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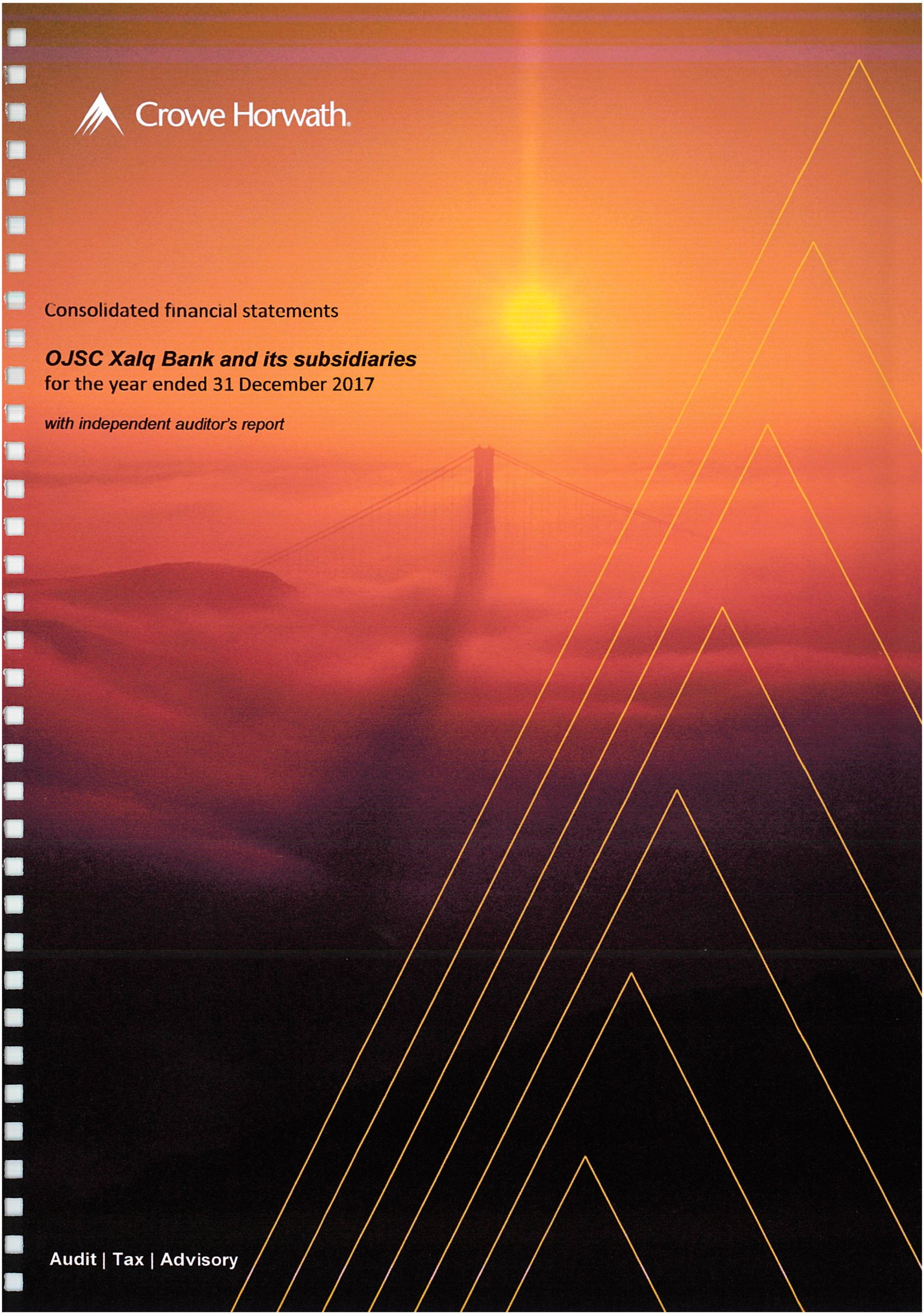

Consolidated financial statements

OJSC Xalq Bank and its subsidiaries

for the year ended 31 December 2017

with independent auditor's report

Audit | Tax | Advisory

Consolidated financial statements

OJSC Xalq Bank and its subsidiaries
for the year ended 31 December 2017

with independent auditor's report

Open Joint Stock Company Xalq Bank

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Notes to the Consolidated Financial Statements

Statement of Management's Responsibilities for the Preparation and Approval of the Consolidated Financial Statements for the Year Ended 31 December 2017

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 pages 2 - 4, is made with a view to distinguishing the respective responsibilities of management and those of the independent auditors in relation to the consolidated financial statements of Open Joint Stock Company Xalq Bank (the "Group").

Management is responsible for the preparation of the consolidated financial statements that present fairly the financial position of the Group at 31 December 2017, and the results of its operations, cash flows and changes in equity for the year then ended, in accordance with International Financial Reporting Standards ("IFRS").

In preparing the consolidated 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 consolidated financial statements; and
- Preparing the consolidated financial statements on a going concern basis, unless it is inappropriate to presume that the Group 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 Group;
- Maintaining proper accounting records that disclose, with reasonable accuracy at any time, the financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with IFRS;
- Maintaining statutory accounting records in compliance with legislation of the Republic of Azerbaijan;
- Taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- Detecting and preventing fraud and other irregularities.

The consolidated financial statements for the year ended 31 December 2017 were authorized for issue on 03 April 2018 by the Management Board.

Approved for issue and signed on behalf of the Management Board on 03 April 2018.

Chairman	Chief Accountant
Mr. Elkhan Aghayev	Mrs. Tamilla Asadova

Crowe Horwath.

Baltic Caspian Audit LLC
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Independent auditor's report

To the Shareholders and Board of Directors of Open Joint Stock Company "Xalq Bank"

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of OJSC Xalq Bank (the Bank) and its subsidiaries (together, the Group), which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2017, and its financial performance and 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 "*Auditor's responsibilities for the audit of the consolidated financial statements*" section of this Independent auditor's report.

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

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants (IESBA Code)* together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Republic of Azerbaijan, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Responsibilities of management and the Audit Committee for the consolidated financial statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

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

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

- Identify and assess the risks of material misstatement of the consolidated 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 Group'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 Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee 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.

The engagement partner on the audit resulting in this independent auditor's report is Samir Asadullayev.

Samir Asadullayev
Licensed auditor (license no. 072786)
Baltic Caspian Audit LLC
Member Firm of Crowe Horwath International

03 April 2018
Baku, the Republic of Azerbaijan

"Baltik Kaspian AUDIT" MMC
AUDIT
"Baltic Caspian AUDIT" LLC

Open Joint Stock Company Xalq Bank

Consolidated Statement of Profit or Loss for the year ended 31 December 2017
(in Azerbaijan Manats)

	Notes	Year ended 31 December 2017	Year ended 31 December 2016
Interest income	4	100,130,599	104,827,492
Interest expense	4	(25,552,727)	(27,731,237)
NET INTEREST INCOME BEFORE PROVISION FOR IMPAIRMENT LOSSES ON INTEREST BEARING ASSETS		74,577,872	77,096,255
Provision for impairment losses on interest bearing assets	5	(25,681,851)	(51,214,777)
NET INTEREST INCOME		48,896,021	25,881,478
Net gain on foreign exchange operations	7	3,173,637	19,334,743
Net gain on gold operations	6	1,219,629	2,499,448
Fee and commission income	8	7,996,651	6,128,194
Fee and commission expense	8	(2,318,464)	(1,124,688)
Gain on revaluation of investment property	19	41,806	135,910
Provision for impairment losses on non-interest bearing assets	20	(6,613,841)	(3,299,960)
Other income		1,104,813	900,389
NET NON-INTEREST INCOME / (LOSS)		4,604,231	24,574,036
OPERATING INCOME		53,500,252	50,455,514
OPERATING EXPENSES	9	(32,404,493)	(32,167,798)
OPERATING PROFIT		21,095,759	18,287,716
(Provision) / recovery of provision for impairment losses on guarantees and other commitments	5	(105,036)	(28,208)
PROFIT BEFORE INCOME TAX		20,990,723	18,259,508
Income tax expense	10	(4,048,565)	(3,429,666)
NET PROFIT FOR THE YEAR		16,942,158	14,829,842
Net profit for the year attributable to:			
Equity holders of the parent		16,940,080	14,826,416
Non-controlling interest		2,078	3,426
		16,942,158	14,829,842
EARNINGS PER SHARE			
Basic and diluted (AZN)	11	4.666	4.084

Approved for issue and signed on behalf of the Management Board on 03 April 2018.

Chairman
Mr. Elkhan Aghayev

Chief Accountant
Mrs. Tamilla Asadova

The accompanying notes on pages 10 to 54 form an integral part of these consolidated financial statements

Open Joint Stock Company Xalq Bank

Consolidated Statement of Financial Position as at 31 December 2017
(in Azerbaijan Manats)

	Notes	31 December 2017	31 December 2016
ASSETS			
Cash and cash equivalents	12	62,349,211	106,645,989
Gold		15,305,466	14,112,682
Due from banks	13	106,968,686	124,632,326
Loans to customers	14	1,263,204,930	1,216,711,641
Forfeiting	15	4,498,167	13,169,584
Investments available-for-sale	16	221,766,983	60,192,942
Held-to-maturity financial assets	17	15,057,263	15,758,960
Property and equipment	18	68,214,636	68,187,455
Investment property	19	6,825,306	6,783,500
Intangible assets	18	1,551,970	1,742,919
Other assets	20	27,022,390	24,068,751
TOTAL ASSETS		**1,792,765,008**	**1,652,006,749**
LIABILITIES			
Due to banks and government agencies	21	356,642,796	283,168,552
Customer accounts	22	1,183,456,480	1,131,235,965
Provision for impairment losses on other operations	5	203,376	98,340
Current income tax liability		2,439,634	-
Deferred income tax liability	10	1,457,705	1,208,938
Other liabilities	23	7,564,346	12,225,163
TOTAL LIABILITIES		**1,551,764,337**	**1,427,936,958**
EQUITY			
Share capital	24	225,078,600	211,646,490
Retained earnings		15,813,360	12,305,390
Non-controlling interest		108,711	117,911
TOTAL EQUITY		**241,000,671**	**224,069,791**
TOTAL LIABILITIES AND EQUITY		**1,792,765,008**	**1,652,006,749**

Approved for issue and signed on behalf of the Management Board on 03 April 2018.

Chairman
Mr. Elkhan Aghayev

AZƏRBAYCAN RESPUBLİKASI "XALQ BANK" AÇIQ SƏHMDAR CƏMİYYƏTİ
Xalq Bank
AZERBAIJAN REPUBLIC OPEN JOINT-STOCK COMPANY "XALQ BANK"

Chief Accountant
Mrs. Tamilla Asadova

Open Joint Stock Company Xalq Bank

Consolidated Statement of Changes in Equity for the year ended 31 December 2017
(in Azerbaijan Manats)

	Share capital	Retained earnings / (Accumulated deficit)	Non-controlling interest	Total equity
31 December 2015	**211,646,490**	**(2,521,026)**	**114,485**	**209,239,949**
Total income for the year	-	14,826,416	3,426	14,829,842
31 December 2016	**211,646,490**	**12,305,390**	**117,911**	**224,069,791**
Capitalization of retained earnings	13,432,110	(13,432,110)	-	-
Total income for the year	-	16,940,080	2,078	16,942,158
Change in ownership interest in subsidiary	-	-	(11,278)	(11,278)
31 December 2017	**225,078,600**	**15,813,360**	**108,711**	**241,000,671**

Approved for issue and signed on behalf of the Management Board on 03 April 2018.

Chairman
Mr. Elkhan Aghayev

Chief Accountant
Mrs. Tamilla Asadova

Open Joint Stock Company Xalq Bank

Consolidated Statement of Cash Flows for the year ended 31 December 2017
(in Azerbaijan Manats)

	Notes	Year ended 31 December 2017	Year ended 31 December 2016
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit before income tax		20,990,723	18,259,508
Adjustments for:			
Provision for impairment losses on interest bearing assets	5	25,681,851	51,214,777
Recovery of provision for guarantees and other commitments		105,036	28,208
Net unrealized loss / (gain) arising from changes in foreign currency exchange rates		1,133,068	(12,630,704)
Depreciation and amortization	18	4,854,423	5,018,752
Gain on revaluation of investment property	19	(41,806)	(135,910)
(Gain) / loss on disposal of property and equipment		(102,243)	645,296
Change in interest accruals, net		3,683,074	(24,145,531)
Cash flows from operating activities before changes in operating assets and liabilities		56,304,126	38,254,396
Changes in operating assets and liabilities			
(Increase)/decrease in operating assets:			
Minimum reserve deposit with the Central Bank of Azerbaijan Republic		(161,491)	(5,673,369)
Gold		(1,192,784)	(2,414,481)
Due from banks		70,140,945	(74,506,152)
Loans to customers		(75,973,298)	42,458,019
Forfeiting		8,712,644	1,764,842
Other assets		(2,953,639)	(14,030,903)
Increase/(decrease) in operating liabilities:			
Due to banks and government agencies		73,415,776	67,650,128
Customer accounts		53,029,555	(12,794,467)
Other liabilities		(4,660,817)	1,536,222
Cash inflow from operating activities before taxation		176,661,017	42,244,235
Income tax paid		(1,360,164)	(1,431,924)
Net cash inflow from operating activities		175,300,853	40,812,311
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property, equipment and intangible assets	18	(4,744,162)	(3,594,711)
Proceeds on disposal of property and equipment		155,750	40,100
Purchase of investments available-for-sale		(160,901,285)	(59,603,491)
Purchase of held-to-maturity financial assets		701,697	(15,758,960)
Acquisition of subsidiary, net of cash acquired		(11,278)	-
Net cash (outflow) / inflow from investing activities		(164,799,278)	(78,917,062)

Consolidated Statement of Cash Flows for the year ended 31 December 2017 (Continued)
(in Azerbaijan Manats)

	Notes	Year ended 31 December 2017	Year ended 31 December 2016
CASH FLOWS FROM FINANCING ACTIVITIES:			
Issue of ordinary share capital		-	-
Net cash inflow from financing activities		-	-
Effect of foreign exchange rate changes on cash and cash equivalents		(1,133,068)	12,630,704
NET (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS		9,368,507	(25,474,047)
CASH AND CASH EQUIVALENTS, beginning of year		132,785,419	158,259,466
CASH AND CASH EQUIVALENTS, end of year	12	142,153,926	132,785,419

Interest paid and received by the Group in cash during the year ended 31 December 2017 amounted to AZN 26,303,299 and AZN 104,564,245, respectively.

