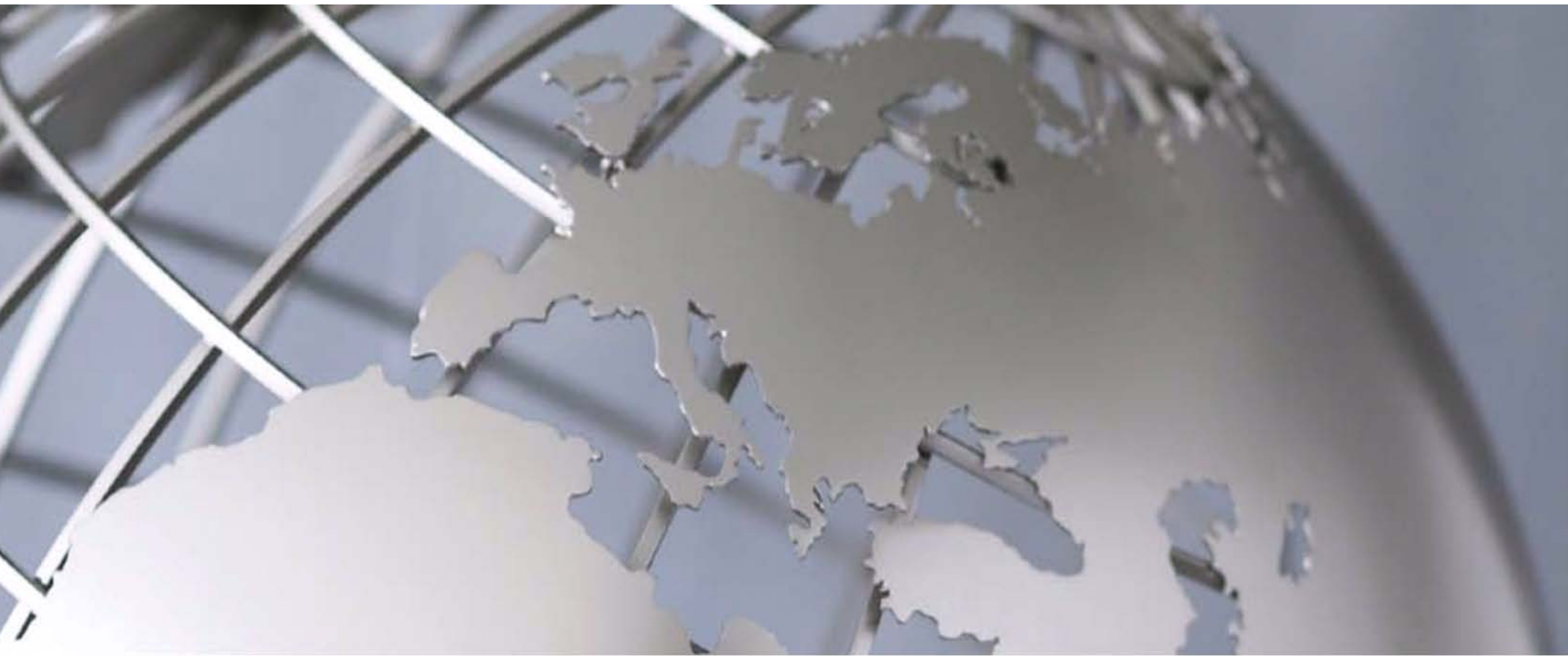
Consolidated financial statements

***OJSC Xalq Bank and its subsidiaries***

for the year ended 31 December 2015

*with independent auditor's report*



Audit | Tax | Advisory

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## Open Joint Stock Company Xalq Bank

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## Statement of Management's Responsibilities for the Preparation and Approval of the Consolidated Financial Statements for the Year Ended 31 December 2015

The following statement, which should be read in conjunction with the independent auditor's responsibilities stated in the independent auditor's report set out on page 2, 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 2015, 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 2015 were authorized for issue on 18 April 2016 by the Management Board.

Approved for issue and signed on behalf of the Management Board on 18 April 2016.

| | |
|---|---|
| Chairman | Chief Accountant |
| Mr. Elkhan Aghayev | Mrs. Tamilla Asadova |

Crowe Horwath

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# Independent auditor's report

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

We have audited the accompanying consolidated financial statements of OJSC Xalq Bank and its subsidiaries, which comprise the consolidated statement of financial position as at 31 December 2015, and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### *Management's responsibility for the consolidated financial statements*

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

### *Auditor's responsibility*

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### *Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of OJSC Xalq Bank and its subsidiaries as at 31 December 2015, and their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards.

18 April 2016
Baku, Azerbaijan Republic

*Samir Asadullayev*
Certified auditor

*Jurijs Baltgailis*
Partner

## Open Joint Stock Company Xalq Bank

**Consolidated Statement of Comprehensive Income for the year ended 31 December 2015**
***(in Azerbaijan Manats)***

| | Notes | Year ended 31 December 2015 | Year ended 31 December 2014 |
|---|---|---|---|
| Interest income | 4 | 84,454,610 | 86,998,421 |
| Interest expense | 4 | (36,604,981) | (35,876,504) |
| NET INTEREST INCOME BEFORE PROVISION FOR IMPAIRMENT LOSSES ON INTEREST BEARING ASSETS | | 47,849,629 | 51,121,917 |
| (Provision) / recovery of provision for impairment losses on interest bearing assets | 5 | (13,206,162) | (16,222,350) |
| NET INTEREST INCOME | | 34,643,467 | 34,899,567 |
| Net (loss) / gain on foreign exchange operations | 7 | (14,718,743) | 936,323 |
| Net gain / (loss) on gold operations | 6 | 7,260,985 | (384,558) |
| Fee and commission income | 8 | 3,025,136 | 4,488,248 |
| Fee and commission expense | 8 | (732,366) | (711,262) |
| Gain / (loss) on revaluation of investment property | 18 | (46,129) | 2,207 |
| Provision for impairment losses on non-interest bearing assets | 19 | (467,548) | (918,276) |
| Other income | | 822,821 | 416,827 |
| NET NON-INTEREST INCOME | | (4,855,844) | 3,829,509 |
| OPERATING INCOME | | 29,787,623 | 38,729,076 |
| OPERATING EXPENSES | 9 | (28,545,096) | (27,446,922) |
| OPERATING PROFIT | | 1,242,527 | 11,282,154 |
| Recovery of provision for impairment losses on guarantees and other commitments | 5 | 141,199 | 4,162,382 |
| PROFIT BEFORE INCOME TAX | | 1,383,726 | 15,444,536 |
| Income tax (expense) / benefit | 10 | (784,776) | (3,173,231) |
| NET PROFIT FOR THE YEAR | | 598,950 | 12,271,305 |
| Net profit for the year attributable to: | | | |
| Equity holders of the parent | | 599,689 | 12,271,332 |
| Non-controlling interest | | (739) | (27) |
| | | 598,950 | 12,271,305 |
| EARNINGS PER SHARE | | | |
| *Basic and diluted (AZN)* | 11 | 0.165 | 3.380 |

Approved for issue and signed on behalf of the Management Board on 18 April 2016.

Chairman
Mr. Elkhan Aghayev

Chief Accountant
Mrs. Tamilla Asadova

Xalq Bank

## Open Joint Stock Company Xalq Bank

### Consolidated Statement of Financial Position as at 31 December 2015
*(in Azerbaijan Manats)*

| | Notes | 31 December 2015 | 31 December 2014 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and cash equivalents | 12 | 134,424,943 | 56,709,157 |
| Gold | | 11,698,201 | 6,600,521 |
| Due from banks | 13 | 41,092,986 | 42,344,888 |
| Loans to customers | 14 | 1,288,534,454 | 1,036,251,291 |
| Forfeiting | 15 | 14,916,776 | - |
| Investments available-for-sale | 16 | 178,904 | 22,557,181 |
| Property and equipment | 17 | 70,178,381 | 73,356,516 |
| Investment property | 18 | 6,647,590 | 6,693,719 |
| Intangible assets | 17 | 1,861,430 | 1,874,887 |
| Deferred income tax asset | 10 | 788,804 | 1,573,580 |
| Other assets | 19 | 10,037,849 | 7,456,143 |
| **TOTAL ASSETS** | | **1,580,360,318** | **1,255,417,883** |
| **LIABILITIES** | | | |
| Due to banks and government agencies | 20 | 215,557,782 | 202,130,242 |
| Customer accounts | 21 | 1,144,803,512 | 838,428,513 |
| Provision for impairment losses on other operations | 5 | 70,132 | 211,331 |
| Current income tax liability | | - | 974,074 |
| Other liabilities | 22 | 10,688,943 | 5,017,873 |
| **TOTAL LIABILITIES** | | **1,371,120,369** | **1,046,762,033** |
| **EQUITY** | | | |
| Share capital | 23 | 211,646,490 | 197,125,290 |
| Retained earnings / (accumulated deficit) | | (2,521,026) | 11,400,485 |
| Non-controlling interest | | 114,485 | 130,075 |
| **TOTAL EQUITY** | | **209,239,949** | **208,655,850** |
| **TOTAL LIABILITIES AND EQUITY** | | **1,580,360,318** | **1,255,417,883** |

Approved for issue and signed on behalf of the Management Board on 18 April 2016.

