ATABANK
OPEN JOINT-STOCK COMPANY

Financial Statements
For the Year Ended December 31, 2014

OPEN JOINT STOCK COMPANY ATABANK

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STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2014

Management is responsible for the preparation of the financial statements that present fairly the financial position of Open Joint Stock Company AtaBank ("the Bank") as at December 31, 2014, and the results of its operations, cash flows and changes in equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRS").

In preparing the financial statements, management is responsible for:

- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Bank's financial position and financial performance;
- Making an assessment of the Bank's ability to continue as a going concern.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Bank;
- Maintaining adequate accounting records that are sufficient to show and explain the Bank's transactions and disclose with reasonable accuracy at any time the financial position of the Bank, and which enable them to ensure that the financial statements of the Bank comply with IFRS;
- Maintaining accounting records in compliance with local legislation;
- Taking such steps as are reasonably available to them to safeguard the assets of the Bank; and
- Preventing and detecting fraud and other irregularities.

The financial statements of the Bank for the year ended December 31, 2014 were approved by management on May 6, 2015.

On behalf of the Management Board:

Mr. Etibar Babashli
Chairman of the Management Board

May 6, 2015
Baku, the Republic of Azerbaijan

Ms. Arzu Nasrullayeva
Director of Financial Department

May 6,, 2015
Baku, the Republic of Azerbaijan

AZƏRBAYCAN RESPUBLİKASI Açıq Səhmdar Cəmiyyəti AtaBank Open Joint-Stock Society AZERBAIJAN REPUBLIC pwc

Independent Auditor's Report

To the Shareholders and Board of Directors of AtaBank Open Joint-Stock Company:

We have audited the accompanying financial statements of AtaBank Open Joint-Stock Company (the "Bank") which comprise the statement of financial position as of 31 December 2014 and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 about whether the 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 financial statements present fairly, in all material respects, the financial position of the Bank as of 31 December 2014, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other matter

The financial statements of the Bank for the year ended 31 Decmeber 2013 were audited by another firm of auditors whose report, dated 29 April 2014, expressed an unqualified opinion on those statements.

PricewaterhouseCoopers Audit Azerbaijan LLC

6 May 2015

Baku, Azerbaijan Republic

OPEN JOINT STOCK COMPANY ATABANK

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2014
(in Azerbaijan Manats)

	Notes	Year ended December 31, 2014	Year ended December 31, 2013
Interest income	6,27	47,027,675	35,745,820
Interest expense	6,27	(21,111,872)	(17,003,932)
NET INTEREST INCOME BEFORE PROVISION FOR IMPAIRMENT LOSSES ON INTEREST BEARING ASSETS		**25,915,803**	**18,741,888**
Provision for impairment losses on interest bearing assets	7,27	(4,801,019)	(1,772,932)
NET INTEREST INCOME		**21,114,784**	**16,968,956**
Fee and commission income	8,27	5,469,848	5,747,181
Fee and commission expense	8	(1,033,599)	(937,260)
Net gain on foreign exchange operations	9	911,778	1,285,864
Share of loss of associate		(153,230)	(79,590)
Impairment of repossessed collateral	20	(56,876)	(1,075,943)
Gains less losses from disposals of available-for-sale investments		(373,682)	177,720
Other income	10,27	24,201	2,571
NET NON-INTEREST INCOME		**4,788,440**	**5,120,543**
OPERATING INCOME		**25,903,224**	**22,089,499**
OPERATING EXPENSES	**11,27**	**(17,911,897)**	**(15,440,500)**
PROFIT BEFORE INCOME TAX		**7,991,327**	**6,648,999**
Income tax expense	**12**	**(1,755,079)**	**(1,521,199)**
NET PROFIT FOR THE PERIOD		**6,236,248**	**5,127,800**
OTHER COMPREHENSIVE INCOME			
Items that may be reclassified subsequently to profit or loss:			
Net gain (loss) resulting on revaluation of available-for-sale investments		(123,219)	-
Reclassification adjustment relating to available-for-sale financial assets disposed of in the year, net of taxes		373,682	237,861
Income tax relating to components of other comprehensive income		(50,093)	(47,572)
OTHER COMPREHENSIVE INCOME AFTER INCOME TAX		**200,370**	**190,289**
TOTAL COMPREHENSIVE INCOME		**6,436,618**	**5,318,089**
EARNINGS PER SHARE			
Basic and diluted (AZN)	13	2.49	2.05