Interest paid and received by the Group in cash during the year ended 31 December 2016 amounted to AZN 28,543,673 and AZN 81,494,405, respectively.

Approved for issue and signed on behalf of the Management Board on 03 April 2018.

Chairman
Mr. Elkhan Aghayev

Chief Accountant
Mrs. Tamilla Asadova

1. Background

Xalq Bank is a joint stock company which was established on 24 December 2004 in accordance with establishment agreement and was registered by the Central Bank of Azerbaijan Republic on 27 December 2004. The address of its registered office is 1145 Babek Avenue, Baku, AZ 1025, Azerbaijan. The Bank is regulated by the Central Bank of Azerbaijan Republic (the "CBAR") and conducts its business under the general banking license number 246. The Bank had 29 and 27 branches in Azerbaijan as at 31 December 2017 and 2016 respectively. The Bank's primary business consists of commercial activities, trading with foreign currencies, originating loans and guarantees.

The number of employees of the Bank at 31 December 2017 and 2016 was 572 and 565, respectively.

The Bank is a parent company of a banking group (the "Group") which consists of the following enterprises consolidated in the financial statements:

		The Bank ownership interest/ voting rights		
Name	**Country of operation**	**2017**	**2016**	**Type of operation**
Xalq Kapital LLC	*The Republic of Azerbaijan*	100 %	100%	*Securities market transactions*
Baki Ayaqqabi -2 OJSC	*The Republic of Azerbaijan*	98.35%	98.26%	*Dormant*

"Xalq Kapital" LLC is a limited liability company registered in the Republic of Azerbaijan on 17 August 2007. The company's principal activity is operations with securities, broker and dealer operations.

"Baki Ayaqqabi -2" OJSC is a Joint Stock Company registered in the Republic of Azerbaijan in December 1980. The Company's principal activity had been the manufacture of footwear. The Company has not been functioning since June 1999. The Group has acquired the controlling interest in the Company's capital with the primary purpose of using it as investment property. The Group's management is still uncertain of the detailed plans regarding the Company.

As at 31 December 2017 and 2016 the following shareholders owned the issued shares of the Bank:

	31 December 2017	**31 December 2016**
	Ownership interest, %	**Ownership interest, %**
Ideal Biznes Ko LLC	50.00	50.00
Yevro Standart LLC	33.85	33.85
AMAL Invest Group LLC	16.15	16.15
Total	**100**	**100**

The ultimate controlling party of the Group is L.Aliyeva.

These consolidated financial statements were authorized for issue by the Management Board on 03 April 2018.

2. Basis of presentation

Accounting basis

These consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC"). These consolidated financial statements are presented in Azerbaijan Manats ("AZN") unless otherwise indicated. These consolidated financial statements have been prepared under the historical cost convention, except for the measurement at fair value of certain financial instruments and measurement of investment property at revalued amounts according to International Accounting Standard ("IAS") No. 40 "Investment Property".

The Group maintains its accounting records in accordance with Azerbaijan law. These consolidated financial statements have been prepared based on the Azerbaijani statutory accounting records and have been adjusted to conform with IFRS. These adjustments include certain reclassifications to reflect the economic substance of underlying transactions including reclassifications of certain assets and liabilities, income and expenses to appropriate financial statement captions.

Key assumptions

The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts. Such estimates and assumptions are based on the information available to the Group's management as of the date of the consolidated financial statements. Therefore, actual results could differ from those estimates and assumptions. Estimates that are particularly susceptible to change relate to the provisions for impairment losses and the fair value of financial instruments.

Key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period include:

	31 December 2017	31 December 2016
Loans to customers	1,263,204,930	1,216,711,641
Investments available for sale	221,766,983	60,192,942
Property and equipment	68,214,636	68,187,455
Investment Property	6,825,306	6,783,500

Loans to customers are measured at amortized cost less allowance for impairment losses. The estimation of allowances for impairments involves the exercise of significant judgment. The Group estimates allowances for impairment with the objective of maintaining balance sheet provisions at a level believed by management to be sufficient to absorb losses incurred in the Bank's loan portfolio. The calculation of provisions on impaired loans is based on the likelihood of the asset being written off and the estimated loss on such a write-off. These assessments are made using statistical techniques based on historic experience. These determinations are supplemented by the application of management judgment.

The Group considers accounting estimates related to provisions for loans key sources of estimation uncertainty because: (i) they are highly susceptible to change from period to period as the assumptions about future default rates and valuation of losses relating to impaired loans and advances are based on recent performance experience, and (ii) any significant difference between the Group's estimated losses (as reflected in the provisions) and actual losses will require the Group to take provisions which, if significantly different, could have a material impact on its future income statement and its statement of financial position. The Group's assumptions about estimated losses are based on past performance, past customer behaviour, the credit quality of recent underwritten business and general economic conditions, which are not necessarily an indication of future losses.

Investments available-for-sale are measured at fair value less impairment losses. The estimation of impairment losses involves the exercise of significant management judgment. The accounting policy for the impairment of financial instruments is discussed in Note 3 below.

Functional currency

Items included in the financial statements of the Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to that entity (the "functional currency"). The reporting currency of the financial statements is the Azerbaijan Manats ("AZN").

3. Summary of significant accounting policies

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Bank and entities controlled by the Bank (its subsidiaries) made up to 31 December each year. Control is achieved where the Bank has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

On acquisition, the assets and liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognized as goodwill. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired (i.e. discount on acquisition) is credited to the consolidated income statement in the period of acquisition. The minority interest is stated at the minority's proportion of the fair values of the assets and liabilities recognized. Subsequently, any losses applicable to the minority interest in excess of the minority interest are allocated against the interests of the parent. The equity attributable to equity holders of the parent and net income attributable to minority shareholders' interests are shown separately in the consolidated statement of financial position and income statement, respectively.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group.

All significant intra-group transactions, balances, income and expenses are eliminated on consolidation.

The difference, if any, between the carrying amount of minority interest and the amount received on its purchase is recognized in equity attributable to the equity holders of the parent.

Investments in associates

An associate is an entity over which the Group is in a position to exercise significant influence, but not control or joint control, through participation in the financial and operating policy decisions of the investee.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting.

Investments in associates are carried in the consolidated statement of financial position at cost as adjusted for goodwill and for post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of the associates in excess of the Group's interest in those associates are not recognized.

Any excess of the cost of acquisition over the Group's share of the fair values of the identifiable assets, liabilities and contingent liabilities of the associate at the date of acquisition is recognized as goodwill. The goodwill is included in the carrying amount of the investment and is assessed for impairment as part of the investment. Any deficiency of the cost of acquisition below the Group's share of the fair values of the identifiable assets, liabilities and contingent liabilities of the associate at the date of acquisition (i.e. discount on acquisition) is credited in the consolidated income statement in the period of acquisition.

Where a Group company transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

Goodwill

Goodwill arising on the acquisition of a subsidiary or jointly controlled entity represents the excess of the cost of acquisition over the Group's interest in the fair value of assets, liabilities and contingent liabilities of a subsidiary as at the date of acquisition. Goodwill is initially recognized as an asset at cost and is subsequently measure at cost less any accumulated impairment losses.

The Group tests goodwill for impairment at least annually. An impairment loss recognized for goodwill is not reversed in a subsequent period.

If the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the Group:

(a) Reassesses the identification and measurement of the Group's identifiable assets, liabilities and contingent liabilities and the measurement of the cost of the combination; and
(b) Recognizes immediately in profit or loss any excess remaining after that reassessment.

On disposal of an investment, the amount of goodwill attributable is included in the determination of financial result from disposal.

Recognition and measurement of financial instruments

The Group recognizes financial assets and liabilities on its consolidated statement of financial position when it becomes a party to the contractual obligation of the instrument. Regular way purchase and sale of the financial assets and liabilities are recognized using settlement date accounting. Regular way purchases of financial instruments that will be subsequently measured at fair value between trade date and settlement date are accounted for in the same way as for acquired instruments.

Financial assets and liabilities are initially recognized at fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss transaction costs that are directly attributable to acquisition or issue of the financial asset or financial liability. The accounting policies for subsequent re-measurement of these items are disclosed in the respective accounting policies set out below.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, unrestricted balances on correspondent and time deposit accounts with the Central Bank of Azerbaijan Republic with original maturity within 90 days, advances to banks in countries included in the Organization for Economic Cooperation and Development ("OECD"). For the purposes of determining cash flows, the minimum reserve deposit required by the Central Bank of Azerbaijan Republic is not included as a cash equivalent due to restrictions on its availability (Note 12).

Gold

Assets and liabilities denominated in gold are translated at the current rate computed based on the Central Bank rate effective at the date. Changes in the bid prices are recorded in net gain on operations with gold.

Fiduciary activities

The Group provides depositary services to its customers which include transactions with securities on their depositary accounts. Assets accepted and liabilities incurred under the fiduciary activities are not included in the Group's consolidated financial statements. The Group accepts operational risks relating to these activities, whereas the Group's customers bear the credit and market risks associated with such operations.

Due from banks

In the normal course of business, the Group maintains advances and deposits for various periods of time with other banks. Due from banks with a fixed maturity term are subsequently measured at amortized cost using the effective interest method, and are carried net of any allowance for impairment losses. Those that do not have fixed maturities are stated at amortized cost based on expected dates of maturity. Amounts due from credit institutions are carried net of any allowance for impairment losses.

Loans to customers

Loans to customers are non-derivative assets with fixed or determinable payments that are not quoted in an active market other than those classified in other categories of financial assets.

Loans to customers granted by the Group with fixed maturities are initially recognized at fair value plus related transaction costs, directly attributable to the acquisition or creation of qualifying financial assets. Where the fair value of consideration given does not equal the fair value of the loan, for example where the loan is issued at lower than market rates, the difference between the fair value of consideration given and the fair value of the loan is recognized as a loss on initial recognition of the loan and included in the consolidated income statement according to nature of these losses. Subsequently, loans are carried at amortized cost using the effective interest method. Loans to customers are carried net of any allowance for impairment losses.

The Group will take possession of any collateral held as security when a customer defaults on repayments of the loan and the loan cannot be renegotiated. The Group will engage a third party to dispose of the collateral on their behalf in the open market.

Factoring Assets

Factoring assets are non-derivative assets with determinable payments. These assets are initially recognized at fair value and any costs directly related to creation of qualifying financial assets.

Where the fair value of consideration given does not equal the fair value of the factoring asset the difference between the fair value of consideration given and the fair value of the asset is recognized as a loss on initial recognition of the asset and included in the consolidated income statement according to nature of these losses. Subsequently, factoring assets are carried at amortized cost using the effective interest method and are carried net of any allowance for impairment losses.

Write-off of loans and advances

Subsequent recoveries of amounts previously written off are reflected as an offset to the charge for impairment of financial assets in the consolidated income statement in the period of recovery.

Allowance for impairment losses

Assets carried at amortized cost

The Group accounts for impairment losses of financial assets that are not carried at fair value when there is objective evidence that a financial asset or group of financial assets is impaired. The impairment losses are measured as the difference between carrying amounts and the present value of expected future cash flows, including amounts recoverable from guarantees and collateral, discounted at the financial asset's original effective interest rate. Such impairment losses are not reversed unless if in a subsequent period the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, such as recoveries, in which case the previously recognized impairment loss is reversed by adjusting an allowance account.

For financial assets carried at cost the impairment losses are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

Available-for-sale financial assets

If an available-for-sale asset is impaired, a consolidated amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in the consolidated income statement, is transferred from equity to the consolidated income statement. Reversals of impairment losses in respect of equity instruments classified as available-for-sale are not recognized in the consolidated income statement. Reversals of impairment losses on debt instruments are reversed through the consolidated income statement if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss were recognized in the consolidated income statement.