Chairman
Mr. Elkhan Aghayev

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Chief Accountant
Mrs. Tamilla Asadova

## Consolidated Statement of Changes in Equity for the year ended 31 December 2015
*(in Azerbaijan Manats)*

| | Share capital | Retained earnings / (Accumulated deficit) | Non-controlling interest | Total equity |
|---|---|---|---|---|
| **31 December 2013** | **183,693,180** | **12,561,263** | **181,834** | **196,436,277** |
| Increase in par value of shares | 13,432,110 | (13,432,110) | - | - |
| Total income for the year | - | 12,271,332 | (27) | 12,271,305 |
| Change in ownership interest in subsidiary | - | - | (51,732) | (51,732) |
| **31 December 2014** | **197,125,290** | **11,400,485** | **130,075** | **208,655,850** |
| Increase in par value of shares | 14,521,200 | (14,521,200) | - | - |
| Total income for the year | - | 599,689 | (739) | 598,950 |
| Change in ownership interest in subsidiary | - | - | (14,851) | (14,851) |
| **31 December 2015** | **211,646,490** | **(2,521,026)** | **114,485** | **209,239,949** |

Approved for issue and signed on behalf of the Management Board on 18 April 2016.

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 2015
***(in Azerbaijan Manats)***

| | Notes | Year ended 31 December 2015 | Year ended 31 December 2014 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES:** | | | |
| Profit before income tax | | 1,383,726 | 15,444,536 |
| Adjustments for: | | | |
| Provision / (recovery of provision) for impairment losses on interest bearing assets | 5 | 13,206,162 | 16,222,350 |
| Recovery of provision for guarantees and other commitments | | (141,199) | (4,162,382) |
| Net unrealized (gain) / loss arising from changes in foreign currency exchange rates | | 20,902,090 | 115,155 |
| Depreciation and amortization | 17 | 5,591,161 | 5,417,461 |
| Loss / (gain) on revaluation of investment property | 18 | 46,129 | (2,207) |
| Loss / (gain) on disposal of property and equipment | | (77,674) | 44,379 |
| Loss / (gain) on disposal of intangible assets | | - | - |
| Change in interest accruals, net | | (8,730,316) | (4,045,519) |
| Cash flows from operating activities before changes in operating assets and liabilities | | 32,180,079 | 29,033,773 |
| Changes in operating assets and liabilities | | | |
| (Increase)/decrease in operating assets: | | | |
| Minimum reserve deposit with the Central Bank of Azerbaijan Republic | | 7,813,175 | 10,562,903 |
| Gold | | (5,097,680) | 230,640 |
| Due from banks | | (11,127,822) | 5,673,488 |
| Loans to customers | | (256,103,215) | (61,346,670) |
| Forfeiting | | (15,067,451) | - |
| Other assets | | (2,581,706) | (1,403,349) |
| Increase/(decrease) in operating liabilities: | | | |
| Due to banks and government agencies | | 13,386,692 | 6,865,682 |
| Customer accounts | | 305,637,441 | (26,062,189) |
| Other liabilities | | 5,671,072 | 750,812 |
| Cash inflow / (outflow) from operating activities before taxation | | 74,710,585 | (35,694,910) |
| Income tax paid | | (974,074) | (4,113,420) |
| Net cash inflow / (outflow) from operating activities | | 73,736,511 | (39,808,330) |
| **CASH FLOWS FROM INVESTING ACTIVITIES:** | | | |
| Purchase of property, equipment and intangible assets | 17 | (2,506,732) | (3,443,372) |
| Proceeds on disposal of property and equipment | | 184,838 | 200,310 |
| Sale of investments available-for-sale | | 22,361,277 | 31,788,781 |
| Acquisition of subsidiary, net of cash acquired | | (14,851) | (51,732) |
| Net cash outflow from investing activities | | 20,024,532 | 28,493,987 |

**Consolidated Statement of Cash Flows for the year ended 31 December 2015 (Continued)**
***(in Azerbaijan Manats)***

| | Notes | Year ended 31 December 2015 | Year ended 31 December 2014 |
|---|---|---|---|
| **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 | | (20,902,090) | (115,155) |
| NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS | | 72,858,953 | (11,429,498) |
| CASH AND CASH EQUIVALENTS, beginning of year | | 85,400,513 | 96,830,011 |
| CASH AND CASH EQUIVALENTS, end of year | 12 | 158,259,466 | 85,400,513 |

Interest paid and received by the Group in cash during the year ended 31 December 2015 amounted to AZN 35,826,577 and AZN 74,945,890, respectively.

Interest paid and received by the Group in cash during the year ended 31 December 2014 amounted to AZN 35,652,003 and AZN 82,728,399, respectively.

Approved for issue and signed on behalf of the Management Board on 18 April 2016.

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 27 and 25 branches in Azerbaijan as at 31 December 2015 and 2014 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 2015 and 2014 was 545 and 543, respectively.

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

| Name | Country of operation | The Bank ownership interest/ voting rights 2015 | The Bank ownership interest/ voting rights 2014 | Type of operation |
|---|---|---|---|---|
| *Xalq Kapital LLC* | *The Republic of Azerbaijan* | 100 % | 100% | *Securities market transactions* |
| *Baki Ayaqqabi -2 OJSC* | *The Republic of Azerbaijan* | 98.26% | 98.04% | *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 2015 and 2014 the following shareholders owned the issued shares of the Bank:

| | 31 December 2015 Ownership interest, % | 31 December 2014 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 18 April 2016.

## 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 2015** | **31 December 2014** |
|---|---:|---:|
| Loans to customers | 1,288,534,454 | 1,036,251,291 |
| Investments available for sale | 178,904 | 22,557,181 |
| Property and equipment | 70,178,381 | 73,356,516 |
| Investment Property | 6,647,590 | 6,693,719 |

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 | 25% |
| 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 2015 | 31 December 2014 |
|---|---|
| USD 1 = AZN 1.5594 | USD 1 = AZN 0.7844 |
| EUR 1 = AZN 1.7046 | EUR 1 = AZN 0.9522 |
| GBP 1 = AZN 2.3133 | GBP 1 = AZN 1.2173 |
| RUR 1 = AZN 0.0216 | RUR 1 = AZN 0.0133 |

### 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 2015:*

***Defined benefit plans: Employee contributions – Amendments to IAS 19 Employee Benefits*** (issued in November 2013 and effective for annual periods beginning 1 July 2014). The amendment allows entities to recognize employee contributions as a reduction in the service cost in the period in which the related employee service is rendered, instead of attributing the contributions to the periods of service, if the amount of the employee contributions is independent of the number of years of service.

The above mentioned new or amended standards and interpretations effective from 1 January 2015 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 2016 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 2017). 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 14 Regulatory Deferral Accounts*** (issued in January 2014 and effective for annual periods beginning on or after 1 January 2016). IFRS 14 permits first-time adopters to continue to recognize amounts related to rate regulation in accordance with their previous GAAP requirements when they adopt IFRS. However, to enhance comparability with entities that already apply IFRS and do not recognize such amounts, the standard requires that the effect of rate regulation must be presented separately from other items.

***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*.

***Accounting for Acquisitions of Interests - Amendments to IFRS 11 Joint Arrangements*** (issued on 6 May 2014 and effective for the periods beginning on or after 1 January 2016). The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant IFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

***Clarification of Acceptable Methods of Depreciation and Amortisation - Amendments to IAS 16 and IAS 38*** (issued on 12 May 2014 and effective for the periods beginning on or after 1 January 2016 with early adoption permitted). The amendments clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets.

***Agriculture: Bearer plants - Amendments to IAS 16 and IAS 41*** (issued on 30 June 2014 and effective for annual periods beginning 1 January 2016). The amendments change the financial reporting for bearer plants, such as grape vines, rubber trees and oil palms, which now should be accounted for in the same way as property, plant and equipment because their operation is similar to that of manufacturing. Consequently, the amendments include them within the scope of IAS 16, instead of IAS 41. The produce growing on bearer plants will remain within the scope of IAS 41.

