value through profit or loss unless the entity makes an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading or contingent consideration recognised in a business combination) in other comprehensive income ('OCI'). Despite these requirements, a financial asset may be irrevocably designated as measured at fair value through profit or loss to reduce the effect of, or eliminate, an accounting mismatch. For financial liabilities designated at fair value through profit or loss, the standard requires the portion of the change in fair value that relates to the entity's own credit risk to be presented in OCI (unless it would create an accounting mismatch).
- New simpler hedge accounting requirements are intended to more closely align the accounting treatment with the risk management activities of the entity. New impairment requirements use an 'expected credit loss' ('ECL') model to recognise an allowance. Impairment is measured using a 12-month ECL method unless the credit risk on a financial instrument has increased significantly since initial recognition in which case the lifetime ECL method is adopted. For receivables, a simplified approach to measuring expected credit losses using a lifetime expected loss allowance is available.

#### **IFRS 15 Revenue from Contracts with Customers**

- The Organisation has adopted IFRS 15 from January 1, 2018. The standard provides a single comprehensive model for revenue recognition. The core principle of the standard is that an entity shall recognise revenue to depict the transfer of promised goods or services to customers at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard introduced a new contract-based revenue recognition model with a measurement approach that is based on an allocation of the transaction price. This is described further in the accounting policies below.
- Credit risk is presented separately as an expense rather than adjusted against revenue. Contracts with customers are presented in an entity's statement of financial position as a contract liability, a contract asset, or a receivable, depending on the relationship between the entity's performance and the customer's payment. Customer acquisition costs and costs to fulfil a contract can, subject to certain criteria, be capitalised as an asset and amortised over the contract period.

### **New Accounting Standards and Interpretations not yet mandatory or early adopted**

Accounting Standards that have recently been issued or amended but are not yet mandatory, have not been early adopted by the Organisation for the annual reporting period ended December 31, 2018. The Organisation's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the Organisation, are set out below.

#### **IFRS 16 Leases**

- This standard is applicable to annual reporting periods beginning on or after January 1, 2019. The standard replaces IAS 17 'Leases' and for lessees will eliminate the classifications of operating leases and finance leases. Subject to exceptions, a 'right-of-use' asset will be capitalised in the statement of financial position, measured at the present value of the unavoidable future lease payments to be made over the lease term.
- The exceptions relate to short-term leases of 12 months or less and leases of low-value assets (such as personal computers and small office furniture) where an accounting policy choice exists whereby either a 'right-of-use' asset is recognised or lease payments are expensed to profit or loss as incurred. A liability corresponding to the capitalised lease will also be recognised, adjusted for lease prepayments, lease incentives received, initial direct costs incurred and an estimate of any future restoration, removal or dismantling costs.

# FINANCIAL MONITORING SERVICE OF THE REPUBLIC OF AZERBAIJAN

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### 4. Application of New or Revised Standards and Pronouncements (continued)

#### New Accounting Standards and Interpretations not yet mandatory or early adopted (continued)

- Straight-line operating lease expense recognition will be replaced with a depreciation charge for the leased asset (included in operating costs) and an interest expense on the recognised lease liability (included in finance costs).
- In the earlier periods of the lease, the expenses associated with the lease under IFRS 16 will be higher when compared to lease expenses under IAS 17.
- However EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) results will be improved as the operating expense is replaced by interest expense and depreciation in profit or loss under IFRS 16.
- For classification within the statement of cash flows, the lease payments will be separated into both a principal (financing activities) and interest (either operating or financing activities) component. For lessor accounting, the standard does not substantially change how a lessor accounts for leases. The Organisation will adopt this standard from January 1, 2019 but the impact of its adoption is yet to be assessed by the Organisation.

### 5. Revenue

	<b>For the period ended December 31, 2018</b>
Contributions by government	151,746
<b>Total contributions by government</b>	<b>151,746</b>

### 6. Personnel expenses

	<b>For the period ended December 31, 2018</b>
Wages and other payments to employees	(90,065)
Payments to the State Social Protection Organisation of Azerbaijan Republic	(24,266)
<b>Total personnel expenses</b>	<b>114,331</b>

# FINANCIAL MONITORING SERVICE OF THE REPUBLIC OF AZERBAIJAN

## NOTES ON FINANCIAL STATEMENTS

BEGINNING FROM THE INCEPTION DATE UNTIL THE YEAR ENDED DECEMBER 31, 2018

(In Azerbaijani Manats, unless otherwise indicated)

### 7. Administrative and other expenses

	<b>For the period ended December 31, 2018</b>
Business trip expenses	(11,027)
Professional services	(8,500)
Security expenses	(5,431)
Office supplies	(3,420)
Depreciation and amortisation expenses	(3,188)
Utilities	(2,961)
Communications and information services	(1,860)
Bank charges	(847)
Other expenses	(181)
<b>Total administrative and other expenses</b>	<b>(37,415)</b>

### 8. Cash and cash equivalents

	<b>December 31, 2018</b>
Cash on hand	-
Cash at banks	170,782
<b>Total cash and cash equivalents</b>	<b>170,782</b>