The determination of impairment losses is based on an analysis of the risk assets and reflects the amount which, in the judgment of management, is adequate to provide for losses incurred. Provisions are made as a result of an individual appraisal of risk assets for financial assets that are individually significant, and an individual or collective assessment for financial assets that are not individually significant.

The change in impairment losses is charged to profit either through allowance account (financial assets that are carried at amortized cost) or direct write-off (financial assets carried at cost). The total of the impairment losses is deducted in arriving at assets as shown in the consolidated statement of financial position. Factors that the Group considers in determining whether it has objective evidence that an impairment loss has been incurred include information about the debtors' or issuers' liquidity, solvency and business and financial risk exposures, levels of and trends in delinquencies for similar financial assets, national and local economic trends and conditions, and the fair value of collateral and guarantees. These and other factors may, either individually or taken together, provide sufficient objective evidence that an impairment loss has been incurred in a financial asset or group of financial assets.

It should be understood that estimates of losses involve an exercise of judgment. While it is possible that in particular periods the Group may sustain losses which are substantial relative for impairment losses, it is the judgment of management that the impairment losses are adequate to absorb losses incurred on risk assets, at the reporting date.

Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the obligation can be made.

Investments available-for-sale

Investments available for sale represent debt and equity investments that are intended to be held for an indefinite period of time. Such securities are initially recorded at fair value. Subsequently the securities are measured at fair value, with such re-measurement recognized directly in equity until sold when gain/loss previously recorded in equity recycles through the consolidated income statement, except for impairment losses, foreign exchange gains or losses and interest income accrued using the effective interest method, which are recognized directly in the consolidated income statement. The Group uses quoted market prices to determine the fair value for the Group's investments available-for-sale. If the market for investments is not active, the Group establishes fair value by using a valuation technique. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and other applicable methods. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the Group uses that technique. Dividends received are included in dividend income in the consolidated income statement.

Non-marketable debt and equity securities are stated at amortized cost and cost, respectively, less impairment losses, if any, unless fair value can be reliably measured.

When there is objective evidence that such securities have been impaired, the cumulative loss previously recognized in equity is removed from equity and recognized in the consolidated income statement for the period. Reversals of such impairment losses on debt instruments, which are objectively related to events occurring after the impairment, are recognized in the consolidated income statement for the period. Reversals of such impairment losses on equity instruments are not recognized in the consolidated income statement.

Investment properties

Investment property comprises land or buildings, which are held in order to earn rentals or for capital appreciation or both, and which are not occupied by the companies in the Group or otherwise held for sale. Property held under operating lease is classified as investment property if, and only if, it meets the definition of an investment property. Investment property is carried at fair value. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the property. If this information is not available, the Group uses alternative valuation methods such as discounted cash flow projections. Changes in the fair value of investment property are recorded in the income statement.

Premises, equipment and intangible assets

Property, equipment and intangible assets are carried at historical cost (except for buildings, which are stated at revalued amounts) less accumulated depreciation and amortization and any recognized impairment loss. Depreciation on assets under construction and those not placed in service commences from the date the assets are ready for their intended use.

Depreciation of property, equipment and amortization of intangible assets is charged on their historical cost and is designed to write off assets over their useful lives. It is calculated on a straight line basis at the following annual rates:

Building	3.3%
Furniture and equipment	25%
Computers	25%
Vehicles	15%
Other equipment	20%
Intangible assets	10%

The carrying amounts of property, equipment and intangible assets are reviewed at each reporting date to assess whether they are recorded in excess of their recoverable amounts, and where the carrying values exceed the estimated recoverable amounts, the assets are written down to their recoverable amounts. Impairment is recognized in the respective period and is included in operating expenses. After the recognition of an impairment loss the depreciation charge for property and equipment is adjusted in future periods to allocate the assets' revised carrying value, less its residual value (if any), on a systematic basis over its remaining useful life.

Land and buildings held for use in supply of services, or for administrative purposes, are stated in the consolidated statement of financial position at their revalued amounts, being the fair value at the date of revaluation, determined from market-based evidence by appraisal undertaken by professional independent valuers, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount of the assets does not differ materially from that which would be determined using fair values at the reporting date.

Market value of property is assessed using three methods:

- The comparable sales method which involves analysis of market sales prices for similar real estate property;
- The income-based method which assumes a direct relationship between revenues generated by the property and its market value;
- The cost method which presumes the value of property to be equal to its recoverable amount less any depreciation charges.

Any revaluation increase arising on the revaluation of property is credited to the property, plant and equipment and equipment revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognized as an expense in the consolidated income statement, in which case the increase is credited to the consolidated income statements to the extent of the decrease previously charged. A decrease in carrying amount of an asset arising on the revaluation is charged as an expense to the income statement to the extent that it exceeds the balance, if any, held in the property, plant and equipment revaluation reserve relating to a previous revaluation of that asset.

Depreciation on revalued buildings is charged to the consolidated income statement. Upon the retirement or sale of buildings, the attributable revaluation surplus is transferred to retained earnings.

Taxation

Income tax expense comprises current and deferred taxation. Income tax expense for the current period is determined on the basis of the taxable profit received in the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's current tax expense is calculated using tax rates that have been enacted during the reporting period.

Deferred tax is reported using the balance sheet liability method and represents income tax assets and liabilities on the temporary difference between the carrying value of assets and liabilities and the respective tax accounting data used to arrive at the taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which the respective deferred tax assets can be utilized. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in transactions that affect neither the tax profit nor the accounting profit. Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying value of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that a related tax benefit will be realized sufficient for full or partial recovery of the asset.

Deferred tax assets and liabilities are offset by the Group with the resulting difference reported in the financial statements if:

- The Group has a legally enforceable right to set off the current tax assets and current tax liabilities; and
- Deferred tax assets and deferred tax liabilities relate to income taxes levied by the same tax authority on the same taxpayer.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realized. Deferred tax is charged or credited in the consolidated income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Due to banks and customer accounts

Due to banks and customer accounts are initially recognized at fair value. Subsequently amounts due are stated at amortized cost and any difference between carrying and redemption value is recognized in the consolidated income statement over the period of the borrowings using the effective interest method.

Contingencies

Contingent liabilities are not recognized in the consolidated statement of financial position but are disclosed unless the possibility of any outflow in settlement is remote. A contingent asset is not recognized in the consolidated statement of financial position but disclosed when an inflow of economic benefits is probable.

Financial guarantee contracts issued

Financial guarantee contracts issued by the Group are credit insurance that provides for specified payments to be made to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due under the original or modified terms of a debt instrument. Such financial guarantee contracts issued are initially recognized at fair value. Subsequently they are measured at the higher of (a) the amount recognized as a provision and (b) the amount initially recognized less, where appropriate, cumulative amortization of initial premium revenue received over the financial guarantee contracts issued.

Share capital

Share capital is recognized at cost.

Dividends on ordinary shares are recognized in equity as a reduction in the period in which they are declared. Dividends that are declared after the reporting date are treated as a subsequent event under International Accounting Standard 10 "Events after the reporting period" ("IAS 10") and disclosed accordingly.

Retirement and other benefit obligations

In accordance with the requirements of the legislation of the Republic of Azerbaijan, the Group withholds amounts of pension contributions from employee salaries and pays them to the state pension fund. Such expense is charged in the period the related salaries are earned. Upon retirement all retirement benefit payments are made by the state pension fund. The Group does not have any pension arrangements separate from the state pension system of Azerbaijan, which requires current contributions by employer calculated as a percentage of current gross salary payments. In addition, the Group has no post-retirement benefits or other significant compensated benefits requiring accrual.

Recognition of income and expense

Interest income and expense are recognized on an accrual basis using effective interest method. The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

Once a financial asset or a group of similar financial assets has been written down (partly written down) as a result of an impairment loss, interest income is thereafter recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Interests earned on assets at fair value are classified within interest income.

Loan origination fees are deferred, together with the related direct costs, and recognized as an adjustment to the effective interest rate of the loan. Where it is probable that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are deferred, together with the related direct costs, and recognized as an adjustment to the effective interest rate of the resulting loan. Where it is unlikely that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are recognized in the consolidated income statement over the remaining period of the loan commitment. Where a loan commitment expires without resulting in a loan, the loan commitment fee is recognized in the consolidated income statement on expiry. Loan servicing fees are recognized as revenue as the services are provided. All other commissions are recognized when services are provided.

Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into Azerbaijan Manats at the appropriate spot rates of exchange ruling at the reporting date. Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transaction. Profits and losses arising from these translations are included in net gain on foreign exchange operations.

Rates of exchange

The exchange rates at the year end used by the Group in the preparation of the consolidated financial statements are as follows:

31 December 2017	31 December 2016
USD 1 = AZN 1.7001	USD 1 = AZN 1.7707
EUR 1 = AZN 2.0307	EUR 1 = AZN 1.8644
GBP 1 = AZN 2.2881	GBP 1 = AZN 2.1745
RUR 1 = AZN 0.0295	RUR 1 = AZN 0.0293

Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment) or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. Segments with a majority of revenue earned from sales to external customers and whose, revenue, results are ten per cent or more of all the segments are reported separately. No geographical segments of the Group have been reported separately within these consolidated financial statements as all operations are conducted within Azerbaijan.

Offset of financial assets and liabilities

Financial assets and liabilities are offset and reported net on the consolidated statement of financial position when the Group has a legally enforceable right to set off the recognized amounts and the Group intends either to settle on a net basis or to realize the asset and settle the liability simultaneously. In accounting for a transfer of a financial asset that does not qualify for derecognition, the Group does not offset the transferred asset and the associated liability.

Adoption of new or revised standards and interpretations

Certain new standards and interpretations became effective for the Group from 1 January 2017:

Disclosure Initiative – Amendments to IAS 7 (issued on 29 January 2016 and effective for annual periods beginning on or after 1 January 2017). The amended IAS 7 requires disclosure of a reconciliation of movements in liabilities arising from financing activities.

Recognition of Deferred Tax Assets for Unrealized Losses – Amendments to IAS 12 (issued on 19 January 2016 and effective for annual periods beginning on or after 1 January 2017). The amendment has clarified the requirements on recognition of deferred tax assets for unrealized losses on debt instruments. The entity will have to recognize deferred tax asset for unrealized losses that arise as a result of discounting cash flows of debt instruments at market interest rates, even if it expects to hold the instrument to maturity and no tax will be payable upon collecting the principal amount. The economic benefit embodied in the deferred tax asset arises from the ability of the holder of the debt instrument to achieve future gains (unwinding of the effects of discounting) without paying taxes on those gains.

Annual Improvements to IFRSs 2014-2016 cycle - Amendments to IFRS 12 (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2017). The amendments clarify the scope of the disclosure requirements in IFRS 12 by specifying that the disclosure requirements in IFRS 12, other than those relating to summarised financial information for subsidiaries, joint ventures and associates, apply to an entity's interests in other entities that are classified as held for sale or discontinued operations in accordance with IFRS 5.

The above mentioned new or amended standards and interpretations effective from 1 January 2017 did not have a material impact on the accounting policies, financial position or performance of the Group.

New Accounting Pronouncements

Certain new standards and interpretations have been published that become effective for the accounting periods beginning on or after 1 January 2018 or later periods and which are relevant to the Group but not early adopted by the Group.

IFRS 9 Financial Instruments: Classification and Measurement (amended in July 2014 and effective for annual periods beginning on or after 1 January 2018 with early application permitted). In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments* which reflects all phases of the financial instruments project and replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. Key features of the new standard are:

- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).
- Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.
- Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.
- IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.
- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

The adoption of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but is not expected to have an impact on classification and measurements of the Group's financial liabilities.

IFRS 15 Revenue from Contracts with Customers (issued on 28 May 2014 and effective for the periods beginning on or after 1 January 2018). The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed.

IFRS 16 Leases (issued In January 2016 and effective for the annual periods beginning on or after 1 January 2019). IFRS 16 results in lessees accounting for most leases within the scope of the standard in a manner similar to the way in which finance leases are currently accounted for under IAS 17 *Leases*. Lessees will recognise a 'right of use' asset and a corresponding financial liability on the balance sheet. The asset will be amortized over the length of the lease and the financial liability measured at amortized cost. Lessor accounting remains substantially the same as in IAS 17 *Leases*.

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments to IFRS 10 and IAS 28 (issued in September 2014 with latest changes on 15 December 2016; effective date is not set). The amendments address the acknowledged inconsistency between the requirements in IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is contributed to an associate or a joint venture. The amendments clarify that an investor recognizes a full gain or loss on the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture. The gain or loss resulting from the re- measurement at fair value of an investment retained in a former subsidiary is recognized only to the extent of unrelated investors' interests in that former subsidiary.

Amendments to IFRS 15 Revenue from Contracts with Customers (issued on 12 April 2016 and effective for annual periods beginning on or after 1 January 2018). The amendments do not change the underlying principles of the Standard but clarify how those principles should be applied. The amendments clarify how to identify a performance obligation (the promise to transfer a good or a service to a customer) in a contract; how to determine whether a company is a principal (the provider of a good or service) or an agent (responsible for arranging for the good or service to be provided); and how to determine whether the revenue from granting a license should be recognized at a point in time or over time. In addition to the clarifications, the amendments include two additional reliefs to reduce cost and complexity for a company when it first applies the new Standard.