***Equity Method in Separate Financial Statements - Amendments to IAS 27*** (effective for annual periods beginning on or after 1 January 2016, with early adoption permitted)**.** The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. First-time adopters of IFRS electing to use the equity method in its separate financial statements will be required to apply this method from the date of transition to IFRS. The Bank currently considers whether to apply these amendments for preparation of its separate financial statements.

***Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments to IFRS 10 and IAS 28*** (applied prospectively to transactions occurring in annual periods beginning on or after 1 January 2016. Earlier application is permitted)***.*** 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 recognises 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 remeasurement at fair value of an investment retained in a former subsidiary is recognised only to the extent of unrelated investors' interests in that former subsidiary.

***Disclosure Initiative Amendments to IAS 1*** (issued in December 2014 and effective for annual periods on or after 1 January 2016. Earlier application is permitted). The amendments to IAS 1 clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

- The materiality requirements in IAS 1
- That specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated
- That entities have flexibility as to the order in which they present the notes to financial statements
- That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in thestatement of financial position and the statement(s) of profit or loss and OCI.

***Investment Entities: Applying the Consolidation Exception Amendment to IFRS 10, IFRS 12 and IAS 28*** (These amendments must be applied retrospectively. Issued in December 2014 and effective for annual periods on or after 1 January 2016. Earlier application is permitted).

The amendments address issues that have arisen in applying the investment entities exception under IFRS 10. The amendments to IFRS 10 clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value.

Furthermore, the amendments to IFRS 10 clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to IAS 28 allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries.

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 57,038,476 and AZN 46,295,570 as at 31 December 2015 and 2014.

**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 2015 and 2014:

| | **31 December 2015** | **31 December 2014** |
|---|---|---|
| Investments available-for-sale | 178,904 | 22,557,181 |

### 4. Net Interest Income

Net interest income comprise:

| | Year ended 31 December 2015 | Year ended 31 December 2014 |
|---|---|---|
| **Interest income comprises** | | |
| Interest on loans to customers | 83,716,157 | 85,682,925 |
| Interest on guarantees | 372,623 | 320,515 |
| Interest on debt securities | 252,099 | 547,438 |
| Interest on due from banks | 95,160 | 271,918 |
| Interest on other operations | 18,571 | 175,625 |
| Total interest income on financial assets recorded at amortized cost | 84,454,610 | 86,998,421 |
| **Interest expense comprises:** | | |
| Interest on customer accounts | 30,478,192 | 29,794,888 |
| Interest on due to banks and government agencies | 6,126,789 | 6,081,616 |
| Total interest expense on financial assets recorded at amortized cost | 36,604,981 | 35,876,504 |
| **Net interest income before provision for impairment losses on interest bearing assets** | **47,849,629** | **51,121,917** |

### 5. Allowance For Impairment Losses

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

| | Forfeiting | Debt securities | Due from banks | Loans to customers | Total |
|---|---|---|---|---|---|
| **31 December 2013** | **-** | **-** | **40,000** | **30,586,436** | **30,626,436** |
| Provision | - | 125,492 | 387,724 | 15,709,134 | 16,222,350 |
| **31 December 2014** | **-** | **125,492** | **427,724** | **46,295,570** | **46,848,786** |
| Provision / (Recovery of provision) | 150,675 | (125,492) | (293,661) | 13,474,640 | 13,206,162 |
| Write-off of assets | - | - | - | (2,731,734) | (2,731,734) |
| **31 December 2015** | **150,675** | **-** | **134,063** | **57,038,476** | **57,323,214** |

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

| | **Guarantees and other commitments** |
|---|---|
| **31 December 2013** | **4,373,713** |
| Recovery of provision | (4,162,382) |
| **31 December 2014** | **211,331** |
| Recovery of provision | (141,199) |
| **31 December 2015** | **70,132** |

## 6. Net Gain / (Loss) on Gold Operations

Net gain / (loss) on gold operations comprise:

| | **Year ended 31 December 2015** | **Year ended 31 December 2014** |
|---|---|---|
| Net gain on gold operations | 12,432 | 840 |
| Translation difference on gold | 7,248,553 | (385,398) |
| **Total net gain / (loss) on gold operations** | **7,260,985** | **(384,558)** |

## 7. Net (Loss) / Gain on Foreign Exchange Operations

Net (loss) / gain on foreign exchange operations comprise:

| | **Year ended 31 December 2015** | **Year ended 31 December 2014** |
|---|---|---|
| Dealing differences, net | 6,183,347 | 1,051,478 |
| Translation differences, net | (20,902,090) | (115,155) |
| **Total net (loss) / gain on foreign exchange operations** | **(14,718,743)** | **936,323** |

## 8. Fee and Commission Income and Expense

Fee and commission income and expense comprise:

| | Year ended 31 December 2015 | Year ended 31 December 2014 |
|---|---|---|
| **Fee and commission income:** | | |
| Cash operations | 1,462,923 | 1,595,954 |
| Settlements | 792,303 | 702,571 |
| Plastic cards operations | 533,207 | 527,684 |
| Factoring | 75,588 | 1,041,768 |
| Guarantee letters | 19,922 | 20,400 |
| Letters of credit | 6,367 | 48,769 |
| Foreign exchange operations | - | 487,812 |
| Other | 134,826 | 63,290 |
| **Total fee and commission income** | **3,025,136** | **4,488,248** |
| **Fee and commission expense:** | | |
| Plastic cards operations | 300,086 | 307,704 |
| Settlements | 290,553 | 110,611 |
| Cash operations | 123,458 | 243,815 |
| Guarantee letters | 2,827 | 3,499 |
| Letters of credit | 2,342 | 15,383 |
| Other | 13,100 | 30,250 |
| **Total fee and commission expense** | **732,366** | **711,262** |

## 9. Operating Expenses

Operating expenses comprise:

| | Year ended 31 December 2015 | Year ended 31 December 2014 |
|---|---|---|
| Staff costs | 14,476,789 | 14,045,837 |
| Depreciation and amortization | 5,591,161 | 5,415,112 |
| Payments to the Deposit Insurance Fund of the Republic of Azerbaijan | 1,977,592 | 1,597,438 |
| Operating leases | 1,281,011 | 1,069,962 |
| Security expenses | 996,163 | 1,222,735 |
| Taxes, other than income tax | 652,513 | 695,862 |
| Advertising and marketing expenses | 628,489 | 491,111 |
| Communications | 516,000 | 429,469 |
| Insurance | 487,585 | 476,592 |
| Repairs and maintenance expenses | 365,511 | 345,221 |
| Transportation and business trip expenses | 308,290 | 323,372 |
| Stationery expenses | 226,517 | 201,181 |
| Utilities | 219,947 | 228,040 |
| Professional services fees | 191,466 | 246,826 |
| Entertainment | 174,362 | 224,900 |
| Membership fees | 17,000 | 27,087 |
| Loss on disposal of property, equipment and intangible assets | 5,208 | 48,581 |
| Other expenses | 429,492 | 357,596 |
| **Total operating expenses** | **28,545,096** | **27,446,922** |

## 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 2015 and 2014 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 2015 and 2014 comprise:

| | **31 December 2015** | **31 December 2014** |
|---|---|---|
| **Deductible temporary differences**: | | |
| Allowance for losses on loans to customers | 13,846,267 | 10,888,394 |
| Other liabilities | 2,282,441 | 1,990,275 |
| Amortization | 324,645 | 281,622 |
| Gold | - | 419,681 |
| **Total deductible temporary differences** | 16,453,353 | 13,579,972 |
| **Taxable temporary differences:** | | |
| Depreciation | (7,475,886) | (5,712,072) |
| Gold | (4,755,242) | - |
| Due from banks | (278,208) | - |
| **Total deductible temporary differences** | (12,509,336) | (5,712,072) |
| Net deferred deductible temporary differences | 3,944,018 | 7,867,900 |
| Net deferred tax asset at the statutory tax rate (20%) | 788,804 | 1,573,580 |
| **Net deferred tax asset** | **788,804** | **1,573,580** |