The credit quality analysis of cash and cash equivalents at December 31, 2018 is as follows:

	<b>December 31, 2018</b>
	On demand
<i>Neither past due, nor impaired</i>	
- Top 15 Azerbaijani banks	170,782
<b>Total</b>	<b>170,782</b>

The currency analysis of cash and cash equivalents at December 31, 2018 is as follows:

	<b>December 31, 2018</b>
Cash and cash equivalents:	
- AZN	170,782
- Other currencies	-
<b>Total cash and cash equivalents</b>	<b>170,782</b>

**FINANCIAL MONITORING SERVICE OF THE REPUBLIC OF AZERBAIJAN**

**NOTES ON FINANCIAL STATEMENTS**

**BEGINNING FROM THE INCEPTION DATE UNTIL THE YEAR ENDED DECEMBER 31, 2018**

*(In Azerbaijani Manats, unless otherwise indicated)*

**9. Property, Equipment and Intangible Assets**

	<b>Building</b>	<b>Computer and communication equipment</b>	<b>Motor vehicles</b>	<b>Other fixed assets</b>	<b>Intangible assets</b>	<b>Total</b>
<b>Cost</b>						
Balance at January 1, 2018	-	-	-	-	-	-
Additions	2,916,000	53,700	15,000	21,140	18,630	3,024,470
Disposal	-	-	-	-	-	-
<b>Balance at December 31, 2018</b>	<b>2,916,000</b>	<b>53,700</b>	<b>15,000</b>	<b>21,140</b>	<b>18,630</b>	<b>3,024,470</b>
<b>Depreciation, amortisation and impairment losses</b>						
Balance at January 1, 2018	-	-	-	-	-	-
Depreciation and amortisation for the year	(1,598)	(900)	(82)	(352)	(256)	(3,188)
Disposals	-	-	-	-	-	-
<b>Balance at December 31, 2018</b>	<b>(1,598)</b>	<b>(900)</b>	<b>(82)</b>	<b>(352)</b>	<b>(256)</b>	<b>(3,188)</b>
<b>Carrying amount</b>						
<b>At December 31, 2018</b>	<b>2,914,402</b>	<b>52,800</b>	<b>14,918</b>	<b>20,788</b>	<b>18,374</b>	<b>3,021,282</b>

## FINANCIAL MONITORING SERVICE OF THE REPUBLIC OF AZERBAIJAN

### NOTES ON FINANCIAL STATEMENTS

BEGINNING FROM THE INCEPTION DATE UNTIL THE YEAR ENDED DECEMBER 31, 2018

(In Azerbaijani Manats, unless otherwise indicated)

#### 10. Deferred Income

	December 31, 2018
Contributions by government	148,254
<b>Total deferred income</b>	<b>148,254</b>

According to the decree No 837 s of the Cabinet of Ministers of the Republic of Azerbaijan dated December 14, 2017, the amount of AZN 300,000 has been allocated to the Organisation in order to ensure its activities for 2018. For the period ended December 31, 2018, AZN 151,746 out of those amounts was spent on operating expenses.

#### 11. Other Financial Liabilities

	December 31, 2018
Settlements in progress	9,340
<b>Total other financial liabilities</b>	<b>9,340</b>

#### 12. Charter Capital

	Charter capital
<b>Balance at January 1, 2018</b>	-
Increase in charter capital	10,000
<b>Balance at January 31, 2018</b>	<b>10,000</b>

The initial charter capital of the Organisation is AZN 10,000 and is formed by the funds contributed by the government.

#### 13. Other Capital

Other capital amounting AZN 3,024,470 as at December 31, 2018 represents the property, equipment and intangible assets transferred at fair value to the Organisation from the Financial Market Supervisory Authority of the Republic of Azerbaijan as a result of the reorganization.

# FINANCIAL MONITORING SERVICE OF THE REPUBLIC OF AZERBAIJAN

## NOTES ON FINANCIAL STATEMENTS

BEGINNING FROM THE INCEPTION DATE UNTIL THE YEAR ENDED DECEMBER 31, 2018

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### 14. Risk Management, Corporate Governance and Internal Control

#### Internal control policies and procedures

The Management has responsibility for the development, implementation and maintaining of internal controls in the Organisation that are commensurate with the scale and nature of operations. The purpose of internal controls is to ensure:

- proper and comprehensive risk assessment and management
  - proper management and accounting and financial reporting functions, including proper authorization, processing and recording of transactions
  - completeness, accuracy and timeliness of accounting records, managerial information, regulatory reports, etc.
  - reliability of IT-systems, data and systems integrity and protection
- prevention of fraudulent or illegal activities, including misappropriation of assets

#### Compliance with laws and regulations

Management Board is responsible for identifying and assessing risks, designing controls and monitoring their effectiveness. Management Board monitors the effectiveness of the Organisation's internal controls and periodically implements additional controls or modifies existing controls as considered necessary.

#### Risk management policies and procedures

Management of risk is Organisationamental to the Organisation's work, and is an essential element of the Organisation's operations. The major risks faced by the Organisation are those related to market risk, credit risk and liquidity risk.