Amendments to IFRS 2 Share-based Payment (issued on 20 June 2016 and effective for annual periods beginning on or after 1 January 2018). The amendments mean that non-market performance vesting conditions will impact measurement of cash-settled share-based payment transactions in the same manner as equity-settled awards. The amendments also clarify classification of a transaction with a net settlement feature in which the entity withholds a specified portion of the equity instruments, that would otherwise be issued to the counterparty upon exercise (or vesting), in return for settling the counterparty's tax obligation that is associated with the share-based payment. Such arrangements will be classified as equity-settled in their entirety.

Finally, the amendments also clarify accounting for cash-settled share based payments that are modified to become equity-settled, as follows (a) the share-based payment is measured by reference to the modification-date fair value of the equity instruments granted as a result of the modification; (b) the liability is derecognized upon the modification, (c) the equity-settled share-based payment is recognized to the extent that the services have been rendered up to the modification date, and (d) the difference between the carrying amount of the liability as at the modification date and the amount recognized in equity at the same date is recorded in profit or loss immediately.

Amendments to IFRS 4 Insurance Contracts (issued on 12 September 2016 and effective for annual periods beginning on or after 1 January 2018). The amendments introduce two approaches: (i) an overlay approach and (ii) a deferral approach. Insurers will have the option to recognize in other comprehensive income, rather than profit or loss, the volatility that could arise when IFRS 9 is applied before the new insurance contracts standard is issued. In addition, entities whose activities are predominantly connected with insurance will have an optional temporary exemption from applying IFRS 9 until 2021.

Transfers of Investment Property - Amendments to IAS 40 (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018). The amendments clarify the requirements on transfers to, or from, investment property in respect of properties under construction. Prior to the amendments, there was no specific guidance on transfers into, or out of, investment properties under construction in IAS 40. The amendment clarifies that there was no intention to prohibit transfers of a property under construction or development, previously classified as inventory, to investment property when there is an evident change in use IAS 40 was amended to reinforce the principle of transfers into, or out of, investment property in IAS 40 to specify that a transfer into, or out of investment property should only be made when there has been a change in use of the property; and such a change in use would involve an assessment of whether the property qualifies as an investment property. Such a change in use should be supported by evidence.

IFRS 17 Insurance Contracts (issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2021) IFRS 17 replaces IFRS 4, which has given companies dispensation to carry on accounting for insurance contracts using existing practices. As a consequence, it was difficult for investors to compare and contrast the financial performance of otherwise similar insurance companies. IFRS 17 is a single principle-based standard to account for all types of insurance contracts, including reinsurance contracts that an insurer holds. The standard requires recognition and measurement of groups of insurance contracts at: (i) a risk-adjusted present value of the future cash flows (the fulfilment cash flows) that incorporates all of the available information about the fulfilment cash flows in a way that is consistent with observable market information; plus (if this value is a liability) or minus (if this value is an asset) (ii) an amount representing the unearned profit in the group of contracts (the contractual service margin). Insurers will be recognising the profit from a group of insurance contracts over the period they provide insurance coverage, and as they are released from risk. If a group of contracts is or becomes loss-making, an entity will be recognising the loss immediately.

Long-term Interests in Associates and Joint Ventures - Amendments to IAS 28 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019). The amendments clarify that reporting entities should apply IFRS 9 to long-term loans, preference shares and similar instruments that form part of a net investment in an equity method investee before they can reduce such carrying value by a share of loss of the investee that exceeds the amount of investor's interest in ordinary shares.

Described above, the new standards and interpretations are not expected to significantly affect the Group's financial statements.

Areas of significant management judgment and sources of estimation uncertainty

The preparation of the Group's financial statements requires management to make estimates and judgments that affect the reported amounts of assets and liabilities at the reporting date and the reported amount of income and expenses during the period ended. Management evaluates its estimates and judgments on an ongoing basis. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. The following estimates and judgments are considered important to the portrayal of the Group's financial condition.

Allowance for impairment of loans and receivables

The Group regularly reviews its loans and receivables to assess for impairment. The Group's loan impairment provisions are established to recognize incurred impairment losses in its portfolio of loans and receivables. The Group considers accounting estimates related to allowance for impairment of loans and receivables a key source of estimation uncertainty because (i) they are highly susceptible to change from period to period as the assumptions about future default rates and valuation of potential losses relating to impaired loans and receivables are based on recent performance experience, and (ii) any significant difference between the Group's estimated losses and actual losses would require the Group to record provisions which could have a material impact on its financial statements in future periods.

The Group uses management's judgment to estimate the amount of any impairment loss in cases where a borrower has financial difficulties and there are few available sources of historical data relating to similar borrowers. Similarly, the Group estimates changes in future cash flows based on past performance, past customer behavior, observable data indicating an adverse change in the payment status of borrowers in a group, and national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans and receivables. The Group uses management's judgment to adjust observable data for a group of loans or receivables to reflect current circumstances not reflected in historical data.

The allowances for impairment of financial assets in the consolidated financial statements have been determined on the basis of existing economic and political conditions. The Group is not in a position to predict what changes in conditions will take place in the Republic of Azerbaijan and what effect such changes might have on the adequacy of the allowances for impairment of financial assets in future periods.

The carrying amount of the allowance for impairment of loans to customers is AZN 111,837,455 and AZN 105,592,919 as at 31 December 2017 and 2016.

Valuation of Financial Instruments

Financial instruments that are classified as available for sale. The fair value of such financial instruments is the estimated amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. If a quoted market price is available for an instrument, the fair value is calculated based on the market price. When valuation parameters are not observable in the market or cannot be derived from observable market prices, the fair value is derived through analysis of other observable market data appropriate for each product and pricing models which use a mathematical methodology based on accepted financial theories. Pricing models take into account the contract terms of the securities as well as market-based valuation parameters, such as interest rates, volatility, exchange rates and the credit rating of the counterparty. Where market-based valuation parameters are not directly observable, management will make a judgment as to its best estimate of that parameter in order to determine a reasonable reflection of how the market would be expected to price the instrument. In exercising this judgment, a variety of tools are used including proxy observable data, historical data, and extrapolation techniques. The best evidence of fair value of a financial instrument at initial recognition is the transaction price unless the instrument is evidenced by comparison with data from observable markets. Any difference between the transaction price and the value based on a valuation technique is not recognized in the consolidated income statement on initial recognition. Subsequent gains or losses are only recognized to the extent that it arises from a change in a factor that market participants would consider in setting a price.

The Group considers that the accounting estimate related to valuation of financial instruments where quoted markets prices are not available is a key source of estimation uncertainty because: (i) it is highly susceptible to change from period to period because it requires management to make assumptions about interest rates, volatility, exchange rates, the credit rating of the counterparty, valuation adjustments and specific feature of the transactions and (ii) the impact that recognizing a change in the valuations would have on the assets reported on its consolidated statement of financial position as well as its profit/(loss) could be material.

Had management used different assumptions regarding the interest rates, volatility, exchange rates, the credit rating of the counterparty and valuation adjustments, a larger or smaller change in the valuation of financial instruments where quoted market prices are not available would have resulted that could have had a material impact on the Group's reported net income.

The carrying amount of the financial instruments at fair value is as follows as at 31 December 2017 and 2016:

	31 December 2017	31 December 2016
Investments available-for-sale	221,766,983	60,192,942

4. Net interest income

Net interest income comprise:

	Year ended 31 December 2017	Year ended 31 December 2016
Interest income comprises		
Interest on loans to customers	86,539,186	98,883,708
Interest on debt securities	8,197,263	1,370,627
Interest on due from banks	5,029,888	3,556,548
Interest on guarantees	297,571	201,613
Interest on other operations	66,691	814,996
Total interest income on financial assets recorded at amortized cost	100,130,599	104,827,492
Interest expense comprises:		
Interest on customer accounts	17,992,889	20,497,041
Interest on due to banks and government agencies	7,559,838	7,234,196
Total interest expense on financial assets recorded at amortized cost	25,552,727	27,731,237
Net interest income before provision for impairment losses on interest bearing assets	**74,577,872**	**77,096,255**

5. Allowance for impairment losses

The movements in allowance for impairment losses on interest earning assets were as follows:

	Forfeiting	Due from banks	Loans to customers	Total
31 December 2015	**150,675**	**134,063**	**57,038,476**	**57,323,214**
Provision / (Recovery of provision)	(17,649)	772,247	50,460,179	51,214,777
Write-off of assets	-	-	(1,905,736)	(1,905,736)
31 December 2016	**133,026**	**906,310**	**105,592,919**	**106,632,255**
Provision / (Recovery of provision)	(41,227)	(488,396)	26,211,474	25,681,851
Write-off of assets	-	-	(19,966,938)	(19,966,938)
31 December 2017	**91,799**	**417,914**	**111,837,455**	**112,347,168**

The movements in provision for impairment losses on guarantees and other commitments were as follows:

	Guarantees and other commitments
31 December 2015	**70,132**
Recovery of provision	28,208
31 December 2016	**98,340**
Provision	105,036
31 December 2017	**203,376**

6. Net gain on gold operations

Net gain on gold operations comprise:

	Year ended 31 December 2017	Year ended 31 December 2016
Net gain on gold operations	10,308	16,365
Translation difference on gold	1,209,321	2,483,083
Total net gain on gold operations	**1,219,629**	**2,499,448**

7. Net gain on foreign exchange operations

Net gain on foreign exchange operations comprise:

	Year ended 31 December 2017	Year ended 31 December 2016
Dealing differences, net	4,306,705	6,704,039
Translation differences, net	(1,133,068)	12,630,704
Total net gain on foreign exchange operations	**3,173,637**	**19,334,743**

8. Fee and commission income and expense

Fee and commission income and expense comprise:

	Year ended 31 December 2017	Year ended 31 December 2016
Fee and commission income:		
Factoring	2,568,866	913,240
Plastic cards operations	1,489,698	1,083,990
Settlements	1,459,167	971,883
Foreign exchange operations	1,186,060	1,370,450
Cash operations	1,035,104	1,549,561
Guarantee letters	39,439	20,716
Letters of credit	7,295	20,669
Other	211,022	197,685
Total fee and commission income	**7,996,651**	**6,128,194**
Fee and commission expense:		
Plastic cards operations	1,333,269	574,994
Settlements	404,159	226,550
Cash operations	158,017	256,555
Broker operationst	46,817	18,027
Other	376,202	48,562
Total fee and commission expense	**2,318,464**	**1,124,688**

9. Operating expenses

Operating expenses comprise:

	Year ended 31 December 2017	Year ended 31 December 2016
Staff costs	15,434,956	14,722,388
Depreciation and amortization	4,854,423	5,018,752
Payments to the Deposit Insurance Fund of the Republic of Azerbaijan	3,806,212	4,375,741
Operating leases	1,346,054	1,340,709
Taxes, other than income tax	815,796	690,338
Security expenses	761,886	717,456
Communications	755,870	624,203
Membership fees	675,118	17,000
Repairs and maintenance expenses	622,311	390,494
Advertising and marketing expenses	609,486	537,587
Insurance	548,412	498,225
Transportation and business trip expenses	376,476	366,670
Utilities	322,203	236,029
Professional services fees	305,840	825,041
Stationery expenses	242,262	198,693
Entertainment	186,888	1,165,060
Other expenses	740,300	443,412
Total operating expenses	**32,404,493**	**32,167,798**

10. Income taxes

The Group provides for taxes based on the tax accounts maintained and prepared in accordance with the tax regulations of countries where the Group and its subsidiaries operate and which may differ from International Financial Reporting Standards.

The Group is subject to certain permanent tax differences due to non-tax deductibility of certain expenses and a tax free regime for certain income. The statutory income tax rate is 20%.

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes.

Temporary differences as at 31 December 2017 and 2016 relate mostly to different methods of income and expense recognition as well as to recorded values of certain assets.