On behalf of the Management Board:

Mr. Etibar Babashli
Chairman of the Management Board
May 6, 2015
Baku, the Republic of Azerbaijan

Ms. Arzu Nasrullayeva
Director of Financial Department
May 6, 2015
Baku, the Republic of Azerbaijan

OPEN JOINT STOCK COMPANY ATABANK

STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2014
(in Azerbaijan Manats)

	Notes	December 31, 2014	December 31, 2013	December 31, 2012
ASSETS:				
Cash and cash equivalents	14	49,693,285	84,805,151	44,783,018
Mandatory cash balances with CBAR	14	8,516,906	7,278,936	5,458,237
Due from banks	15,27	9,628 848	6,621,395	12,639,129
Loans to customers	16,27	446,708,073	220,329,337	153,586,099
Available-for-sale investments	17,27	37,877,306	31,318,947	50,493,615
Investments in associate		69,517	222,747	302,337
Property and equipment	18	19,155,349	15,012,446	15,959,267
Intangible assets	19	1,560,554	1,180,271	900,075
Other financial and non-financial assets	20,27	4,245,155	6,335,314	1,232,145
TOTAL ASSETS		**577,454,993**	**373,104,544**	**285,353,922**
LIABILITIES AND EQUITY				
LIABILITIES:				
Deposits by banks	21	517,355	62,224	40,975
Deposits by customers	22,27	449,205,565	278,127,291	217,397,862
Loans received from government agencies	23	63,616,314	44,492,144	28,504,439
Current income tax liabilities		493,267	592,296	385,026
Deferred income tax liabilities	12	1,123,348	1,209,967	1,265,400
Other financial and non-financial liabilities	24	1,184,703	1,114,319	584,587
Total liabilities		**516,140,552**	**325,598,241**	**248,178,289**
EQUITY:				
Share capital	25	50,000,000	25,000,000	25,000,000
Additional paid-in share capital	25	-	12,500,680	-
Property revaluation reserve		5,068,067	5,068,067	5,068,067
Available-for-sale revaluation reserve		200,370	-	(190,289)
Retained earnings		6,046,004	4,937,556	7,297,855
Total equity		**61,314,441**	**47,506,303**	**37,175,633**
TOTAL LIABILITIES AND EQUITY		**577,454,993**	**373,104,544**	**285 353 922**

On behalf of the Management Board:

Mr. Etibar Babashli
Chairman of the Management Board

May 6, 2015
Baku, the Republic of Azerbaijan

Ms. Arzu Nasrullayeva
Director of Financial Department

May 6, 2015
Baku, the Republic of Azerbaijan

OPEN JOINT STOCK COMPANY ATABANK

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2014
(in Azerbaijan Manats)

	Share capital	Additional paid-in capital	Property revaluation reserve	Available-for-sale revaluation (deficit)/ reserve	Retained earnings	Total
As at January 1, 2013	25,000,000	-	5,068,067	(190,289)	7,297,855	37,175,633
Other comprehensive income for the year	-	-	-	190,289	-	190,289
Profit for the year	-	-	-	-	5,127,800	5,127,800
Total comprehensive income for 2013	-	-	-	190,289	5,127,800	5,318,089
Reclassification adjustment relating to available-for-sale financial assets disposed of in the year	-	-	-	-	(190,289)	(190,289)
Issue of ordinary shares (Note 25)	-	9,514,281	-	-	-	9,514,281
Transfer from retained earnings to additional paid –in capital (Note 25)	-	2,986,399	-	-	(2,986,399)	-
Dividends declared (Note 25)	-	-	-	-	(4,311,411)	(4,311,411)
As at December 31, 2013	25,000,000	12,500,680	5,068,067	-	4,937,556	47,506,303
Other comprehensive income for the year	-	-	-	200,370	-	200,370
Profit for the year	-	-			6,236,248	6,236,248
Total comprehensive income for 2014	-	-	-	200,370	6,236,248	6,436,618
Issue of ordinary shares (Note 25)	12,499,320	-	-	-	-	12,499,320
Dividends declared (Note 25)	-	-	-	-	(5,127,800)	(5,127,800)
Transfers	12,500,680	(12,500,680)	-	-	-	-
As at December 31, 2014	**50,000,000**	**-**	**5,068,067**	**200,370**	**6,046,004**	**61,314,441**

The registration of share capital in the amount of AZN 25,000,000 was completed on February 5, 2015. Refer to Note 25.