The risk management policies aim to identify, analyse and manage the risks faced by the Organisation, to set appropriate risk limits and controls, and to continuously monitor risk levels and adherence to limits. Risk management policies and procedures are reviewed regularly to reflect changes in market conditions, products and services offered and emerging best practice.

Both external and internal risk factors have been identified, managed and regulated at all organizational levels. Special attention is given on how to identify the range of risk factors and the level of current risk mitigation procedures.

#### Market risk

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

The objective of market risk management serves to manage and control market risk exposures within identified parameters, whilst optimizing the ratio of the return on risks.

The Organisation was not exposed to market risk for the period ended December 31, 2018.

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### 14. Risk Management, Corporate Governance and Internal Control (continued)

#### 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 Organisation is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows.

The Organisation's returns may increase as a result of such changes but may also reduce or create losses in the event that unexpected movements occur.

According to the Organisation's asset-liability and risk management strategy, the following procedures are performed for managing interest rate risk:

- Monitoring interest rate gaps and by having pre-approved limits for pricing bands;
- Defining the issue parameters of bonds considering the medium payment period of credits;
- Optimization of interest rate risk scenario analysis;
- Preparation of an interest rate risk reporting system

The Organisation was not exposed to interest rate risk for the period ended December 31, 2018.

#### Currency risk

Currency risk results from the currency rates fluctuation. Due to the reason that all operations of the Organisation is carried out in national currency, the Organisation is not directly subject to the currency risk. The Organisation currently does not plan the attraction of investments in foreign currency.

#### Liquidity risk

Liquidity risk is the risk that the Organisation will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk is directly associated with the ability of the Organisation to timely fulfil its financial obligations and maintain liquid resources on the required level through timely attracting financial resources with a reasonable cost.

Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and or controlled mismatching of the maturities and interest rates of assets and liabilities is Organisationamental to liquidity management.

The Organisation maintains liquidity management with the objective of ensuring that Organisations will be available at all times to honour all cash flow obligations as they become due.

## FINANCIAL MONITORING SERVICE OF THE REPUBLIC OF AZERBAIJAN

### NOTES ON FINANCIAL STATEMENTS

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#### 14. Risk Management, Corporate Governance and Internal Control (continued)

The table below shows an analysis, by expected maturities, of the financial assets and liabilities recognised in the statement of financial position as at December 31, 2018:

	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
<b>Non-derivative assets</b>								
Cash and cash equivalents	170,782	-	-	-	-	-	-	170,782
<b>Total assets</b>	<b>170,782</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>170,782</b>
<b>Non-derivative liabilities</b>								
Other financial liabilities	-	(9,340)	-	-	-	-	-	(9,340)
<b>Total liabilities</b>	<b>-</b>	<b>(9,340)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(9,340)</b>
<b>Net position</b>	<b>170,782</b>	<b>(9,340)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>161,442</b>
<b>Cumulative liquidity gap</b>	<b>170,782</b>	<b>161,442</b>	<b>161,442</b>	<b>161,442</b>	<b>161,442</b>			

# FINANCIAL MONITORING SERVICE OF THE REPUBLIC OF AZERBAIJAN

## NOTES ON FINANCIAL STATEMENTS

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*(In Azerbaijani Manats, unless otherwise indicated)*

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### 15. Related Party Transactions

#### Transactions with government-related entities

The Organisation is a state owned entity, and in the ordinary course of business operates with various government agencies (tax and social protection authorities). As of December 31, 2018 the Organisation did not have any receivables or payables on these operations.

### 16. Financial Assets and Liabilities: Fair Values and Accounting Classifications

#### Accounting classifications and fair values

The estimates of fair value are intended to approximate the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. However, given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realizable in an immediate sale of the assets or transfer of liabilities.

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

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

At December 31, 2018, the carrying value of the financial assets and financial liabilities of the Organisation was equal to their fair value.

#### Fair value hierarchy

The Organisation 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 quoted 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.

As at December 31, 2018 there was no financial instrument recognized in the statement of financial position measured at fair value.

## FINANCIAL MONITORING SERVICE OF THE REPUBLIC OF AZERBAIJAN

### NOTES ON FINANCIAL STATEMENTS

BEGINNING FROM THE INCEPTION DATE UNTIL THE YEAR ENDED DECEMBER 31, 2018

*(In Azerbaijani Manats, unless otherwise indicated)*

#### 16. Financial Assets and Liabilities: Fair Values and Accounting Classifications (continued)

##### Fair value hierarchy (continued)

The table below analyzes the fair value of financial instruments at fair value as at December 31, 2018 on the basis of the fair value hierarchy classification:

	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
<b>ASSETS</b>					
Cash and cash equivalents	-	170,782	-	170,782	170,782
	-	<b>170,782</b>	-	<b>170,782</b>	<b>170,782</b>
<b>LIABILITIES</b>					
Other financial liabilities	-	-	9,340	9,340	9,340
	-	-	<b>9,340</b>	<b>9,340</b>	<b>9,340</b>

#### 17. Events After the Reporting Period

No significant event occurred after the reporting period.