Temporary differences as at 31 December 2017 and 2016 comprise:

	31 December 2017	31 December 2016
Deductible temporary differences:		
Allowance for losses on loans to customers	9,313,552	8,452,228
Other liabilities	2,502,887	2,332,852
Amortization	453,314	350,087
Other assets	107,055	66,427
Total deductible temporary differences	12,376,808	11,201,594
Taxable temporary differences:		
Depreciation	(11,247,653)	(9,762,333)
Gold	(8,417,680)	(7,218,105)
Due from banks	-	(265,848)
Total deductible temporary differences	(19,665,333)	(17,246,286)
Net deferred (taxable) / deductible temporary differences	(7,288,525)	(6,044,692)
Net deferred tax (liability) / asset at the statutory tax rate (20%)	(1,457,705)	(1,208,938)
Net deferred tax (liability) / asset	**(1,457,705)**	**(1,208,938)**

Relationships between tax expenses and accounting profit for the years ended 31 December 2017 and 2016 are explained as follows:

	Year ended 31 December 2017	Year ended 31 December 2016
Profit before income tax	**20,990,723**	**18,259,508**
Tax at the statutory tax rate of 20%	4,198,145	3,651,902
Tax effect of permanent differences	(149,580)	(222,236)
Income tax expense / (benefit)	**4,048,565**	**3,429,666**
Current income tax expense	3,799,798	1,431,924
Deferred income tax expense / (benefit)	248,767	1,997,742
Income tax expense / (benefit)	**4,048,565**	**3,429,666**

Deferred income tax assets	31 December 2017	31 December 2016
Beginning of the period	**(1,208,938)**	**788,804**
Change in the income tax assets for the period charged to profit	(248,767)	(1,997,742)
End of the period	**(1,457,705)**	**(1,208,938)**

11. Earnings per share

The earnings per share are calculated as follows:

	Year ended 31 December 2017	Year ended 31 December 2016
Profit:		
Net profit for the year	16,940,080	14,826,416
Weighted average number of ordinary shares for basic earnings per share	3,630,300	3,630,300
Earnings per share – basic and diluted (AZN)	**4.666**	**4.084**

12. Cash and cash equivalents

Cash and balances with the Central Bank of Azerbaijan Republic comprise:

	31 December 2017	31 December 2016
Cash on hand	36,056,016	32,607,549
Balances with the Central Bank of Azerbaijan Republic	26,293,195	74,038,440
Total cash and balances with the Central Bank of Azerbaijan Republic	**62,349,211**	**106,645,989**

The balances with the CBAR as at 31 December 2017 and 2016 include AZN 8,572,410 and AZN 8,410,919, respectively, which represent the minimum reserve deposits required by the CBAR. The Bank is entitled to use all funds on its correspondent account provided that average daily balance for 30 days period will be eventually higher than required mandatory reserve.

Cash and cash equivalents for the purposes of the statement of cash flows comprise:

	31 December 2017	31 December 2016
Cash and balances with the Central Bank of Azerbaijan Republic	62,349,211	106,645,989
Due from banks in OECD countries	105,851,530	36,324,148
	168,200,741	142,970,137
Less minimum reserve deposit with the Central Bank of Azerbaijan Republic	(8,572,410)	(8,410,919)
Less restricted deposit in OECD countries	(17,474,405)	(1,773,799)
Total cash and cash equivalents	**142,153,926**	**132,785,419**

13. Due from banks

Due from banks comprise:

	31 December 2017	31 December 2016
Loans and time deposits with other banks	36,586,982	86,558,951
Correspondent accounts with other banks	53,308,212	37,188,179
Restricted deposits	17,491,406	1,791,506
	107,386,600	125,538,636
Less: allowance for impairment losses	(417,914)	(906,310)
Total due from banks	**106,968,686**	**124,632,326**

As at 31 December 2017 and 2016 accrued interest income included in due from banks amounted to AZN 16,580 and AZN 1,854,447, respectively.

Movements in allowances for impairment losses on balances due from banks for the years ended 31 December 2017 and 2016 are disclosed in Note 5.

As at 31 December 2017 and 2016 the maximum credit risk exposure of due from banks amounted to AZN 106,968,686 and AZN 124,632,326, respectively.

As at 31 December 2017 and 2016 the Bank had restricted deposits blocked in support of guarantees issued and plastic cards operations and money transfers totaling AZN 17,491,406 and AZN 1,791,506, respectively.

14. Loans to customers

Loans to customers comprise:

	31 December 2017	31 December 2016
Loans to customers	1,375,042,385	1,322,304,560
Less allowance for impairment losses	(111,837,455)	(105,592,919)
Total loans to customers	**1,263,204,930**	**1,216,711,641**

As at 31 December 2017 and 2016 accrued interest income included in loans to customers amounted to AZN 52,427,677 and AZN 55,696,212, respectively.

Movements in allowances for impairment losses for the years ended 31 December 2017 and 2016 are disclosed in Note 5.

The table below summarizes the amount of loans secured by collateral, rather than the fair value of the collateral itself:

	31 December 2017	31 December 2016
Loans collateralized by real estate	645,878,033	652,380,637
Loans collateralized by equipment	202,821,930	109,017,041
Loans collateralized by cash	159,231,827	172,676,636
Loans collateralized by guarantees	135,471,967	103,176,895
Loans collateralized by trade receivable	12,316,019	12,678,670
Loans collateralized by vehicles	1,849,807	6,818,165
Unsecured loans	217,472,802	265,556,516
	1,375,042,385	1,322,304,560
Less allowance for impairment losses	(111,837,455)	(105,592,919)
Total loans to customers	**1,263,204,930**	**1,216,711,641**

Analysis by industry	31 December 2017	31 December 2016
Construction	494,271,135	552,813,293
Individuals	208,364,950	213,657,007
Transportation and communication	186,561,702	119,335,821
Mining	148,007,306	205,538,134
Agriculture	122,263,196	52,426,176
Trading	99,786,533	55,257,538
Manufacturing	51,339,531	52,725,617
Energy	15,405,739	53,585,109
Other	49,042,293	16,965,865
	1,375,042,385	1,322,304,560
Less allowance for impairment losses	(111,837,455)	(105,592,919)
Total loans to customers	**1,263,204,930**	**1,216,711,641**

Loans to individuals comprise the following products:

	31 December 2017	31 December 2016
Mortgage loans	113,570,814	102,471,664
Consumer loans	80,433,561	97,986,544
Business loans	12,104,226	7,134,048
Car loans	1,699,899	4,720,969
Plastic cards	556,450	1,343,782
	208,364,950	213,657,007
Less allowance for impairment losses	(40,742,724)	(30,419,658)
Total loans to customers	**167,622,226**	**183,237,349**

As at 31 December 2017 and 2016 the Bank granted 11 and 11 loans totaling AZN 776,255,300 and AZN 806,673,753, respectively, which individually exceeded 10% of the Group's equity.

As at 31 December 2017 and 2016 the maximum credit risk exposure of loans to customers amounted to AZN 1,103,973,103 and AZN 1,044,035,005, respectively.

As at 31 December 2017 and 2016 loans to customers included loans in amount of AZN 335,129,233 and AZN 324,752,810, respectively, whose terms have been renegotiated.

As at 31 December 2017 and 2016 loans to customers included loans in amount of AZN 174,807,381 and AZN 194,075,500, respectively, that were individually determined to be impaired.

As at 31 December 2017 and 2016 60% and 64% of total amount of loans to customers are given to 12 and 11 entities, respectively.

A significant amount of loans (100% of loans to customers) is granted to companies operating in the Republic of Azerbaijan, which represents significant geographical concentration in one region.

15. Forfeiting

Forfeiting comprise:

	31 December 2017	31 December 2016
Forfeiting operations with customers	4,589,966	13,302,610
Less allowance for impairment losses	(91,799)	(133,026)
Total forfeiting	**4,498,167**	**13,169,584**

Movements in allowances for impairment losses for the years ended 31 December 2017 and 2016 are disclosed in Note 5.

16. Investments available-for-sale

Investments available-for-sale comprise:

	31 December 2017	31 December 2016
Equity securities	179,650	179,269
Debt securities	221,587,333	60,013,673
Total investments available-for-sale	**221,766,983**	**60,192,942**

As at 31 December 2017 and 2016 accrued interest income included in investments available for sale amounted to AZN 1,083,303 and AZN 410,547, respectively.

Equity securities	Share %	31 December 2017	Share %	31 December 2016
Baku Stock Exchange	4.76	135,000	4.76	135,000
Millikart LTD	1	40,000	1	40,000
SWIFT SCRL		4,650		4,269
Total equity securities		**179,650**		**179,269**

Debt securities	Nominal interest rate	31 December 2017	Nominal Interest rate	31 December 2016
Notes issued by Central Bank of the Republic of Azerbaijan	10%	194,137,077	15%	40,367,986
Bonds issued by SOCAR	5%	27,450,256	5%	19,645,687
		221,587,333		60,013,673
Less: allowance for impairment losses		-		-
Total debt securities		**221,587,333**		**60,013,673**

Movements in allowances for impairment losses for the years ended 31 December 2017 and 2016 are disclosed in Note 5.

17. Held-to-maturity financial assets

During the financial year 2016 Bank purchased senior unsecured Eurobonds guaranteed by the Republic of Azerbaijan with nominal value of 8 million US dollars issued by CJSC "Southern Gas Corridor". The Eurobonds bear interest rate of 6.875 per cent per annum payable semi-annually in arrears on 24 March and 24 September in each year until maturity. The Eurobonds mature on 24 March 2026 and are listed on the Irish Stock Exchange. The Eurobonds purchased with premium of 914,267 US dollars in secondary market.

During the financial year 2017 Xalq Kapital (Subsidiary) purchased Bonds issued by Ministry of Finance of Azerbaijan Republic with the nominal value of 35,000 AZN. The Bonds bear interest rate of 15 per cent per annum payable semi-annually in arrears on May and November in each year until maturity. The Bonds mature on 10 November 2020 and are listed on the Baku Stock Exchange. The Bonds purchased with premium of 2,313 AZN in secondary market.

The management have reviewed the Group's held-to-maturity financial assets in the light of its capital maintenance and liquidity requirements and have confirmed the Group's positive intention and ability to hold those assets to maturity.

As at 31 December 2017 and 2016 carrying amount of the held-to-maturity financial assets carried at amortized cost are as follows:

	Coupon rate	**31 December 2017**	**Coupon rate**	**31 December 2016**
Eurobonds issued by CJSC Southern Gas Corridor	6.875%	15,019,358	6.875%	15,758,960
Bonds issued by Ministry of Finance of the Republic of Azerbaijan	15%	37,905	-	-
		15,057,263		15,785,960
Less: allowance for impairment losses		-		-
Total held-to-maturity financial assets		**15,057,263**		**15,758,960**

As at 31 December 2017 and 2016 held-to-maturity financial assets represents accrued interest in the amount of AZN 219,986 and AZN 183,710, respectively.

18. Premises, equipment and intangible assets

	Land	Buildings	Computers	Vehicles	Furniture & Equipment	Other Equipment	Construction in progress	Total Premises & Equipment	Intangible Assets	Total
Cost at 31 December 2015	1,025,138	72,745,455	4,658,085	4,601,227	9,364,327	989,149	1,264,379	94,647,760	2,986,685	97,634,445
Additions	70,000	769,297	87,324	223,377	1,766,977	35,556	468,894	3,421,425	173,286	3,594,711
Disposals	-	-	(5,785)	(511,769)	(3,885)	27,728	(674,598)	(1,168 309)	299,879	(868,430)
Transfers	-	160,703	-	-	138,839	-	(299,542)	-	-	-
Cost at 31 December 2016	1,095,138	73,675,455	4,739,624	4,312,835	11,266,258	1,052,433	759,133	95,900,876	3,459,850	100,360,726
Additions	-	1,484	161,724	2,722,593	1,070,699	448,553	204,018	4,609,071	135,091	4,744,162
Disposals	-	-	(20,686)	(860,500)	(39,689)	(8,142)	(1,971)	(930 988)	-	(930,988)
Transfers	-	710,151	-	-	-	-	(710,151)	-	-	-
Cost at 31 December 2017	1,095,138	74,387,090	4,880,662	6,174,928	12,297,268	1,492,844	251,029	103,578,959	3,594,941	104,173,900
Accumulated Depreciation at 31 December 2015	-	(9,795,906)	(3,201,263)	(3,008,116)	(7,850,254)	(613,840)	-	(24,469,379)	(1,125,255)	(25,594,634)
Charge for the year	-	(2,429,771)	(433,816)	(808,991)	(974,351)	(80,026)	-	(4,726,955)	(291,797)	(5,018,752)
Disposals	-	-	5,785	500,971	3,885	(27,728)	-	482 913	(299,879)	183,034
Transfers	-	-	-	-	-	-	-	-	-	-
Accumulated Depreciation at 31 December 2016	-	(12,225,677)	(3,629,294)	(3,316,136)	(8,820,720)	(721,594)	-	(28,713,421)	(1,716,931)	(30,430,352)
Charge for the year	-	(2,455,740)	(310,041)	(571,875)	(1,122,169)	(68,558)	-	(4,528,383)	(326,040)	(4,854,423)
Disposals	-	-	20,673	809,042	39,624	8,142	-	877,481	-	877,481
Transfers	-	-	-	-	-	-	-	-	-	-
Accumulated Depreciation at 31 December 2017	-	(14,681,417)	(3,918,662)	(3,078,969)	(9,903,265)	(782,010)	-	(32,364,323)	(2,042,971)	(34,407,294)
NBV at 31 December 2016	1,095,138	61,449,778	1,110,330	996,699	2,445,538	330,839	759,133	68,187,455	1,742,919	69,930,374
NBV at 31 December 2017	1,095,138	59,705,673	962,000	3,095,959	2,394,003	710,834	251,029	68,214,636	1,551,970	69,766,606

19. Investment properties

Investment properties comprise:

	Year ended 31 December 2017	Year ended 31 December 2016
Investment property at fair value at beginning of the year	**6,783,500**	**6,647,590**
Fair value gains / (loss)	41,806	135,910
Investment properties at end of the year	**6,825,306**	**6,783,500**

The fair value of investment property as at 31 December 2017 was determined on 12 February 2018 by AIS Azintellektservice, who holds a recognized professional qualification. The basis used for the appraisal was market value.