On behalf of the Management Board:

Mr. Etibar Babashli
Chairman of the Management Board

May 6, 2015
Baku, the Republic of Azerbaijan

Ms. Arzu Nasrullayeva
Director of Financial Department

May 6, 2015
Baku, the Republic of Azerbaijan

The accompanying notes on pages 5 to 71 are an integral part of these financial statements.

OPEN JOINT STOCK COMPANY ATABANK

STATEMENT OF CASH FLOWS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2014
(in Azerbaijan Manats)

	Notes	Year ended December 31,2014	Year ended December 31,2013
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit for the year before income tax		7,991,327	6,648,999
Adjustments for:			
Provision for impairment losses	7,20	4,857,895	2,848,875
Foreign exchange loss	9	(468,086)	147,984
Depreciation and amortization	11	3,124,482	2,330,093
Gain from disposal of property and equipment and intangible assets	10	(14,064)	(600)
Net gain on available-for-sale financial assets		373,682	(177,720)
Net interest income	6	(25,915,803)	(18,741,888)
Share of loss of associate		153,230	79,590
Cash inflow from operating activities before changes in operating assets and liabilities		(2,723,422)	(14,038,582)
Changes in operating assets and liabilities			
(Increase)/decrease in operating assets:			
Minimum reserve deposits with the Central Bank of the Republic of Azerbaijan		(1,237,970)	(1,820,699)
Due from banks		(3,127,171)	8,259,656
Loans to customers		(223,115,676)	(73,436,162)
Other assets		(95,475)	(571,793)
Increase/(decrease) in operating liabilities			
Deposits by banks		430,542	21,235
Deposits by customers		174,151,119	59,166,311
Loans received from government agencies		19,114,465	15,975,129
Other liabilities		70 384	529,477
Changes in working capital		(36,533,204)	(5,915,428)
Income tax paid		(1,990,819)	(1,369,362)
Interest income received		26,638,798	46,064,140
Interest paid		(18,540,126)	(19,610,033)
Net cash (outflow)/ inflow from operating activities		(30,425,351)	19,169,317
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property and equipment and intangible assets		(5,367,827)	(4,035,820)
Proceeds on disposal of property and equipment		40,028	16,365
Payments for investments available-for-sale		(56,780,761)	(26,459,850)
Proceeds on sale of available-for-sale investments		50,362,573	46,151,851
Net cash (outflow)/ inflow from investing activities		(11,745,987)	15,672,546
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from issue of ordinary shares		12,499,320	9,514,281
Dividends paid on ordinary shares		(5,127,800)	(4,311,411)
Net cash inflow from financing activities		7,371,520	5,202,870
Effect of exchange rate changes on the balance of cash held in foreign currencies		(312,048)	(22,600)
Net (Decrease)/ Increase In Cash And Cash Equivalents		(35,111,866)	40,022,133
Cash And Cash Equivalents, Beginning Of Period	14	84,805,151	44,783,018
Cash And Cash Equivalents, End Of Period	14	49,693,285	84,805,151

On behalf of the Management Board:

Mr. Etibar Babashli
Chairman of the Management Board
May 6, 2015
Baku, the Republic of Azerbaijan

Ms. Arzu Nasrullayeva
Director of Financial Department
May 6, 2015
Baku, the Republic of Azerbaijan

1. Organization

AtaBank Open Joint-Stock Company (the "Bank") is a Joint-Stock Bank, which was incorporated in the Republic of Azerbaijan in 1993. The Bank is regulated by the Central Bank of the Republic of Azerbaijan (the "CBAR") and conducts its business under general license number 176. The Bank's primary business consists of commercial activities, originating loans and guarantees, and trading with foreign currencies. The Bank had 21 branches and 3 service points in Azerbaijan as at December 31, 2014 (December 31, 2013: 20 branches and 2 service points).

The Bank has 36% ownership interest in "AtaLeasing" OJSC, a leasing company registered in the Republic of Azerbaijan on July 5, 2004.The company purchases transportation, construction and other equipment from domestic and foreign suppliers and leases the equipment to local enterprises.