Relationships between tax expenses and accounting profit for the years ended 31 December 2015 and 2014 are explained as follows:

| | Year ended 31 December 2015 | Year ended 31 December 2014 |
|---|---|---|
| Profit before income tax | **1,383,726** | **15,444,536** |
| Tax at the statutory tax rate of 20% | 276,745 | 3,088,907 |
| Tax effect of permanent differences | 508,031 | 84,324 |
| **Income tax expense / (benefit)** | **784,776** | **3,173,231** |
| Current income tax expense | - | 3,743,013 |
| Deferred income tax expense / (benefit) | 784,776 | (569,782) |
| **Income tax expense / (benefit)** | **784,776** | **3,173,231** |

| **Deferred income tax assets** | 31 December 2015 | 31 December 2014 |
|---|---|---|
| **Beginning of the period** | **1,573,580** | **1,003,798** |
| Change in the income tax assets for the period charged to profit | (784,776) | 569,782 |
| **End of the period** | **788,804** | **1,573,580** |

## 11. Earnings Per Share

The earnings per share are calculated as follows:

| | Year ended 31 December 2015 | Year ended 31 December 2014 |
|---|---|---|
| **Profit:** | | |
| Net profit for the year | 599,689 | 12,271,332 |
| Weighted average number of ordinary shares for basic earnings per share | 3,630,300 | 3,630,300 |
| **Earnings per share – basic and diluted (AZN)** | **0.165** | **3.380** |

## 12. Cash and Cash Equivalents

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

| | 31 December 2015 | 31 December 2014 |
|---|---|---|
| Cash on hand | 84,122,861 | 13,695,434 |
| Balances with the Central Bank of Azerbaijan Republic | 50,302,082 | 43,013,723 |
| **Total cash and balances with the Central Bank of Azerbaijan Republic** | **134,424,943** | **56,709,157** |

The balances with the CBAR as at 31 December 2015 and 2014 include AZN 2,737,549 and AZN 10,550,724, 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 2015 | 31 December 2014 |
|---|---|---|
| Cash and balances with the Central Bank of Azerbaijan Republic | 134,424,943 | 56,709,157 |
| Due from banks in OECD countries | 26,954,125 | 39,858,463 |
| | 161,379,068 | 96,567,620 |
| Less minimum reserve deposit with the Central Bank of Azerbaijan Republic | (2,737,549) | (10,550,724) |
| Less restricted deposit in OECD countries | (382,053) | (616,383) |
| **Total cash and cash equivalents** | **158,259,466** | **85,400,513** |

## 13. Due from Banks

Due from banks comprise:

| | 31 December 2015 | 31 December 2014 |
|---|---|---|
| Loans and time deposits with other banks | 21,058,836 | 2,030,667 |
| Correspondent accounts with other banks | 19,770,566 | 40,117,718 |
| Restricted deposits | 397,647 | 624,227 |
| | 41,227,049 | 42,772,612 |
| Less: allowance for impairment losses | (134,063) | (427,724) |
| **Total due from banks** | **41,092,986** | **42,344,888** |

As at 31 December 2015 and 2014 accrued interest income included in due from banks amounted to AZN 27,290 and AZN 30,667, respectively.

Movements in allowances for impairment losses on balances due from banks for the years ended 31 December 2015 and 2014 are disclosed in Note 5.

As at 31 December 2015 and 2014 the maximum credit risk exposure of due from banks amounted to AZN 41,092,986 and AZN 42,344,888, respectively.

As at 31 December 2015 and 2014 the Bank had restricted deposits blocked in support of guarantees issued and plastic cards operations and money transfers totaling AZN 397,647 and AZN 624,227, respectively.

## 14. Loans to Customers

Loans to customers comprise:

| | 31 December 2015 | 31 December 2014 |
|---|---|---|
| Loans to customers | 1,345,572,930 | 1,082,546,861 |
| Less allowance for impairment losses | (57,038,476) | (46,295,570) |
| **Total loans to customers** | **1,288,534,454** | **1,036,251,291** |

As at 31 December 2015 and 2014 accrued interest income included in loans to customers amounted to AZN 34,600,830 and AZN 24,946,241, respectively.

Movements in allowances for impairment losses for the years ended 31 December 2015 and 2014 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 2015 | 31 December 2014 |
|---|---|---|
| Loans collateralized by real estate | 600,310,751 | 386,122,909 |
| Loans collateralized by cash | 462,396,581 | 366,879,411 |
| Loans collateralized by guarantees | 115,892,422 | 164,869,775 |
| Loans collateralized by equipment | 111,937,028 | 72,154,884 |
| Loans collateralized by vehicles | 16,516,560 | 22,950,624 |
| Loans collateralized by trade receivable | 15,697,692 | 8,902,280 |
| Unsecured loans | 22,821,896 | 60,666,978 |
| | 1,345,572,930 | 1,082,546,861 |
| Less allowance for impairment losses | (57,038,476) | (46,295,570) |
| **Total loans to customers** | **1,288,534,454** | **1,036,251,291** |

| Analysis by industry | 31 December 2015 | 31 December 2014 |
|---|---|---|
| Construction | 497,175,083 | 341,643,877 |
| Mining | 302,803,512 | 143,585,715 |
| Individuals | 232,029,001 | 270,147,280 |
| Transportation and communication | 113,509,119 | 73,289,972 |
| Manufacturing | 74,138,561 | 98,254,534 |
| Energy | 51,708,678 | 101,039,513 |
| Agriculture | 36,737,976 | 33,222,332 |
| Trading | 20,636,176 | 7,286,589 |
| Other | 16,834,824 | 14,077,049 |
| | 1,345,572,930 | 1,082,546,861 |
| Less allowance for impairment losses | (57,038,476) | (46,295,570) |
| **Total loans to customers** | **1,288,534,454** | **1,036,251,291** |

Loans to individuals comprise the following products:

| | 31 December 2015 | 31 December 2014 |
|---|---|---|
| Mortgage loans | 114,316,330 | 167,076,699 |
| Consumer loans | 96,098,186 | 75,259,188 |
| Car loans | 14,343,669 | 20,831,325 |
| Business loans | 5,440,292 | 5,613,516 |
| Plastic cards | 1,830,524 | 1,366,552 |
| | 232,029,001 | 270,147,280 |
| Less allowance for impairment losses | (13,166,342) | (9,269,403) |
| **Total loans to customers** | **218,862,659** | **260,877,877** |

As at 31 December 2015 and 2014 the Bank granted 11 and 10 loans totaling AZN 863,345,189 and AZN 608,090,435, respectively, which individually exceeded 10% of the Group's equity.

As at 31 December 2015 and 2014 the maximum credit risk exposure of loans to customers amounted to AZN 1,288,534,454 and AZN 1,036,251,291, respectively.

As at 31 December 2015 and 2014 loans to customers included loans in amount of AZN 396,607,870 and AZN 247,753,282, respectively, whose terms have been renegotiated. Otherwise these loans would be past due or impaired.

As at 31 December 2015 and 2014 loans to customers included loans in amount of AZN 472,097,501 and AZN 719,890,921, respectively, that were individually determined to be impaired.

As at 31 December 2015 and 2014 66% and 59% of total amount of loans to customers are given to 11 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 2015 | 31 December 2014 |
|---|---|---|
| Forfeiting operations with customers | 15,067,451 | - |
| Less allowance for impairment losses | (150,675) | - |
| **Total forfeiting** | **14,916,776** | **-** |

Movements in allowances for impairment losses for the years ended 31 December 2015 and 2014 are disclosed in Note 5.

## 16. Investments Available-for-Sale

Investments available-for-sale comprise:

| | 31 December 2015 | 31 December 2014 |
|---|---|---|
| Equity securities | 178,904 | 177,181 |
| Debt securities | - | 22,380,000 |
| **Total investments available-for-sale** | **178,904** | **22,557,181** |

As at 31 December 2015 and 2014 accrued interest income included in investments available for sale amounted to nil and AZN 142,492, respectively.

| **Equity securities** | Share % | 31 December 2015 | Share % | 31 December 2014 |
|---|---|---|---|---|
| Baku Stock Exchange | 4.76 | 135,000 | 4.76 | 135,000 |
| Millikart LTD | 1 | 40,000 | 1 | 40,000 |
| SWIFT SCRL | | 3,904 | | 2,181 |
| **Total equity securities** | | **178,904** | | **177,181** |

| **Debt securities** | Nominal interest rate | 31 December 2015 | Nominal Interest rate | 31 December 2014 |
|---|---|---|---|---|
| Notes issued by Azerbaijan Mortgage Fund | | - | 3.00 | 19,995,659 |
| Notes issued by resident banks | | - | 10.20 | 2,509,833 |
| | | - | | 22,505,492 |
| Less: allowance for impairment losses | | - | | (125,492) |
| **Total debt securities** | | **-** | | **22,380,000** |

Movements in allowances for impairment losses for the years ended 31 December 2015 and 2014 are disclosed in Note 5.