20. Other assets

Other assets comprise:

	31 December 2017	31 December 2016
Other financial assets		
Settlements on money transfers and plastic cards	4,257,246	4,353,429
Other non-financial assets		
Collateral repossessed	27,123,491	15,503,503
Prepaid operating taxes	3,362,809	2,091,410
Prepayments and receivables on other transactions	1,482,539	4,167,361
Deferred expenses	913,771	618,628
Prepaid operating leases	623,253	707,904
Prepayments for purchases of intangible assets	359,363	317,546
Prepayments for purchase of property and equipment	160,719	790,346
Other	38,823	204,408
	38,322,014	28,754,535
Less: Provision for impairment of other non-financial assets	(11,299,624)	(4,685,784)
Total other assets	**27,022,390**	**24,068,751**

The movements in provision for impairment losses on other non-financial assets were as follows:

	Other non-financial assets
31 December 2015	**(1,385,824)**
Provision	(3,299,960)
31 December 2016	**(4,685,784)**
Provision	(6,613,840)
31 December 2017	**(11,299,624)**

21. Due to banks and government agencies

Due to banks and government agencies comprise:

	31 December 2017	31 December 2016
Amount due to the National Fund for Support of Entrepreneurship	114,122,893	97,893,579
Time deposits and loans	95,205,600	88,535,000
Amount due to Azerbaijan Mortgage Fund	53,584,891	44,345,239
Amount due to State Oil Company of Azerbaijan Republic	33,883,773	20,869,523
Loans from the CBAR	31,491,778	31,500,000
Correspondent accounts of other banks	25,645,162	25,211
Amount due to the National Depository Center	2,708,699	
Total due to banks and government agencies	**356,642,796**	**283,168,552**

As at 31 December 2017 and 2016 accrued interest expense included in due to banks and government agencies amounted to AZN 209,016 and AZN 150,548, respectively.

22. Customer accounts

Customer accounts comprise:

	31 December 2017	31 December 2016
Time deposits	949,788,266	930,093,619
Repayable on demand	233,668,214	201,142,346
Total customer accounts	**1,183,456,480**	**1,131,235,965**

As at 31 December 2017 and 2016 accrued interest expense included in customer accounts amounted to AZN 668,796 and AZN 1,477,836, respectively.

As at 31 December 2017 and 2016 customer accounts amounting to AZN 915,087,508 and AZN 809,058,524 were due to 14 and 12 customers representing a significant concentration, being approximately 77% and 72%, respectively.

	31 December 2017	31 December 2016
Individuals	780,877,314	777,864,180
Investing	177,452,950	159,990,521
Energy	72,988,268	84,851,853
Transport and communication	65,733,577	20,985,730
Insurance	47,555,189	54,025,094
Agriculture	16,133,288	283,164
Trade	8,994,600	10,867,421
Manufacturing	5,422,041	14,255,981
Construction	4,907,531	4,485,665
State institutions	1,168,243	2,895,377
Other	2,223,479	730,979
Total customer accounts	**1,183,456,480**	**1,131,235,965**

23. Other liabilities

Other liabilities comprise:

	31 December 2017	31 December 2016
Other financial liabilities		
Settlements on money transfers and plastic cards	1,583,012	3,684,539
Other non-financial liabilities		
Payables to the employees	2,450,423	2,230,399
Deferred revenue	1,570,283	4,409,099
Payables to the Deposit Insurance Fund	948,823	1,126,775
Taxes other than income tax	549,041	470,236
Accrued expenses	85,443	29,967
Professional fees payable	53,100	44,070
Other	324,221	230,078
Total other liabilities	**7,564,346**	**12,225,163**

24. Share capital

As of 31 December 2017 and 2016 the Group's shareholders' authorized, issued and fully paid capital amounted to AZN 225,078,600 and AZN 211,646,490, respectively and comprised 3,630,300 and 3,630,300 ordinary shares with a par value of AZN 62.00 and AZN 58.30, respectively. Each share entitles one vote to the shareholder.

Movements in ordinary shares outstanding, issued and fully paid were as follows:

	Nominal price of one share	Number of ordinary shares	Share capital AZN
31 December 2015	**58.30**	**3,630,300**	**211,646,490**
Increase in share capital	-	-	-
31 December 2016	**58.30**	**3,630,300**	**211,646,490**
Capitalization of retained earnings	3.70	-	13,432,110
31 December 2017	**62.00**	**3,630,300**	**225,078,600**

25. Financial commitments and contingencies

In the normal course of business, the Group is a party to financial instruments with off-balance sheet risk in order to meet the needs of its customers. These instruments, involving varying degrees of credit risk, are not reflected in the consolidated statement of financial position.

The Group's maximum exposure to credit loss under contingent liabilities and commitments to extend credit, in the event of non-performance by the other party where all counterclaims, collateral or security prove valueless, is represented by the contractual amounts of those instruments.

The Group's uses the same credit control and management policies in undertaking off-balance sheet commitments as it does for on-balance operations.

Provision for losses on contingent liabilities amounted to AZN 203,376 and AZN 98,340 as at 31 December 2017 and 2016, respectively.

As at 31 December 2017 and 2016, the nominal or contract amounts and the risk amounts were:

	31 December 2017		31 December 2016	
	Nominal Amount	Risk Weighted Amount	Nominal Amount	Risk Weighted Amount
Contingent liabilities and credit commitments				
Guarantees issued and similar commitments	25,712,549	25,712,549	33,619,112	33,619,112
Letters of credit and other transaction related contingent obligations	10,399,073	5,199,536	174,106	87,053
Commitments on credits and unused credit lines	58,656,136	29,328,068	50,587,748	25,293,874
Total contingent liabilities and credit commitments	**94,767,758**	**60,240,153**	**84,380,966**	**59,000,039**

Capital commitments – The Group had no material commitments for capital expenditures outstanding as at 31 December 2017.

Legal proceedings - From time to time and in the normal course of business, claims against the Group are received from customers and counterparties. Management is of the opinion that no material unaccrued losses will be incurred and accordingly no provision has been made in these consolidated financial statements.

The Group is receiving claims from individual customers with respect to certain commissions withheld by the Group for loan agreements service. Management is of the opinion that such claims would not have adverse consequences for the Group, and is in the process of establishing procedures on disclosing additional information in loan agreements in compliance with the CBAR instruction.

Taxes - Azerbaijan commercial legislation and tax legislation in particular may give rise to varying interpretations and amendments. In addition, as management's interpretation of tax legislation may differ from that of the tax authorities, transactions may be challenged by the tax authorities, and as a result the Group may be assessed additional taxes, penalties and interest. Tax years remain open to review by the tax authorities for three years. Management believes that the Group has already made all tax payments that are due, and therefore no provisions have been made in these consolidated financial statements for any potential liabilities.

Pensions and retirement plans - Employees receive pension benefits from the Republic of Azerbaijan in accordance with the laws and regulations of the country. As at 31 December 2016 the Group was not liable for any supplementary pensions, post-retirement health care, insurance benefits, or retirement indemnities to its current or former employees.

Operating environment - The Group's principal business activities are within Azerbaijan. Laws and regulations affecting the business environment in Azerbaijan are subject to rapid changes and the Group's assets and operations could be at risk due to negative changes in the political and business environment.

26. Transactions with related parties

Related parties or transactions with related parties in the Group, as defined by IAS 24 "Related party disclosures", represent:

(a) Parties that directly, or indirectly through one or more intermediaries: control, or are controlled by, or are under common control with, the Group (this includes parents, subsidiaries and fellow subsidiaries); have an interest in the Group that gives then significant influence over the Group; and that have joint control over the Group;
(b) Associates – enterprises in which the Group has significant influence and which is neither a subsidiary nor a joint venture of the investor;
(c) Members of key management personnel of the Group or its parent;
(d) Close members of the family of any individuals referred to in (a) or (c);
(e) Parties that are entities controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (c) or (d).

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form. The Group had the following transactions outstanding as at 31 December 2017 and 2016 with related parties:

	31 December 2017		31 December 2016	
	Related party transactions	**Total category as per financial statements caption**	**Related party transactions**	**Total category as per financial statements caption**
Loans to customers		1,375,042,385		1,322,304,560
- shareholders and entities in which a substantial interest is owned by shareholders of the Group	*54,574,685*		*48,267,327*	
- key management personnel of the entity	*770,353*		*747,288*	
Allowance for impairment losses		(111,837,455)		(105,592,919)
- shareholders and entities in which a substantial interest is owned by shareholders of the Group	*(1,051,272)*		*(937,188)*	
- key management personnel of the entity	*(7,283)*		*(7,462)*	
Customer accounts		1,183,456,480		1,131,235,965
- shareholders and entities in which a substantial interest is owned by shareholders of the Group	*83,871,364*		*73,503,615*	
- key management personnel of the entity	*1,141,950*		*867,793*	
Guarantees issued		25,712,549		33,619,112
- shareholders and entities in which a substantial interest is owned by shareholders of the Group	*612,010*		*1,118,640*	
Unused loan commitments		58,656,136		50,587,748
- shareholders and entities in which a substantial interest is owned by shareholders of the Group	17,911,990		27,061,316	
- key management personnel of the entity	*89,516*		*136,833*	

	Year ended 31 December 2017		Year ended 31 December 2016	
	Related party transactions	Total category as per financial statements caption	Related party transactions	Total category as per financial statements caption
Key management personnel compensation:				
short-term employee benefits	443,037	15,434,966	482,956	14,722,388

Included in the consolidated income statement for the years ended 31 December 2017 and 2016 are the following amounts which arose due to transactions with related parties:

	Year ended 31 December 2017		Year ended 31 December 2016	
	Related party transactions	Total category as per financial statements caption	Related party transactions	Total category as per financial statements caption
Interest income		100,130,599		104,827,492
- shareholders and entities in which a substantial interest is owned by shareholders of the Group	*3,623,609*		*3,581,077*	
- key management personnel of the entity	*66,677*		*66,830*	
Interest expense		(25,552,727)		(27,731,237)
- shareholders and entities in which a substantial interest is owned by shareholders of the Group	*(1,620,214)*		*(3,487,824)*	
- key management personnel of the entity	*(17,146)*		*(33,538)*	
Fee and commission income		7,996,651		6,128,194
- shareholders and entities in which a substantial interest is owned by shareholders of the Group	*114,631*		*94,005*	
- key management personnel of the entity	*1,097*		*2,050*	
Other income		1,104,813		900,389
- shareholders and entities in which a substantial interest is owned by shareholders of the Group	*420,792*		*386,577*	
Operating expense		(32,404,493)		(32,167,798)
- shareholders and entities in which a substantial interest is owned by shareholders of the Group	*(607,363)*		*(546,899)*	

27. Segment reporting

The Group's activity is sufficiently integrated and primarily relates to the banking sector. Accordingly, for purposes of IAS 14 "Segment reporting" the Group is accounted for as a single segment. The Group's assets are located in the Republic of Azerbaijan and major parts of its revenue and net profit arrives from operations in the Republic of Azerbaijan. The Group's operations include transactions with banks, legal entities and individuals. Data on other transaction balances and their results are provided in the respective notes to the consolidated financial statements.

28. Fair value of financial instruments

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 Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1 – quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 – valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
- Level 3 – valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

	Level 1	Level 2	Level 3	31 December 2017 Total
Assets measured at fair value				
Investments available for sale	-	221,766,983	-	221,766,983
Held-to-maturity financial assets	-	-	15,057,263	15,057,263
Investment property	-	6,825,306	-	6,825,306
Assets for which fair values are disclosed				
Cash and cash equivalents	62,349,211	-	-	62,349,211
Gold	15,305,466	-	-	15,305,466
Due from banks	70,597,683	-	36,371,003	106,968,686
Loans to customers	-	-	1,263,204,930	1,263,204,930
Factoring	4,498,167	-	-	4,498,167
Other assets	-	-	4,257,246	4,257,246
ASSETS	**152,750,527**	**228,592,289**	**1,318,890,442**	**1,700,233,258**
Liabilities for which fair values are disclosed				
Due to banks and government agencies	-	-	356,642,796	356,642,796
Customer accounts	233,668,214	-	949,788,266	1,183,456,480
Other liabilities	-	-	1,583,012	1,583,012
LIABILITIES	**233,668,214**	**-**	**1,308,014,074**	**1,541,682,288**

	Level 1	Level 2	Level 3	31 December 2016 Total
Assets measured at fair value				
Investments available for sale	-	60,192,942	-	60,192,942
Held-to-maturity financial assets	-	-	15,758,960	15,758,960
Investment property	-	6,783,500	-	6,783,500
Assets for which fair values are disclosed				
Cash and cash equivalents	106,645,989	-	-	106,645,989
Gold	14,112,682	-	-	14,112,682
Due from banks	38,938,965	-	85,693,361	124,632,326
Loans to customers	-	-	1,216,711,641	1,216,711,641
Factoring	13,169,584	-	-	13,169,584
Other assets	-	-	4,353,429	4,353,429
ASSETS	**172,867,220**	**66,976,442**	**1,322,517,391**	**1,562,361,053**
Liabilities for which fair values are disclosed				
Due to banks and government agencies	-	-	283,168,552	283,168,552
Customer accounts	201,142,346	-	930,093,619	1,131,235,965
Other liabilities	-	-	3,684,539	3,684,539
LIABILITIES	**201,142,346**	**-**	**1,216,946,710**	**1,418,089,056**

The fair value of financial assets and liabilities compared with the corresponding carrying amount in the consolidated statement of financial position of the Group is presented below:

	31 December 2017		31 December 2016	
	Carrying amount	Fair value	Carrying amount	Fair value
Cash and cash equivalents	62,349,211	62,349,211	106,645,989	106,645,989
Gold	15,305,466	15,305,466	14,112,682	14,112,682
Due from banks	106,968,686	106,968,686	124,632,326	124,632,326
Other financial assets	4,257,246	4,257,246	4,353,429	4,353,429
Due to banks and government agencies	356,642,796	356,642,796	283,168,552	283,168,552
Customer accounts	1,183,456,480	1,183,456,480	1,131,235,965	1,131,235,965
Other financial liabilities	1,583,012	1,583,012	3,684,539	3,684,539

The fair value of loans to customers cannot be measured reliably as it is not practicable to obtain market information or apply any other valuation techniques on such instruments.