The registered office of the Bank is located at 102, S. Badalbayli Street, Baku AZ 1014, the Republic of Azerbaijan.

As at December 31, 2014 and 2013, the following shareholders owned the issued share capital of the Bank:

Shareholder	December 31, 2014, %	December 31, 2013, %
"AtaHolding" Open Joint Stock Company	76.0	76.0
Mr. Ashraf Kamilov	15.9	15.9
Mr. Mahir Rafiyev	8.1	8.1
Total	**100.0**	**100.0**

These financial statements were authorized for issue on May 6, 2015 by the Management Board.

2. Operating Environment of the Bank

Republic of Azerbaijan. The Republic of Azerbaijan displays certain characteristics of an emerging market. Its economy is particularly sensitive to oil and gas prices. Tax, currency and customs legislation is subject to varying interpretations and contributes to the challenges faced by banks operating in the country. During 2014 the economy of Azerbaijan was negatively impacted by a decline in oil prices.

The financial markets continue to be volatile and are characterised by frequent significant price movements and increased trading spreads. Subsequent to December 31, 2014:

- the CBAR exchange rate fluctuated between AZN 0.7844 and AZN 1.05 per USD on 21 February 2015;
- Standard & Poor's Ratings Services has downgraded its outlook on Azerbaijan to negative from stable in March 2015. At the same time it affirmed the 'BBB-/A-3' long and short-term sovereign credit ratings on Azerbaijan while Moody's rating for Azerbaijan sovereign debt was Baa3 and Fitch's credit rating for Azerbaijan was BBB-. In general, a credit rating is used by sovereign wealth funds, pension funds and other investors to gauge the credit worthiness of Azerbaijan thus having a significant impact on the country's borrowing costs.

These events may have a further significant impact on the Bank's future operations and financial position, the effect of which is difficult to predict. The future economic and regulatory situation and its impact on the Bank's operations may differ from management's current expectations.

2 Operating Environment of the Bank (Continued)

The international sovereign debt crisis, stock market volatility and other risks could have a negative effect on the Azerbaijani financial and corporate sectors. Management determined loan impairment provisions by considering the economic situation and outlook at the end of the reporting period, and applied the 'incurred loss' model required by the applicable accounting standards. These standards require recognition of impairment losses that arose from past events and prohibit recognition of impairment losses that could arise from future events, no matter how likely those future events are.

The future economic development of the Republic of Azerbaijan is dependent upon external factors and internal measures undertaken by the government to sustain growth, and to change the tax, legal and regulatory environment. Management believes it is taking all necessary measures to support the sustainability and development of the Bank's business in the current business and economic environment.

3. Significant Accounting Policies

Statement of compliance. These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

These financial statements have been prepared assuming that the Bank is a going concern and will continue in operation for the foreseeable future.

These financial statements are presented in Azerbaijan Manat ("AZN"), unless otherwise indicated.

These financial statements have been prepared on the historical cost basis except for buildings and certain financial instruments that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies below.
Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Bank takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The Bank is registered in the Republic of Azerbaijan and maintains its accounting records in accordance with local accounting pracitices. These financial statements have been prepared from the statutory accounting records and have been adjusted to conform to IFRS.

The Bank presents its statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the statement of financial position date (current) and more than 12 months after the statement of financial position date (non-current) is presented (see Note 31).

3 Significant Accounting Policies (Continued)

Functional currency. Items included in the financial statements of Bank are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The functional currency of the Bank is the AZN. The presentation currency of the financial statements of the Bank is the AZN. All values are rounded to the nearest AZN, except when otherwise indicated.

Offsetting. Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expense is not offset in the statement of profit or loss unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Bank.

The principal accounting policies are set out below.

Revenue recognition

Recognition of interest income and expense. Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Bank and the amount of income can be measured reliably. Interest income and expense are recognized on an accrual basis using the 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 (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date, except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

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. Interest earned on assets at fair value is classified within interest income.

Recognition of fee and commission 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 profit or loss 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 profit or loss on expiry. Loan servicing fees are recognized as revenue as the services are provided. Loan syndication fees are recognized in profit or loss when the syndication has been completed. All other commissions are recognized when services are provided.