## 17. 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 2013** | 886,332 | 71,321,381 | 3,168,493 | 4,071,443 | 8,449,219 | 917,226 | 1,306,835 | **90,120,929** | 2,515,342 | **92,636,271** |
| Additions | 138,806 | 60,754 | 1,166,033 | 761,944 | 480,415 | 35,567 | 595,473 | **3,238,992** | 204,380 | **3,443,372** |
| Disposals | - | - | (1,605) | (386,500) | - | (540) | (30,955) | **(419,600)** | (16,500) | **(436,100)** |
| Transfers | - | 1,225,977 | - | - | 39,070 | - | (1,265,047) | **-** | - | **-** |
| **Cost at 31 December 2014** | 1,025,138 | 72,608,112 | 4,332,921 | 4,446,887 | 8,968,704 | 952,253 | 606,306 | **92,940,321** | 2,703,222 | **95,643,543** |
| Additions | - | - | 325,919 | 670,169 | 394,868 | 36,896 | 795,416 | **2,223,268** | 283,463 | **2,506,731** |
| Disposals | - | - | - | (515,829) | - | - | - | **(515,829)** | - | **(515,829)** |
| Transfers | - | 137,343 | (755) | - | 755 | - | (137,343) | **-** | - | **-** |
| **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** |
| **Accumulated Depreciation at 31 December 2013** | - | (4,967,600) | (2,210,657) | (1,903,835) | (5,114,040) | (402,207) | - | **(14,598,339)** | (587,750) | **(15,186,089)** |
| Charge for the year | - | (2,404,622) | (308,916) | (833,056) | (1,491,901) | (121,881) | - | **(5,160,376)** | (257,085) | **(5,417,461)** |
| Disposals | - | - | - | 174,910 | - | - | - | **174,910** | 16,500 | **191,410** |
| Transfers | - | - | - | - | - | - | - | **-** | - | **-** |
| **Accumulated Depreciation at 31 December 2014** | - | (7,372,222) | (2,519,573) | (2,561,981) | (6,605,941) | (524,088) | - | **(19,583,805)** | (828,335) | **(20,412,140)** |
| Charge for the year | - | (2,423,684) | (681,719) | (854,800) | (1,244,284) | (89,752) | - | **(5,294,239)** | (296,920) | **(5,591,159)** |
| Disposals | - | - | - | 408,665 | - | - | - | **408,665** | - | **408,665** |
| Transfers | - | - | 29 | - | (29) | - | - | **-** | - | **-** |
| **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)** |
| **NBV at 31 December 2014** | **1,025,138** | **65,235,890** | **1,813,348** | **1,884,906** | **2,362,763** | **428,165** | **606,306** | **73,356,516** | **1,874,887** | **75,231,403** |
| **NBV at 31 December 2015** | **1,025,138** | **62,949,549** | **1,456,822** | **1,593,111** | **1,514,073** | **375,309** | **1,264,379** | **70,178,381** | **1,861,430** | **72,039,811** |

## 18. Investment Properties

Investment properties comprise:

| | Year ended 31 December 2015 | Year ended 31 December 2014 |
|---|---|---|
| **Investment property at fair value at beginning of the year** | **6,693,719** | **6,691,512** |
| Fair value(loss) / gains | (46,129) | 2,207 |
| **Investment properties at end of the year** | **6,647,590** | **6,693,719** |

The fair value of investment property as at 31 December 2015 was determined on 29 January 2016 by AIS Azintellektservice, who holds a recognized professional qualification. The basis used for the appraisal was market value.

## 19. Other Assets

Other assets comprise:

| | 31 December 2015 | 31 December 2014 |
|---|---|---|
| Prepaid operating taxes | 3,744,023 | 66,518 |
| Collateral repossessed | 2,145,286 | 1,930,797 |
| Settlements on money transfers | 1,945,115 | 2,607,871 |
| Prepayments and receivables on other transactions | 914,509 | 681,518 |
| Prepayments for purchase of property and equipment | 750,857 | 1,054,453 |
| Deferred expenses | 535,051 | 632,070 |
| Prepayments for purchases of intangible assets | 246,737 | 253,619 |
| Prepaid operating leases | 121,036 | 138,535 |
| Other | 1,021,059 | 1,009,038 |
| | 11,423,673 | 8,374,419 |
| Less: Provision for impairment of other non-financial assets | (1,385,824) | (918,276) |
| **Total other assets** | **10,037,849** | **7,456,143** |

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

| | Other non-financial assets |
|---|---|
| **31 December 2013** | **-** |
| Provision | (918,276) |
| **31 December 2014** | **(918,276)** |
| Provision | (467,548) |
| **31 December 2015** | **(1,385,824)** |

## 20. Due to Banks and Government Agencies

Due to banks and government agencies comprise:

| | 31 December 2015 | 31 December 2014 |
|---|---|---|
| Amount due to the National Fund for Support of Entrepreneurship | 73,509,665 | 59,720,733 |
| Amount due to State Oil Company of Azerbaijan Republic | 63,213,267 | 31,288,228 |
| Amount due to Azerbaijan Mortgage Fund | 47,044,643 | 42,915,602 |
| Loans from the CBAR | 31,500,000 | 25,000,000 |
| Correspondent accounts of other banks | 290,207 | 3,985,679 |
| Loans from Banks | - | 39,220,000 |
| **Total due to banks and government agencies** | **215,557,782** | **202,130,242** |

As at 31 December 2015 and 2014 accrued interest expense included in due to banks and government agencies amounted to AZN 189,906 and AZN 149,059, respectively.

## 21. Customer Accounts

Customer accounts comprise:

| | 31 December 2015 | 31 December 2014 |
|---|---|---|
| Time deposits | 896,278,189 | 627,364,569 |
| Repayable on demand | 248,525,323 | 211,063,944 |
| **Total customer accounts** | **1,144,803,512** | **838,428,513** |

As at 31 December 2015 and 2014 accrued interest expense included in customer accounts amounted to AZN 2,250,913 and AZN 1,513,356, respectively.

As at 31 December 2015 and 2014 customer accounts amounting to AZN 888,645,801 and AZN 601,680,772 were due to 13 and 11 customers representing a significant concentration, being approximately 78% and 72%, respectively.

| | 31 December 2015 | 31 December 2014 |
|---|---|---|
| Individuals | 893,534,070 | 640,471,906 |
| Investing | 145,629,473 | 97,812,164 |
| Insurance | 50,300,646 | 29,842,886 |
| Trade | 21,687,514 | 35,192,632 |
| Transport and communication | 18,086,266 | 6,185,161 |
| Energy | 6,524,451 | 2,967,605 |
| Manufacturing | 5,708,369 | 1,532,695 |
| Construction | 2,578,123 | 16,909,755 |
| Financing | 396,994 | 555,920 |
| Agriculture | 3,268 | 127,826 |
| Entertainment | - | 6,367,379 |
| Other | 354,338 | 462,584 |
| **Total customer accounts** | **1,144,803,512** | **838,428,513** |

## 22. Other Liabilities

Other liabilities comprise:

| | 31 December 2015 | 31 December 2014 |
|---|---|---|
| Deferred revenue | 4,914,536 | 364,372 |
| Payables to the employees | 2,044,848 | 1,694,034 |
| Settlements on money transfers and plastic cards | 1,976,622 | 1,964,006 |
| Taxes other than income tax | 667,451 | 210,998 |
| Payables to the Deposit Insurance Fund | 630,166 | 396,455 |
| Professional fees payable | 43,070 | 51,570 |
| Accrued expenses | 3,491 | 45,078 |
| Other | 408,759 | 291,360 |
| **Total other liabilities** | **10,688,943** | **5,017,873** |

## 23. Share Capital

As of 31 December 2015 and 2014 the Group's shareholders' authorized, issued and fully paid capital amounted to AZN 211,646,490 and AZN 197,125,290, respectively and comprised 3,630,300 and 3,630,300 ordinary shares with a par value of AZN 58.30 and AZN 54.30, respectively. Each share entitles one vote to the shareholder.

During 2015 and 2014 share capital of the Group was increased by AZN 14,521,200 and AZN 13,432,110, respectively.

During 2015 and 2014 par value of ordinary shares of the Group was increased by AZN 4.00 and AZN 3.70, respectively.

## 24. 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 70,132 and AZN 211,331 as at 31 December 2015 and 2014, respectively.