The fair value of equity securities included in investments available-for-sale cannot be measured reliably. As at 31 December 2017 and 2016 the cost of them was AZN 179,650 and AZN 179,269, respectively. Since these shares are not publicly traded and the range of reasonable fair value estimates is significant, it is not possible to estimate their fair value.

Valuation techniques and assumptions

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the financial statements.

Assets for which fair value approximates carrying value

For financial assets and financial liabilities that are liquid or having a short-term maturity (less than three months) it is assumed that the carrying amounts approximate to their fair value This assumption is also applied to demand deposits and savings accounts without a specific maturity.

Investment securities available-for-sale

Investment securities available-for-sale valued using a valuation technique or pricing models primarily consist of unquoted equity and debt securities. These securities are valued using models which sometimes only incorporate data observable in the market and at other times use both observable and non-observable data. The non-observable inputs to the models include assumptions regarding the future financial performance of the investee, its risk profile, and economic assumptions regarding the industry and geographical jurisdiction in which the investee operates.

Financial assets and financial liabilities carried at amortized cost

The fair value of unquoted instruments, loans to customers, customer deposits, amounts due from credit institutions and amounts due to banks and government organizations and other financial assets and liabilities, obligations under finance leases is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

29. Regulatory matters

Quantitative measures established by regulation to ensure capital adequacy require the Group to maintain minimum amounts and ratios (as set forth in the table below) of total (10%) and tier 1 capital (5%) to risk weighted assets.

The ratio was calculated according to the principles employed by the Basel Committee by applying the following risk estimates to the assets and off-balance sheet commitments net of allowances for impairment losses:

Weighting	Description of position
0%	Cash and cash equivalents
20%	Nostro in OECD
100%	Nostro in NON-OECD
20%	Loans and advances to banks for up to 1 year
100%	Loans and advances to customers
100%	Other assets
50%	Obligations and commitments on unused loans with the initial maturity of over 1 year
100%	Guarantees

As at 31 December 2017 the Group's total capital amount for Capital Adequacy purposes was AZN 256,100,240 and tier 1 capital amount was AZN 239,448,701 with ratios of 15% and 14%, respectively.

As at 31 December 2016 the Group's total capital amount for Capital Adequacy purposes was AZN 233,298,595 and tier 1 capital amount was AZN 222,326,872 with ratios of 15% and 14%, respectively.

In addition, the Group has to maintain a statutory capital adequacy ratio based on the Central Bank of Azerbaijan Republic requirements. During the years ended 31 December 2017 and 2016 the Group was in compliance with the minimum capital requirements imposed by the CBAR.

30. Capital management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The Management Board reviews the capital structure on a semi-annual basis. As a part of this review, the Board considers the cost of capital and the risks associated with each class of capital. Based on recommendations of the Board, the Group balances its overall capital structure through the payment of dividends, new share issues as well as the issue of new debt or the redemption of existing debt.

The Group's overall capital risk management policy remains unchanged from 2016.

31. Risk management policies

Management of risk is fundamental to the banking business and is an essential element of the Group's operations. The main risks inherent to the Group's operations are those related to credit exposures, liquidity and market movements in interest rates and foreign exchange rates. A description of the Group's risk management policies in relation to those risks follows. The Group manages the following risks:

Credit risk

The Group is exposed to credit risk which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

Risk management and monitoring is performed within set limits of authority, by the Credit Committees and the Group's Management Board. Before any application is made by the Credit Committee, all recommendations on credit processes (borrower's limits approved, or amendments made to loan agreements, etc.) are reviewed and approved by the experts of Credit Department. Daily risk management is performed by the Head of Credit Departments and Branch Credit Divisions.

The Group structures the level of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry (and geographical) segments. Limits on the level of credit risk by a borrower and a product (by industry sector, by region) are approved monthly (quarterly) by the Management Board. The exposure to any one borrower including banks and brokers is further restricted by sub-limits covering on and off-balance sheet exposures which are set by the Credit Committee. Actual exposures against limits are monitored daily.

Where appropriate, and in the case of most loans, the Group obtains collateral and corporate and personal guarantees but a significant portion is personal lending, where no such facilities can be obtained. Such risks are monitored on a continuous basis and subject to annual or more frequent reviews.

Commitments to extend credit represent unused portions of credit in the form of loans, guarantees or letters of credit. The credit risk on off-balance sheet financial instruments is defined as a probability of losses due to the inability of counterparty to comply with the contractual terms and conditions. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to a loss in an amount equal to the total unused commitments. However, the likely amount of the loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group applies the same credit policy to the contingent liabilities as it does to the balance sheet financial instruments, i.e. the one based on the procedures for approving the grant of loans, using limits to mitigate the risk, and current monitoring. The Group monitors the term to maturity of off balance sheet contingencies because longer term commitments generally have a greater degree of credit risk than short-term commitments.

Maximum Exposure

The Groups maximum exposure to credit risk varies significantly and is dependant on both individual risks and general market economy risks. The following table presents the maximum exposure to credit risk of financial assets and contingent liabilities. For financial assets the maximum exposure equals to a carrying value of those assets prior to any offset or collateral. For financial guarantees and other contingent liabilities the maximum exposure to credit risk is the maximum amount the Group would have to pay if the guarantee was called on or in the case of commitments, if the loan amount was called on.

					31 December 2017
	Maximum exposure	Offset	Net exposure after offset	Collateral Pledged	Net exposure after offset and collateral
Due from banks	106,968,686		106,968,686	-	106,968,686
Loans to customers	1,263,204,930	159,231,827	1,103,973,103	886,500,301	217,472,802
Investments available-for-sale	221,766,983		221,766,983	-	221,766,983
Held-to-maturity financial assets	15,057,263		15,057,263	15,057,263	-
Forfeiting	4,498,167		4,498,167	-	4,498,167

					31 December 2016
	Maximum exposure	Offset	Net exposure after offset	Collateral Pledged	Net exposure after offset and collateral
Due from banks	124,632,326	-	124,632,326	1,416,560	123,215,766
Loans to customers	1,216711,641	172,676,636	1,044,035,005	778,478,489	265,556,516
Investments available-for-sale	60,192,942	-	60,192,942	-	60,192,942
Held-to-maturity financial assets	15,758,960	-	15,758,960	15,758,960	-
Forfeiting	13,169,584	-	13,169,584	-	13,169,584

The following table details the carrying value of assets that are impaired and the ageing of those that are past due but not impaired:

		Financial assets past due but not impaired				31 December 2017	
	Neither past due nor impaired	0-3 months	3-6 months	6 months to 1 year	Greater than one year	Financial assets that have been impaired	Total
Due from banks	107,386,600	-	-	-	-	-	107,386,600
Loans to customers	1,200,198,346	14,441	21,735	217	265	174,807,381	1,375,042,385
Factoring	4,589,966	-	-	-	-	-	4,589,966
Investments available for sale	221,766,983	-	-	-	-	-	221,766,983
Held-to-maturity financial assets	15,057,263	-	-	-	-	-	15,057,263

		Financial assets past due but not impaired				31 December 2016	
	Neither past due nor impaired	0-3 months	3-6 months	6 months to 1 year	Greater than one year	Financial assets that have been impaired	Total
Due from banks	125,538,636	-	-	-	-	-	125,538,636
Loans to customers	1,127,570,032	281,932	714		376,382	194,076,600	1,322,304,560
Factoring	13,302,610	-	-	-	-	-	13,302,610
Investments available for sale	60,192,942	-	-	-	-	-	60,192,942
Held-to-maturity financial assets	15,758,960	-	-	-	-	-	15,758,960

Geographical concentration

The Assets and Liabilities Management Committee exercises control over the risk in the legislation and regulatory arena and assess its influence on the Group's activity. This approach allows the Group to minimize potential losses from the investment climate fluctuations in the Republic of Azerbaijan. The Group's Management Board sets up country limits, which mainly applies to banks of the Commonwealth of Independent States and Baltic countries.

The geographical concentration of assets and liabilities is set out below:

	The Republic of Azerbaijan	CIS countries	OECD countries	31 December 2017 Total
ASSETS				
Cash and cash equivalents	62,349,211	-	-	62,349,211
Gold	15,305,466	-	-	15,305,466
Due from banks	712,456	807,263	105,448,967	106,968,686
Loans to customers	1,263,204,930	-	-	1,263,204,930
Forfeiting	4,498,167	-	-	4,498,167
Investments available for sale	221,762,333	-	4,650	221,766,983
Held-to-maturity financial assets	15,057,263	-	-	15,057,263
Property and equipment	68,214,636	-	-	68,214,636
Investment property	6,825,306	-	-	6,825,306
Intangible assets	1,551,970	-	-	1,551,970
Other assets	26,921,654	25,979	74,757	27,022,390
TOTAL ASSETS	**1,686,403,392**	**833,242**	**105,528,374**	**1,792,765,008**
LIABILITIES				
Due to banks and government agencies	356,642,796	-	-	356,642,796
Customer accounts	1,183,456,480	-	-	1,183,456,480
Provision for impairment losses on other operations	203,376	-	-	203,376
Current income tax liability	2,439,634	-	-	2,439,634
Deferred income tax liability	1,457,705	-	-	1,457,705
Other liabilities	7,511,890	6,914	45,542	7,564,346
TOTAL LIABILITIES	**1,551,711,881**	**6,914**	**45,542**	**1,551,764,337**
NET POSITION	**134,691,511**	**826,328**	**105,482,832**	

	The Republic of Azerbaijan	CIS countries	OECD countries	31 December 2016 Total
ASSETS				
Cash and cash equivalents	106,645,989	-	-	106,645,989
Gold	14,112,682	-	-	14,112,682
Due from banks	76,739,247	11,568,931	36,324,148	124,632,326
Loans to customers	1,216,711,641	-	-	1,216,711,641
Forfeiting	13,169,584	-	-	13,169,584
Investments available for sale	60,188,673	-	4,269	60,192,942
Held-to-maturity financial assets	15,758,960	-	-	15,758,960
Property and equipment	68,187,455	-	-	68,187,455
Investment property	6,783,500	-	-	6,783,500
Intangible assets	1,742,919	-	-	1,742,919
Other assets	23,768,735	22,949	277,067	24,068,751
TOTAL ASSETS	**1,603,809,385**	**11,591,880**	**36,605,484**	**1,652,006,749**
LIABILITIES				
Due to banks and government agencies	283,168,552	-	-	283,168,552
Customer accounts	1,131,235,965	-	-	1,131,235,965
Provision for impairment losses on other operations	98,340	-	-	98,340
Deferred income tax liability	1,208,938	-	-	1,208,938
Other liabilities	12,179,920	2,419	42,824	12,225,163
TOTAL LIABILITIES	**1,427,891,715**	**2,419**	**42,824**	**1,427,936,958**
NET POSITION	**175,917,670**	**11,589,461**	**36,562,660**	

Liquidity risk

Liquidity risk refers to the availability of sufficient funds to meet deposit withdrawals and other financial commitments associated with financial instruments as they actually fall due. In order to manage liquidity risk, the Group performs daily monitoring of expected future cash flows on clients' and banking operations, which is a part of the assets/liabilities management process. The Assets and Liabilities Management Committee sets limits on the minimum proportion of maturing funds available to meet deposit withdrawals and on the minimum level of interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

An analysis of the liquidity and interest rate risks is presented in the following table. The tables have been drawn up to detail:

(i) The remaining contractual maturity of non-derivative financial liabilities based on the undiscounted cash flows of financial liabilities (both interest and principal cash flows) based on the earliest date on which the Group can be required to pay, and

(ii) The expected maturity for non-derivative financial assets based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets except where the Group anticipates that the cash flow will occur in a different period.