Recognition of dividend income. Dividend income from investments is recognized when the shareholder's right to receive payment has been established (provided that it is probable that the economic benefits will flow to the Bank and the amount of income can be measured reliably).

Recognition of rental income. The Bank's policy for recognition of income as a lessor is set out in the "Leases" section of this footnote.

Financial instruments. The Bank recognizes financial assets and liabilities in its statement of financial position when it becomes a party to the contractual obligations of the instrument. Regular way purchases and sales of financial assets and liabilities are recognized using settlement date accounting. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

3 Significant Accounting Policies (Continued)

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition and includes *transaction costs*. Measurement at cost is only applicable to investments in equity instruments that do not have a quoted market price and whose fair value cannot be reliably measured and derivatives that are linked to, and must be settled by, delivery of such unquoted equity instruments.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the statement of financial position.

The effective interest method is a method of allocating interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount.

Financial assets. Financial assets are classified into the following specified categories: 'available-for-sale' ("AFS") financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Available-for-sale financial assets. This classification includes investment securities which the Bank intends to hold for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Investment securities available for sale are carried at fair value. Interest income on available-for-sale debt securities is calculated using the effective interest method, and recognised in profit or loss for the year.

Dividends on available-for-sale equity instruments are recognised in profit or loss for the year when the Bank's right to receive payment is established and it is probable that the dividends will be collected. All other elements of changes in the fair value are recognised in other comprehensive income until the investment is derecognised or impaired, at which time the cumulative gain or loss is reclassified from other comprehensive income to profit or loss for the year. Impairment losses are recognised in profit or loss for the year when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of investment securities available for sale. A significant or prolonged decline in the fair value of an equity security below its cost is an indicator that it is impaired. The cumulative impairment loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in profit or loss – is reclassified from other comprehensive income to profit or loss for the year. Impairment losses on equity instruments are not reversed and any subsequent gains are recognised in other comprehensive income. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss for the year.

3 Significant Accounting Policies (Continued)

Loans and receivables. Loans, and other receivables that have fixed or determinable payments that are not quoted in an active market (including balances with the Central Bank of the Republic of Azerbaijan, due from banks, loans to customers and other financial assets) are classified as 'loans and receivables'.

Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Impairment of financial assets. Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For unlisted equity investments classified as AFS, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- Significant financial difficulty of the issuer or counterparty; or
- Breach of contract, such as default or delinquency in interest or principal payments; or
- It becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- Disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial asset, such as loans and receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of loans and receivables could include the Bank's past experience of collecting payments, an increase in the number of delayed payments in the portfolio, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of loans and receivables, where the carrying amount is reduced through the use of an allowance account. When a loan or a receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

For financial assets measured at amortized cost, 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, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

In respect of AFS equity securities, impairment losses previously recognized in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income and accumulated under the heading of available-for-sale revaluation reserve.

3 Significant Accounting Policies (Continued)

In respect of AFS debt securities, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

Renegotiated loans. Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated any impairment is measured using the original effective interest rate as calculated before the modification of terms and the loan is no longer considered past due. Management continually reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

Write off of loans and advances. Loans and advances are written off against the allowance for impairment losses when deemed uncollectible. Loans and advances are written off after management has exercised all possibilities available to collect amounts due to the Bank and after the Bank has sold all available collateral. Subsequent recoveries of amounts previously written off are reflected as an offset to the charge for impairment of financial assets in the statement of profit or loss and other comprehensive income in the period of recovery.

Derecognition of financial assets. The Bank derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Bank recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Bank retains substantially all the risks and rewards of ownership of a transferred financial asset, the Bank continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in profit or loss.

On derecognition of a financial asset other than in its entirety (e.g. when the Bank retains an option to repurchase part of a transferred asset), the Bank allocates the previous carrying amount of the financial asset between the part it continues to recognize under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognized in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

Financial liabilities and equity instruments issued

Classification as debt or equity. Debt and equity instruments issued by an entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments. An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Bank are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Bank's own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Bank's own equity instruments.

Financial liabilities. Financial liabilities are classified as 'other financial liabilities'.