As at 31 December 2015 and 2014, the nominal or contract amounts and the risk amounts were:

| | 31 December 2015 | | 31 December 2014 | |
|---|---|---|---|---|
| | **Nominal Amount** | **Risk Weighted Amount** | **Nominal Amount** | **Risk Weighted Amount** |
| **Contingent liabilities and credit commitments** | | | | |
| Guarantees issued and similar commitments | 8,069,097 | 8,069,097 | 22,289,466 | 22,289,466 |
| Letters of credit and other transaction related contingent obligations | - | - | 1,078,312 | 539,156 |
| Commitments on credits and unused credit lines | 44,088,776 | 22,044,388 | 51,215,666 | 25,607,833 |
| **Total contingent liabilities and credit commitments** | **52,157,874** | **30,113,486** | **74,583,444** | **48,436,455** |

***Capital commitments –*** The Group had no material commitments for capital expenditures outstanding as at 31 December 2015.

***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 2015 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.

## 25. 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 2015 and 2014 with related parties:

| | 31 December 2015 | | 31 December 2014 | |
|---|---|---|---|---|
| | **Related party transactions** | **Total category as per financial statements caption** | **Related party transactions** | **Total category as per financial statements caption** |
| Loans to customers | | 1,345,572,930 | | 1,082,546,861 |
| *- shareholders and entities in which a substantial interest is owned by shareholders of the Group* | *28,367,284* | | *20,000,000* | |
| *- key management personnel of the entity* | *760,848* | | *782,423* | |
| Allowance for impairment losses | | (57,038,476) | | (46,295,570) |
| *- shareholders and entities in which a substantial interest is owned by shareholders of the Group* | *(2,214,465)* | | *(200,000)* | |
| *- key management personnel of the entity* | *(7,548)* | | *(7,824)* | |
| Customer accounts | | 1,144,803,512 | | 838,428,513 |
| *- shareholders and entities in which a substantial interest is owned by shareholders of the Group* | *72,875,050* | | *61,706,723* | |
| *- key management personnel of the entity* | *496,360* | | *394,346* | |
| Guarantees issued | | 8,069,097 | | 22,289,466 |
| *- shareholders and entities in which a substantial interest is owned by shareholders of the Group* | - | | *2,297,870* | |
| Unused loan commitments | | 44,088,776 | | 51,215,666 |
| *- key management personnel of the entity* | *204,016* | | *81,378* | |

| | Year ended 31 December 2015 | | Year ended 31 December 2014 | |
|---|---|---|---|---|
| | **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 | 460,186 | 14,476,789 | 460,311 | 14,045,837 |

Included in the consolidated income statement for the years ended 31 December 2015 and 2014 are the following amounts which arose due to transactions with related parties:

| | Year ended 31 December 2015 | | Year ended 31 December 2014 | |
|---|---|---|---|---|
| | **Related party transactions** | **Total category as per financial statements caption** | **Related party transactions** | **Total category as per financial statements caption** |
| Interest income | | 84,454,610 | | 86,998,421 |
| *- shareholders and entities in which a substantial interest is owned by shareholders of the Group* | *1,394,722* | | *1,203,056* | |
| *- key management personnel of the entity* | *57,170* | | *46,979* | |
| Interest expense | | (36,604,981) | | (35,876,504) |
| *- shareholders and entities in which a substantial interest is owned by shareholders of the Group* | *(2,738,930)* | | *(3,087,167)* | |
| *- key management personnel of the entity* | *(39,001)* | | *(26,071)* | |
| Fee and commission income | | 3,025,136 | | 4,488,248 |
| *- shareholders and entities in which a substantial interest is owned by shareholders of the Group* | *128,917* | | *122,590* | |
| *- key management personnel of the entity* | - | | - | |
| Other income | | 822,821 | | 416,827 |
| *- shareholders and entities in which a substantial interest is owned by shareholders of the Group* | *356,603* | | *356,604* | |
| Operating expense | | (28,545,096) | | (27,446,922) |
| *- shareholders and entities in which a substantial interest is owned by shareholders of the Group* | *(486,317)* | | *(495,807)* | |

## 26. 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.

## 27. Fair Value of Financial Instruments

Estimated fair value disclosures of financial instruments are made in accordance with the requirements of IAS 32 “Financial Instruments: Disclosure and Presentation” and IAS 39 “Financial Instruments: Recognition and Measurement”. Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm’s length transaction, other than in forced or liquidation sale. The estimates presented herein are not necessarily indicative of the amounts the Group could realize in a market exchange from the sale of its full holdings of a particular instrument.

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 2015 | | 31 December 2014 | |
|---|---|---|---|---|
| | Carrying amount | Fair value | Carrying amount | Fair value |
| Cash and cash equivalents | 134,424,943 | 134,424,943 | 56,709,157 | 56,709,157 |
| Due from banks | 41,092,986 | 41,092,986 | 42,344,888 | 42,344,888 |
| | | | | |
| Due to banks and government agencies | 215,557,782 | 215,557,782 | 202,130,242 | 202,130,242 |
| Customer accounts | 1,144,803,512 | 1,144,803,512 | 838,428,513 | 838,428,513 |

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 2015 and 2014 the cost of them was 178,904 and AZN 177,181, 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.

## 28. 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 (12%) and tier 1 capital (6%) 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 2015 the Group’s total capital amount for Capital Adequacy purposes was AZN 207,378,522 and tier 1 capital amount was AZN 207,378,522 with ratios of 14% and 14%, respectively.

As at 31 December 2014 the Group’s total capital amount for Capital Adequacy purposes was AZN 206,780,963 and tier 1 capital amount was AZN 206,780,963 with ratios of 17% and 17%, 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 2015 and 2014 the Group was in compliance with the minimum capital requirements imposed by the CBAR.

## 29. 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 2014.

## 30. 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 2015** |
|---|---|---|---|---|---|
| | **Maximum exposure** | **Offset** | **Net exposure after offset** | **Collateral Pledged** | **Net exposure after offset and collateral** |
| Due from banks | 41,092,986 | - | 41,092,986 | - | 41,092,986 |
| Loans to customers | 1,288,534,454 | 462,396,581 | 826,137,873 | 803,315,977 | 22,821,896 |
| Investments available-for-sale | 178,904 | - | 178,904 | - | 178,904 |
| Forfeiting | 14,916,776 | - | 14,916,776 | - | 14,916,776 |

| | | | | | **31 December 2014** |
|---|---|---|---|---|---|
| | **Maximum exposure** | **Offset** | **Net exposure after offset** | **Collateral Pledged** | **Net exposure after offset and collateral** |
| Due from banks | 42,344,888 | - | 42,344,888 | - | 42,344,888 |
| Loans to customers | 1,036,251,291 | 366,879,411 | 669,371,880 | 608,704,902 | 60,666,978 |
| Investments available-for-sale | 22,557,181 | - | 22,557,181 | - | 22,557,181 |

Financial assets are graded according to the current credit rating they have been issued by an internationally regarded agency. The highest possible rating is AAA. Investment grade financial assets have ratings from AAA to BBB. Financial assets which have ratings lower than BBB are classed as speculative grade.

The following table details the credit ratings of financial assets held by the Group:

| | | | | | | | **31 December 2015** |
|---|---|---|---|---|---|---|---|
| | **AAA** | **AA** | **A** | **BBB** | **< BBB** | **Not rated** | **Total** |
| Due from banks | - | 26,954,124 | - | - | 866,632 | 13,272,230 | 41,092,986 |
| Loans to customers | - | - | - | - | - | 1,288,534,454 | 1,288,534,454 |
| Investments available-for-sale | - | - | - | - | - | 178,904 | 178,904 |

| | | | | | | | **31 December 2014** |
|---|---|---|---|---|---|---|---|
| | **AAA** | **AA** | **A** | **BBB** | **< BBB** | **Not rated** | **Total** |
| Due from banks | - | 39,858,463 | - | - | 879,441 | 1,606,984 | 42,344,888 |
| Loans to customers | - | - | - | - | - | 1,036,251,291 | 1,036,251,291 |
| Investments available-for-sale | - | - | - | - | - | 22,557,181 | 22,557,181 |

The banking industry is generally exposed to credit risk through its financial assets and contingent liabilities. Credit risk exposure of the Group is concentrated within the Republic of Azerbaijan. The exposure is monitored on a regular basis to ensure that the credit limits and credit worthiness guidelines established by the Group's risk management policy are not breached. The Group enters into numerous transactions where the counterparties are not rated by international rating agencies.

Rating model

The Group has developed internal rating model, which allow it to determine the rating of counterparties. The rating of corporate borrower is based on an analysis of the financial ratios of the borrower, and an analysis of the market and industry sector, in which the borrower operates. The model also takes into consideration various qualitative factors, such as management efficiency and borrower's market share.