	Weighted average effective interest rate	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	31 December 2017 Total
ASSETS								
Due from banks	0.29%	10,574,243	14,987,055	11,014,905	-	-	-	36,576,204
Loans to customers	6.06%	17,939,490	1,742,835	237,643,592	597,088,244	404,026,267	-	1,258,440,427
Investments available for sale	10.07%	193,333,032	-	-	27,170,998	-	-	220,504,031
Held-to-maturity financial assets	6.88%	-	-	-	-	14,837,277	-	14,837,277
Total interest bearing assets at fixed rates		221,846,765	16,729,890	248,658,498	624,259,243	418,863,544	-	1,530,357,939
Cash and cash equivalents		53,776,801	-	-	-	-	8,572,410	62,349,211
Gold		15,305,466	-	-	-	-	-	15,305,466
Due from banks		52,901,077	-	-	-	-	17,491,406	70,392,482
Loans to customers		3,005,030	-	-	-	-	1,759,473	4,764,503
Investments available for sale		804,045	279,258	-	-	-	179,650	1,262,953
Held-to-maturity financial assets		-	219,986	-	-	-	-	219,986
Other assets		4,257,246	952,594	-	15,823,867	-	-	21,033,707
Forfeiting		-	1,164,520	3,425,445	-	-	-	4,589,966
		351,896,429	**19,346,248**	**252,083,943**	**640,083,110**	**418,863,544**	**28,002,939**	**1,710,276,212**
LIABILITIES								
Due to banks and government agencies	2.36%	10,900,000	85,015,361	43,001,770	51,249,797	140,621,690	-	330,788,617
Customer accounts	1.64%	14,207,119	167,736,300	480,232,570	285,997,805	-	-	948,173,795
Total interest bearing liabilities at fixed rates		25,107,119	252,751,661	523,234,340	337,247,603	140,621,690	-	1,278,962,412
Due to banks and government agencies		25,854,179	-	-	-	-	-	25,854,179
Customer accounts		220,665,997	-	-	-	870,000	13,746,689	235,282,686
Current income tax liability		-	2,439,634	-	-	-	-	2,439,634
Other liabilities		2,617,278	986,433	3,960,635	-	-	-	7,564,346
Guarantees issued and similar commitments		2,066,167	1,006,006	9,838,365	12,802,012	-	-	25,712,549
Letters of credit and other transaction related contingent obligations		-	42,503	10,356,570	-	-	-	10,399,073
Commitments on credits and unused credit lines		54,309	1,347,534	29,416,630	10,836,663	17,001,000	-	58,656,136
		276,365,048	**258,573,770**	**576,806,540**	**360,886,277**	**158,492,690**	**13,746,689**	**1,644,871,014**
Liquidity gap		75,531,381	(239,227,523)	(324,722,597)	279,196,833	260,370,854		
Interest sensitivity gap for fixed rate instruments		196,739,646	(236,021,772)	(274,575,842)	287,011,640	278,241,854		
Interest sensitivity gap		196,739,646	(236,021,772)	(274,575,842)	287,011,640	278,241,854		
Cumulative interest sensitivity gap		**196,739,646**	**(39,282,125)**	**(313,857,967)**	**(26,846,327)**	**251,395,527**		

	Weighted average effective interest rate	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	31 December 2016 Total
ASSETS								
Due from banks	5.24%	15,228,020	53,121,000	16,342,676	-	-	-	84,691,696
Loans to customers	6.48%	10,981,017	6,713,997	149,171,420	723,954,306	270,194,687	-	1,161,015,428
Investments available for sale	11.73%	40,157,299	-	19,445,827	-	-	-	59,603,126
Held-to-maturity financial assets	6.88%	-				15,575,250		15,575,250
Total interest bearing assets at fixed rates		66,366,336	59,834,997	184,959,923	723,954,306	285,769,937	-	1,320,885,499
Cash and cash equivalents		98,235,070	-	-	-	-	8,410,919	106,645,989
Gold		14,112,682	-	-	-	-	-	14,112,682
Due from banks		38,149,125	-	-	-	-	1,791,506	39,940,631
Loans to customers		3,966,843	-	-	-	-	51,729,371	55,696,213
Investments available for sale		210,687	199,860	-	-	-	179,269	589,816
Held-to-maturity financial assets		-	183,710	-	-	-	-	183,710
Other assets		4,353,429	961,642	-	15,503,503	-	-	20,818,574
Forfeiting		-	2,092,266	6,429,771	4,780,573	-	-	13,302,610
		225,394,171	**63,272,475**	**191,389,695**	**744,238,382**	**285,769,937**	**62,111,065**	**1,572,175,724**
LIABILITIES								
Due to banks and government agencies	2.36%	-	123,853	31,164,974	137,224,187	114,479,779	-	282,992,793
Customer accounts	2.79%	8,829,237	246,096,844	306,996,218	365,824,838	-	-	927,747,137
Total interest bearing liabilities at fixed rates		8,829,237	246,220,697	338,161,192	503,049,025	114,479,779	-	1,210,739,930
Due to banks and government agencies		175,759	-	-	-	-	-	175,759
Customer accounts		194,912,010	-	-	-	720,000	7,856,818	203,488,828
Other liabilities		4,841,281	1,149,153	4,657,140	1,577,589	-	-	12,225,163
Guarantees issued and similar commitments		720,512	408,434	6,284,593	26,205,573	-	-	33,619,112
Letters of credit and other transaction related contingent obligations		174,106	-	-	-	-	-	174,106
Commitments on credits and unused credit lines		2,691,717	2,691,080	34,239,966	9,834,118	1,130,867	-	50,587,748
		212,344,621	**250,469,364**	**383,342,891**	**540,666,306**	**116,330,646**	**7,856,818**	**1,511,010,646**
Liquidity gap		13,049,550	(187,196,889)	(191,953,196)	203,572,076	169,439,291		
Interest sensitivity gap for fixed rate instruments		57,537,099	(186,385,700)	(153,201,268)	220,905,281	171,290,158		
Interest sensitivity gap		57,537,099	(186,385,700)	(153,201,268)	220,905,281	171,290,158		
Cumulative interest sensitivity gap		**57,537,099**	**(128,848,601)**	**(282,049,869)**	**(61,144,589)**	**110,145,569**		

Market Risk

Market risk covers interest rate risk, currency risk and other pricing risks to which the Group is exposed. There have been no changes as to the way the Group measures risk or to the risk it is exposed in 2016.

The Group is exposed to interest rate risks as entities in the Group borrow funds at both fixed and floating rates. The risk is managed by the Group maintaining an appropriate mix between fixed and floating rate borrowings.

The ALMC also manages interest rate and market risks by matching the Group's interest rate position, which provides the Group with a positive interest margin. The Department of Financial Control conducts monitoring of the Group's current financial performance, estimates the Group's sensitivity to changes in interest rates and its influence on the Group's profitability.

The majority of the Group's loan contracts and other financial assets and liabilities that bear interest are either variable or contain clauses enabling the interest rate to be changed at the option of the lender. The Group monitors its interest rate margin and consequently does not consider itself exposed to significant interest rate risk or consequential cash flow risk.

Interest rate risk

The Group manages fair value interest rate risk through periodic estimation of potential losses that could arise from adverse changes in market conditions. The Department of Financial Control conducts monitoring of the Group's current financial performance, estimates the Group's sensitivity to changes in fair value interest rates and its influence on the Group's profitability.

The following table presents a sensitivity analysis of interest rate risk, which has been determined based on "reasonably possible changes in the risk variable". The level of these changes is determined by management and is contained within the risk reports provided to key management personnel.

Impact on profit before tax:

	As at 31 December 2017		As at 31 December 2016	
	Interest rate +1%	Interest rate -1%	Interest rate +1%	Interest rate -1%
Assets:				
Due from banks	365,762	(365,762)	846,917	(846,917)
Loans to customers	12,584,404	(12,584,404)	11,610,154	(11,610,154)
Investments available-for-sale	2,205,040	(2,205,040)	596,031	(596,031)
Held-to-maturity financial assets	148,373	(148,373)	155,753	(155,753)
Liabilities:				
Due to banks and government agencies	(3,307,886)	3,307,886	(2,829,928)	2,829,928
Customer accounts	(9,481,738)	9,481,738	(9,277,471)	9,277,471
Net impact on profit before tax	**2,513,955**	**(2,513,955)**	**1,101,456**	**(1,101,456)**

Currency risk

Currency risk is defined as the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

The Management Board sets limits on the level of exposure by currencies. These limits also comply with the minimum requirements of the CBAR. The Group's exposure to foreign currency exchange rate risk is presented in the table below:

	AZN	USD	EUR	Other currency	31 December 2017 Total
ASSETS					
Cash and cash equivalents	41,389,777	17,874,123	3,085,311	-	62,349,211
Gold	-	-	-	15,305,466	15,305,466
Due from banks	-	50,990,356	18,227,165	37,751,165	106,968,686
Loans to customers	414,965,542	802,783,804	45,455,584	-	1,263,204,930
Forfeiting	-	4,498,167	-	-	4,498,167
Investments available for sale	194,312,077	27,450,256	4,650	-	221,766,983
Held-to-maturity financial assets	37,906	15,019,357	-	-	15,057,263
Property and equipment	68,214,636	-	-	-	68,214,636
Investment property	6,825,306	-	-	-	6,825,306
Intangible assets	1,551,970	-	-	-	1,551,970
Other assets	25,566,801	1,172,264	274,622	8,703	27,022,390
TOTAL ASSETS	**752,864,016**	**919,788,326**	**67,047,332**	**53,065,334**	**1,792,765,008**
LIABILITIES					
Due to banks and government agencies	235,792,034	120,820,574	30,104	84	356,642,796
Customer accounts	358,584,898	742,093,601	66,711,378	16,066,603	1,183,456,480
Provision for impairment losses on other operations	203,376	-	-	-	203,376
Current income tax liability	2,439,634	-		-	2,439,634
Deferred income tax liability	1,457,705	-	-	-	1,457,705
Other liabilities	3,990,591	3,433,624	140,125	6	7,564,346
TOTAL LIABILITIES	**602,468,238**	**866,347,799**	**66,881,607**	**16,066,693**	**1,551,764,337**
OPEN BALANCE SHEET POSITION	**150,395,778**	**53,440,527**	**165,725**	**36,998,641**	

	AZN	USD	EUR	Other currency	31 December 2016 Total
ASSETS					
Cash and cash equivalents	61,107,825	42,477,575	3,060,589	-	106,645,989
Gold	-	-	-	14,112,682	14,112,682
Due from banks	-	87,821,462	3,871,092	32,939,772	124,632,326
Loans to customers	439,291,893	741,806,589	35,613,159	-	1,216,711,641
Forfeiting	-	13,169,584	-	-	13,169,584
Investments available for sale	40,547,254	19,645,688	-	-	60,192,942
Held-to-maturity financial assets	28,855	15,730,105	-	-	15,758,960
Property and equipment	68,187,455	-	-	-	68,187,455
Investment property	6,783,500	-	-	-	6,783,500
Intangible assets	1,742,919	-	-	-	1,742,919
Other assets	23,316,887	521,336	221,884	8,644	24,068,751
TOTAL ASSETS	**641,006,588**	**921,172,339**	**42,766,724**	**47,061,098**	**1,652,006,749**
LIABILITIES					
Due to banks and government agencies	194,608,341	88,539,681	20,447	83	283,168,552
Customer accounts	312,770,393	759,616,405	42,685,537	16,163,630	1,131,235,965
Provision for impairment losses on other operations	98,340	-	-	-	98,340
Deferred income tax liability	1,208,938	-	-	-	1,208,938
Other liabilities	3,688,114	8,441,727	69,952	25,370	12,225,163
TOTAL LIABILITIES	**512,374,126**	**856,597,813**	**42,775,936**	**16,189,083**	**1,427,936,958**
OPEN BALANCE SHEET POSITION	**128,632,462**	**64,574,526**	**(9,212)**	**30,872,015**	

Currency risk sensitivity

The following table details the Group's sensitivity to a 10% increase and decrease in the USD and Euro against the AZN. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign currency exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the period for a 10% change in foreign currency rates. The sensitivity analysis includes external loans as well as loans to foreign operations within the Group where the denomination of the loan is in a currency other than the currency of the lender or the borrower.

	As at 31 December 2017		**As at 31 December 2016**	
	AZN / USD +10%	AZN / USD -10%	AZN / USD +10%	AZN / USD -10%
Impact on profit or loss	5,344,053	(5,344,053)	6,457,453	(6,457,453)

	As at 31 December 2017		**As at 31 December 2016**	
	AZN / EURO +10%	AZN / EURO -10%	AZN / EURO +10%	AZN / EURO -10%
Impact on profit or loss	16,573	(16,573)	(921)	921

Limitations of sensitivity analysis

The above tables demonstrate the effect of a change in a key assumption while other assumptions remain unchanged. In reality, there is a correlation between the assumptions and other factors. It should also be noted that these sensitivities are non-linear, and larger or smaller impacts should not be interpolated or extrapolated from these results.

The sensitivity analyses do not take into consideration that the Group's assets and liabilities are actively managed. Additionally, the financial position of the Group may vary at the time that any actual market movement occurs. For example, the Group's financial risk management strategy aims to manage the exposure to market fluctuations. As investment markets move past various trigger levels, management actions could include selling investments, changing investment portfolio allocation and taking other protective action. Consequently, the actual impact of a change in the assumptions may not have any impact on the liabilities, whereas assets are held at market value on the consolidated statement of financial position. In these circumstances, the different measurement bases for liabilities and assets may lead to volatility in shareholder equity.

Other limitations in the above sensitivity analyses include the use of hypothetical market movements to demonstrate potential risk that only represent the Group's view of possible near-term market changes that cannot be predicted with any certainty; and the assumption that all interest rates move in an identical fashion.