3 Significant Accounting Policies (Continued)

Other financial liabilities. Other financial liabilities (including deposits by banks and customers, loans received from government agencies and other financial liabilities) are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Financial guarantee contracts. A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

Financial guarantee contracts issued by the Bank are initially measured at their fair values and, if not designated as at FVTPL, are subsequently measured at the higher of:

- The amount of the obligation under the contract, as determined in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* ; and
- The amount initially recognized less, where appropriate, cumulative amortization recognized in accordance with the revenue recognition policies.

Derecognition of financial liabilities. The Bank derecognises financial liabilities when, and only when, the Bank's obligations are discharged, cancelled or they expire. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit and loss.

Leases. Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Bank as lessor. Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

The Bank as lessee. Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Cash and cash equivalents. Cash and cash equivalents consist of cash on hand, unrestricted balances on corresponded and term deposits with the CBAR with original maturity of less or equal to 90 days and amounts due from credit institutions with original maturity of less than or equal to 90 days and are free from contractual encumbrances.

3 Significant Accounting Policies (Continued)

Mandatory cash balances with the CBAR. Mandatory cash balances with the CBAR represent mandatory reserve deposits with the CBAR, which are not available to finance the Bank's day-to-day operations and hence are not considered as part of cash and cash equivalents for the purposes of the statement of cash flows.

Repossessed assets. In certain circumstances, assets are repossessed following the foreclosure on loans that are in default. Repossessed assets are measured at the lower of carrying amount and fair value less costs to sell.

Property and equipment. Buildings held for use in the production or supply of goods or services, or for administrative purposes, are stated in the statement of financial position at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amounts do not differ materially from those that would be determined using fair values at the end of each reporting period.

Any revaluation increase arising on the revaluation of such buildings is recognised in other comprehensive income and accumulated in equity, except to the extent that it reverses a revaluation decrease for the same asset previously recognised in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously expensed. A decrease in the carrying amount arising on the revaluation of such land and buildings is recognised in profit or loss to the extent that it exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset.

Depreciation on revalued buildings is recognised in profit or loss. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the properties revaluation reserve is transferred directly to retained earnings.

Fixtures and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is recognised so as to write off the cost or valuation of assets less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis at the following annual rates:

Buildings	2%
Furniture and equipment	14%
Computers	25%
Other fixed assets	10%-20%
Vehicles	25%
Leasehold improvements	20%

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Intangible assets

Intangible assets acquired separately. Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis at annual rates of 10%-20%.

Derecognition of intangible assets. An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

3 Significant Accounting Policies (Continued)

Impairment of tangible and intangible assets. At the end of each reporting period, the Bank reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Bank estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest Bank of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount.

An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

When an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Taxation. Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax. The tax currently payable is based on taxable profit for the year. Taxable profit before tax as reported in the statement of profit or loss and other comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Bank's current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax. Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in associates, except where the Bank 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 are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

3 Significant Accounting Policies (Continued)

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Bank expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax for the year. Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Operating taxes. Azerbaijan also has various other taxes, which are assessed on the Bank's activities. These taxes are included as a component of operating expenses in the statement of profit or loss and other comprehensive income.***Provisions.*** Provisions are recognised when the Bank has a present obligation (legal or constructive) as a result of a past event, it is probable that the Bank will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the

present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Contingencies. Contingent liabilities are not recognized in the 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 statement of financial position but disclosed when an inflow of economic benefits is probable.

Foreign currencies. In preparing the financial statements, transactions in currencies other than the Bank's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise. The exchange rates used by the Bank in the preparation of the financial statements as at year-end are as follows:

	December 31, 2014	December 31, 2013
AZN/1 US Dollar	0.7844	0.7845
AZN/1 Euro	0.9522	1.0780

Earnings per share. Preference shares are not redeemable, and are considered to be participating shares. Earnings per share are determined by dividing the profit or loss attributable to owners of the Bank by the weighted average number of participating shares outstanding during the reporting year.

Staff costs and related contributions. Wages, salaries, contributions to the Azerbaijan Republic state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the year in which the associated services are rendered by the employees of the Bank. The Bank has no legal or constructive obligation to make pension or similar benefit payments beyond the payments to the statutory defined contribution scheme.

3 Significant Accounting Policies (Continued)

Collateral. The Bank obtains collateral in respect of customer liabilities where this is considered appropriate. The collateral normally takes the form of a lien over the customer's assets and gives the Bank a claim on these assets for both existing and future customer liabilities.