The application of the internal rating model results in a standardized approach in the analysis of corporate borrowers and provides a quantitative assessment of the creditworthiness of a borrower that does not have a rating from an international rating agency. The model takes into account specific local market conditions.

The quality of the internal rating model is examined on a regular basis through an assessment of both its effectiveness and validity. The Group revises the model when deficiencies are identified.

The Group applies internal rating methodologies to specific corporate loans and groups of retail and small business loans, which incorporate various underlying master scales that are different from that used by international rating agencies. As a result, it is not possible to make a cross-product score comparison which would agree to the outstanding balance of loans to customers per the statement of financial position. As such, more detailed information is not being presented.

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

| | | | | **31 December 2015** |
|---|---|---|---|---|
| | **Neither past due nor impaired** | **Financial assets past due but not impaired** | **Financial assets that have been individually impaired** | **Total** |
| Due from banks | 41,092,986 | - | - | 41,092,986 |
| Loans to customers | 835,057,905 | - | 453,476,549 | 1,288,534,454 |
| Forfeiting | 14,916,776 | - | - | 14,916,776 |
| Investments available-for-sale | 178,904 | - | - | 178,904 |

| | | | | **31 December 2014** |
|---|---|---|---|---|
| | **Neither past due nor impaired** | **Financial assets past due but not impaired** | **Financial assets that have been individually impaired** | **Total** |
| Due from banks | 42,344,888 | - | - | 42,344,888 |
| Loans to customers | 292,919,063 | - | 743,332,228 | 1,036,251,291 |
| Investments available-for-sale | 22,557,181 | - | - | 22,557,181 |

### 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 2015 Total |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Cash and cash equivalents | 134,424,943 | - | - | 134,424,943 |
| Gold | 11,698,201 | - | - | 11,698,201 |
| Due from banks | 13,272,231 | 866,631 | 26,954,124 | 41,092,986 |
| Loans to customers | 1,288,534,454 | - | - | 1,288,534,454 |
| Forfeiting | 14,916,776 | - | - | 14,916,776 |
| Investments available for sale | 175,000 | - | 3,904 | 178,904 |
| Property and equipment | 70,178,381 | - | - | 70,178,381 |
| Investment property | 6,647,590 | - | - | 6,647,590 |
| Intangible assets | 1,861,430 | - | - | 1,861,430 |
| Deferred income tax asset | 788,804 | - | - | 788,804 |
| Other assets | 9,870,323 | 39,963 | 127,563 | 10,037,849 |
| **TOTAL ASSETS** | **1,552,368,133** | **906,594** | **27,085,591** | **1,580,360,318** |
| **LIABILITIES** | | | | |
| Due to banks and government agencies | 215,557,782 | - | - | 215,557,782 |
| Customer accounts | 1,144,803,512 | - | - | 1,144,803,512 |
| Provision for impairment losses on other operations | 70,132 | - | - | 70,132 |
| Other liabilities | 10,594,025 | 35,597 | 59,321 | 10,688,943 |
| **TOTAL LIABILITIES** | **1,371,025,451** | **35,597** | **59,321** | **1,371,120,369** |
| **NET POSITION** | **181,342,682** | **870,997** | **27,026,270** | |

| | The Republic of Azerbaijan | CIS countries | OECD countries | 31 December 2014 Total |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Cash and cash equivalents | 56,709,157 | - | - | 56,709,157 |
| Gold | 6,600,521 | - | - | 6,600,521 |
| Due from banks | 1,659,105 | 827,320 | 39,858,463 | 42,344,888 |
| Loans to customers | 1,036,251,291 | - | - | 1,036,251,291 |
| Investments available for sale | 22,555,000 | - | 2,181 | 22,557,181 |
| Property and equipment | 73,356,516 | - | - | 73,356,516 |
| Investment property | 6,693,719 | - | - | 6,693,719 |
| Intangible assets | 1,874,887 | - | - | 1,874,887 |
| Deferred income tax asset | 1,573,580 | - | - | 1,573,580 |
| Other assets | 7,333,852 | 24,566 | 97,725 | 7,456,143 |
| **TOTAL ASSETS** | **1,214,607,628** | **851,886** | **39,958,369** | **1,255,417,883** |
| **LIABILITIES** | | | | |
| Due to banks and government agencies | 202,130,242 | - | - | 202,130,242 |
| Customer accounts | 838,428,513 | - | - | 838,428,513 |
| Provision for impairment losses on other operations | 211,331 | - | - | 211,331 |
| Current income tax liability | 974,074 | - | - | 974,074 |
| Other liabilities | 4,974,043 | 14,076 | 29,754 | 5,017,873 |
| **TOTAL LIABILITIES** | **1,046,718,203** | **14,076** | **29,754** | **1,046,762,033** |
| **NET POSITION** | **167,889,425** | **837,810** | **39,928,615** | |

### 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 | Upto 1 month | 1 monthto 3 months | 3 monthto 1 year | 1 yearto 5 years | Over 5 years | Maturityun defined | 31 December 2015 Total |
|---|---|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | | | |
| Due from banks | 7.00% | - | - | 4,678,200 | - | - | - | 4,678,200 |
| Loans to customers | 7.43% | 105,944 | 49,814,909 | 508,805,366 | 457,927,372 | 237,280,034 | - | 1,253,933,625 |
| Total interest bearing assets at fixed rates | | 105,944 | 49,814,909 | 513,483,566 | 457,927,372 | 237,280,034 | - | 1,258,611,825 |
| Cash and cash equivalents | | 131,687,394 | - | - | - | - | 2,737,549 | 134,424,943 |
| Gold | | 11,698,201 | - | - | - | - | - | 11,698,201 |
| Due from banks | | 36,017,139 | - | - | - | - | 397,647 | 36,414,786 |
| Loans to customers | | 10,104,178 | - | - | - | - | 24,496,651 | 34,600,829 |
| Investments available for sale | | - | - | - | - | - | 178,904 | 178,904 |
| Other assets | | 1,945,115 | 545,858 | - | 2,145,286 | - | - | 4,636,259 |
| Forfeiting | | - | 851,243 | 2,501,016 | 11,715,192 | - | - | 15,067,451 |
| | | **191,557,971** | **51,212,010** | **515,984,582** | **471,787,850** | **237,280,034** | **27,810,751** | **1,495,633,198** |
| **LIABILITIES** | | | | | | | | |
| Due to banks and government agencies | 2.69% | 38,000 | 12,057 | 91,437,402 | 31,651,985 | 91,263,403 | - | 214,402,847 |
| Customer accounts | 4.61% | 2,767,041 | 100,517,994 | 415,417,460 | 374,799,918 | - | - | 893,502,413 |
| Total interest bearing liabilities at fixed rates | | 2,805,041 | 100,530,051 | 506,854,862 | 406,451,903 | 91,263,403 | - | 1,107,905,260 |
| Due to banks and government agencies | | 1,154,935 | - | - | - | - | - | 1,154,935 |
| Customer accounts | | 205,565,424 | - | - | - | - | 45,735,675 | 251,301,099 |
| Other liabilities | | 2,610,279 | 940,357 | 3,464,995 | 2,355,593 | - | - | 9,371,224 |
| Guarantees issued and similar commitments | | 2,660 | 1,131,850 | 4,852,280 | 2,082,307 | - | - | 8,069,097 |
| Commitments on credits and unused credit lines | | 2,932,079 | 1,478,959 | 14,089,868 | 23,576,058 | 2,011,812 | - | 44,088,776 |
| | | **215,070,418** | **104,081,217** | **529,262,005** | **434,465,861** | **93,275,215** | **45,735,675** | **1,421,890,391** |
| Liquidity gap | | (23,512,447) | (52,869,207) | (13,277,423) | 37,321,989 | 144,004,819 | | |
| Interest sensitivity gap for fixed rate instruments | | (2,699,097) | (50,715,142) | 6,628,704 | 51,475,469 | 146,016,631 | | |
| Interest sensitivity gap | | (2,699,097) | (50,715,142) | 6,628,704 | 51,475,469 | 146,016,631 | | |
| **Cumulative interest sensitivity gap** | | **(2,699,097)** | **(53,414,239)** | **(46,785,535)** | **4,689,934** | **150,706,565** | | |