Share capital. Ordinary shares and non-redeemable preference shares with discretionary dividends are both classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium in equity.

Preference shares which carry a mandatory coupon or are redeemable on a specific date or at the option of the shareholder are classified as financial liabilities and are presented in other borrowed funds. The dividends on these preference shares are recognised as interest expense on an amortised cost basis, using the effective interest method.

Equity reserves. The reserves recorded in equity (other comprehensive income) on the Bank's statement of financial position include:

- 'Available-for-sale revaluation reserve' which comprises changes in fair value of available-for-sale financial assets;
- 'Property revaluation reserve' which comprises revaluation reserve of building.

Investments in associates. An associate is an entity over which the Bank has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. Under the equity method, an investment in an associate is initially recognised in the statement of financial position at cost and adjusted thereafter to recognise the Bank's share of the profit or loss and other comprehensive income of the associate. When the Bank's share of losses of an associate or a joint venture exceeds the Bank's interest in that associate (which includes any long-term interests that, in substance, form part of the Bank's net investment in the associate), the Bank discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Bank has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the investment in an associate, any excess of the cost of the investment over the Bank's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Bank's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The requirements of IAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Bank's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 *Impairment of Assets* as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount, Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

3 Significant Accounting Policies (Continued)

The Bank discontinues the use of the equity method from the date when the investment ceases to be an associate, or when the investment is classified as held for sale. When the Bank retains an interest in the former associate and the retained interest is a financial asset, the Bank measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with IAS 39. The difference between the carrying amount of the associate at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part interest in the associate is included in the determination of the gain or loss on disposal of the associate. In addition, the Bank accounts for all amounts previously recognised in other comprehensive income in relation to that associate or joint venture on the same basis as would be required if that associate or joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate or joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Bank reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued.

When the Bank reduces its ownership interest in an associate but the Bank continues to use the equity method, the Bank reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

Segment reporting. Segments are reported in a manner consistent with the internal reporting provided to the Group's chief operating decision maker. Segments whose revenue, result or assets are ten percent or more of all the segments are reported separately.

Changes in presentation. Certain reclassifications have been made to the financial statements as at December 31, 2013 and 2012 and for the years then ended to correct errors and conform to the presentation as at December 31, 2014 and for the year then ended as current year presentation provides better view of the financial position of the Bank.

Due amounts from credit institutions with original maturity of less than or equal to 90 days and without any contractual encumbrances were classified as due from banks in the financial statements as at December 31, 2013 and 2012 which did not confirm to the Bank's accounting policies. To correct these errors retrospective adjustments were made to the financial statements of the Bank for the years ended December 31, 2013 and 2012. The effect of reclassifications for presentation purposes was as follows on amounts at December 31, 2013 and 1 January 2013:

	As previously reported		Reclassification amount		As reclassified	
	January 1, 2013	December 31, 2013	January 1, 2013	December 31, 2013	January 1, 2013	December 31, 2013
Cash and cash equivalents (other than mandatory reserve deposits with CBAR)	19,282,890	66,463,361	25,500,128	(18,341,790)	44,783,018	84,805,151
Due from banks	38,139,257	24,963,185	(25,500,128)	18,341,790	12,639,129	6,621,395

4. Critical Accounting Judgements and Key Sources of Estimation Uncertainty

In the application of the Bank's accounting policies the Bank management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

4 Critical Accounting Judgements and Key Sources of Estimation Uncertainty (Continued)

Key sources of estimation uncertainty. The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Impairment of available-for-sale equity investments. The Bank determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgement. In making this judgement, the Bank evaluates, among other factors, the volatility in share price. In addition, impairment may be appropriate when there is evidence of changes in technology or a deterioration in the financial health of the investee, industry and sector performance, or operational or financing cash flows.

A 10% increase or decrease in actual loss experience compared to the loss estimates used would result in an increase or decrease in available-for-sale equity investments impairment losses of AZN 12,000 (2013: AZN 12,000), respectively.

Impairment of loans and receivables.The Bank regularly reviews its loans and receivables to assess for impairment. The Bank's loan impairment provisions are established to recognize incurred impairment losses in its portfolio of loans and receivables. The Bank 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 Bank's estimated losses and actual losses would require the Bank to record provisions which could have a material impact on its financial statements in future periods.