| | 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 2014 Total |
|---|---|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | | | |
| Due from banks | 8,00% | 1,979,134 | - | - | - | - | - | 1,979,134 |
| Loans to customers | 6,90% | 13,755,307 | 17,069,875 | 330,099,360 | 501,767,531 | 148,612,978 | - | 1,011,305,051 |
| Investments available for sale | 3,80% | 19,737,508 | - | 2,500,000 | - | - | - | 22,237,508 |
| Total interest bearing assets at fixed rates | | 35,471,949 | 17,069,875 | 332,599,360 | 501,767,531 | 148,612,978 | - | 1,035,521,693 |
| Cash and cash equivalents | | 46,158,433 | - | - | - | - | 10,550,724 | 56,709,157 |
| Gold | | 6,600,521 | - | - | - | - | - | 6,600,521 |
| Due from banks | | 39,741,527 | - | - | - | - | 624,227 | 40,365,754 |
| Loans to customers | | 21,792,550 | - | - | - | - | 3,153,690 | 24,946,240 |
| Investments available for sale | | 132,659 | - | 9,833 | - | - | 177,181 | 319,673 |
| Other assets | | 2,607,871 | 637,217 | - | 1,930,797 | - | - | 5,175,885 |
| | | **152,505,510** | **17,707,092** | **332,609,193** | **503,698,328** | **148,612,978** | **14,505,822** | **1,169,638,923** |
| **LIABILITIES** | | | | | | | | |
| Due to banks and government agencies | 3,06% | 1,961,000 | 3,042 | 79,519,819 | 30,037,972 | 86,428,508 | - | 197,950,341 |
| Customer accounts | 4,78% | 42,864,504 | 32,620,016 | 157,457,541 | 387,502,981 | - | 5,500,920 | 625,945,962 |
| Total interest bearing liabilities at fixed rates | | 44,825,504 | 32,623,058 | 236,977,360 | 417,540,953 | 86,428,508 | 5,500,920 | 823,896,303 |
| Due to banks and government agencies | | 4,179,901 | - | - | - | - | - | 4,179,901 |
| Customer accounts | | 172,292,613 | - | - | - | - | 40,189,938 | 212,482,551 |
| Current income tax liability | | - | 974,074 | - | - | - | - | 974,074 |
| Other liabilities | | 2,405,539 | 262,568 | 2,349,766 | - | - | - | 5,017,873 |
| Guarantees issued and similar commitments | | 412,768 | 2,748,303 | 8,852,961 | 10,275,434 | - | - | 22,289,466 |
| Letters of credit and other transaction related contingent obligations | | - | - | 1,078,312 | - | - | - | 1,078,312 |
| Commitments on credits and unused credit lines | | 1,580,329 | 1,670,042 | 24,355,858 | 23,457,437 | 152,000 | - | 51,215,666 |
| | | **225,696,654** | **38,278,045** | **273,614,257** | **451,273,824** | **86,580,508** | **45,690,858** | **1,121,134,146** |
| Liquidity gap | | (73,191,144) | (20,570,953) | 58,994,936 | 52,424,504 | 62,032,470 | | |
| Interest sensitivity gap for fixed rate instruments | | (9,353,555) | (15,553,183) | 95,622,000 | 84,226,578 | 62,184,470 | | |
| Interest sensitivity gap | | (9,353,555) | (15,553,183) | 95,622,000 | 84,226,578 | 62,184,470 | | |
| **Cumulative interest sensitivity gap** | | **(9,353,555)** | **(24,906,738)** | **70,715,262** | **154,941,840** | **217,126,310** | | |

### 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 2015.

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 2015** | | **As at 31 December 2014** | |
|---|---|---|---|---|
| | **Interest rate +1%** | **Interest rate -1%** | **Interest rate +1%** | **Interest rate -1%** |
| **Assets:** | | | | |
| Due from banks | 46,782 | (46,782) | 19,791 | (19,791) |
| Loans to customers | 12,539,336 | (12,539,336) | 10,113,050 | (10,113,050) |
| Investments available-for-sale | - | - | 222,375 | (222,375) |
| **Liabilities:** | | | | |
| Due to banks and government agencies | (2,144,028) | 2,144,028 | (1,979,503) | 1,979,503 |
| Customer accounts | (8,935,024) | 8,935,024 | (6,259,460) | 6,259,460 |
| **Net impact on profit before tax** | **1,507,066** | **(1,507,066)** | **2,116,254** | **(2,116,254)** |

### 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 2015 Total |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Cash and cash equivalents | 38,870,667 | 9,973,272 | 85,581,004 | - | 134,424,943 |
| Gold | - | - | - | 11,698,201 | 11,698,201 |
| Due from banks | - | 10,185,547 | 5,554,999 | 25,352,440 | 41,092,986 |
| Loans to customers | 503,072,387 | 758,468,045 | 26,994,022 | - | 1,288,534,454 |
| Forfeiting | - | 14,916,776 | - | - | 14,916,776 |
| Investments available for sale | 175,000 | - | 3,904 | - | 178,904 |
| Property and equipment | 70,178,381 | - | - | - | 70,178,381 |
| Investment property | 6,647,590 | - | - | - | 6,647,590 |
| Intangible assets | 1,861,430 | - | - | - | 1,861,430 |
| Deferred income tax asset | 788,804 | - | - | - | 788,804 |
| Other assets | 8,580,175 | 1,313,126 | 88,440 | 56,108 | 10,037,849 |
| **TOTAL ASSETS** | **630,174,434** | **794,856,766** | **118,222,369** | **37,106,749** | **1,580,360,318** |
| **LIABILITIES** | | | | | |
| Due to banks and government agencies | 182,927,164 | 32,507,736 | 122,882 | - | 215,557,782 |
| Customer accounts | 267,873,044 | 749,796,040 | 118,070,818 | 9,063,610 | 1,144,803,512 |
| Provision for impairment losses on other operations | 70,132 | - | - | - | 70,132 |
| Current income tax liability | - | - | - | - | - |
| Deferred income tax liability | - | - | - | - | - |
| Other liabilities | 3,697,519 | 6,899,950 | 81,779 | 9,695 | 10,688,943 |
| **TOTAL LIABILITIES** | **454,567,859** | **789,203,726** | **118,275,479** | **9,073,305** | **1,371,120,369** |
| **OPEN BALANCE SHEET POSITION** | **175,606,575** | **5,653,040** | **(53,110)** | **28,033,444** | |

| | AZN | USD | EUR | Other currency | 31 December 2014 Total |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Cash and cash equivalents | 25,041,972 | 3 247,557 | 28,419,628 | - | 56,709,157 |
| Gold | - | - | - | 6,600,521 | 6,600,521 |
| Due from banks | 10,716,240 | 1,738,708 | 28,620,504 | 1,269,436 | 42,344,888 |
| Loans to customers | 669,767,931 | 293,412,570 | 10,288,951 | 62,781,839 | 1,036,251,291 |
| Investments available for sale | 22,555,000 | - | 2,181 | - | 22,557,181 |
| Property and equipment | 73,356,516 | - | - | - | 73,356,516 |
| Investment property | 6,693,719 | - | - | - | 6,693,719 |
| Intangible assets | 1,874,887 | - | - | - | 1,874,887 |
| Deferred income tax asset | 1,573,580 | - | - | - | 1,573,580 |
| Other assets | 6,472,978 | 910,464 | 68,120 | 4,581 | 7,456,143 |
| **TOTAL ASSETS** | **818,052,823** | **299,309,299** | **67,399,384** | **70,656,377** | **1,255,417,883** |
| **LIABILITIES** | | | | | |
| Due to banks and government agencies | 131,622,014 | 70,508,228 | - | - | 202,130,242 |
| Customer accounts | 501,063,788 | 205,920,860 | 67,429,525 | 64,014,340 | 838,428,513 |
| Provision for impairment losses on other operations | 211,331 | - | - | - | 211,331 |
| Current income tax liability | 974,074 | - | - | - | 974,074 |
| Other liabilities | 3,024,755 | 1,903,623 | 71,650 | 17,845 | 5,017,873 |
| **TOTAL LIABILITIES** | **636,895,962** | **278,332,711** | **67,501,175** | **64,032,185** | **1,046,762,033** |
| **OPEN BALANCE SHEET POSITION** | **181,156,861** | **20,976,588** | **(101,791)** | **6,624,192** | |

### 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 2015** | | **As at 31 December 2014** | |
|---|---|---|---|---|
| | AZN / USD +10% | AZN / USD -10% | AZN / USD +10% | AZN / USD -10% |
| Impact on profit or loss | 565,304 | (565,304) | 2,097,659 | (2,097,659) |

| | **As at 31 December 2014** | | **As at 31 December 2013** | |
|---|---|---|---|---|
| | AZN / EURO +10% | AZN / EURO -10% | AZN / EURO +10% | AZN / EURO -10% |
| Impact on profit or loss | (5,311) | 5,311 | (10,179) | 10,179 |

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.