The Bank 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 Bank 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. The Bank uses management's judgment to adjust observable data for a group of loans to reflect current circumstances not reflected in historical data.

The allowances for impairment of financial assets in the financial statements have been determined on the basis of existing economic and political conditions. The Bank 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.

As at December 31, 2014 and 2013, gross loans and receivables totalled AZN 458,201,709 and AZN 227,376,252, respectively, and the allowance for impairment losses amounted to AZN 11,493,636 and AZN 7,046,915, respectively.

A 10% increase or decrease in actual loss experience compared to the loss estimates used would result in an increase or decrease in loan impairment losses of AZN 596,925 (2013: AZN 552,439), respectively. Impairment losses for individually significant loans are based on estimates of discounted future cash flows of the individual loans, taking into account repayments and realisation of any assets held as collateral against the loans. A 10% increase or decrease in the actual loss experience compared to the estimated future discounted cash flows from individually significant loans, which could arise from differences in amounts and timing of the cash flows, would result in an increase or decrease in loan impairment losses of AZN 610,662 (2013: AZN 126,034), respectively.

Finance leases and derecognition of financial assets. Management applies judgement to determine if substantially all the significant risks and rewards of ownership of financial assets and lease assets are transferred to counterparties, in particular which risks and rewards are the most significant and what constitutes substantially all risks and rewards.

4 Critical Accounting Judgements and Key Sources of Estimation Uncertainty (Continued)

Initial recognition of related party transactions. In the normal course of business the Bank enters into transactions with its related parties. IAS 39 requires initial recognition of financial instruments based on their fair values. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis. No fair value adjustment was booked in respect of the transaction with related parties during years ended December 31, 2014 and 2013.Transactions with related parties and terms and conditions of these transactions are disclosed in Note 27.

Valuation of financial instruments. As described (see Note 29), the Bank uses valuation techniques that include inputs that are not based on observable market date to estimate the fair value of certain types of financial instruments. Note 29 provides detailed information about the key assumptions used in the determination of the fair value of financial instruments, as well as the detailed sensitivity analysis for these assumptions. The Bank management believes that the chosen valuation techniques and assumptions used are appropriate in determining the fair value of financial instruments.

Useful lives of property, plant and equipment. As described above, the Bank reviews the estimated useful lives of property and equipment at the end of each annual reporting period.

Were the estimated useful lives to differ by 10% from management's estimates, the impact on depreciation for the year ended 31 December 2014 would be to increase/decrease it by AZN 279,163 (2013: increase/decrease by AZN 214,281)

Property carried at revalued amounts. Certain property (buildings) is measured at revalued amounts. The date of the latest appraisal was December 31, 2012. The carrying value of revalued property amounted to AZN 9,701,018 and AZN 9,708,837 as at December 31, 2014 and 2013, respectively. Details of the valuation techniques used are set out (see Note 18).

5. Adoption of New Or Revised Standards And Interpretations

The following new standards and interpretations became effective for the Bank from 1 January 2014:

"Offsetting Financial Assets and Financial Liabilities" - Amendments to IAS 32 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2014). The amendment added application guidance to IAS 32 to address inconsistencies identified in applying some of the offsetting criteria. This includes clarifying the meaning of 'currently has a legally enforceable right of set-off' and that some gross settlement systems may be considered equivalent to net settlement. The standard clarified that a qualifying right of set off (a) must not be contingent on a future event and (b) must be legally enforceable in all of the following circumstances: (i) in the normal course of business, (ii) the event of default and (iii) the event of insolvency or bankruptcy. The amended standard did not have a material impact on the Bank.

"Amendments to IFRS 10, IFRS 12 and IAS 27 - Investment entities" (issued on 31 October 2012 and effective for annual periods beginning 1 January 2014). The amendment introduced a definition of an investment entity as an entity that (i) obtains funds from investors for the purpose of providing them with investment management services, (ii) commits to its investors that its business purpose is to invest funds solely for capital appreciation or investment income and (iii) measures and evaluates its investments on a fair value basis. An investment entity is required to account for its subsidiaries at fair value through profit or loss, and to consolidate only those subsidiaries that provide services that are related to the entity's investment activities. IFRS 12 was amended to introduce new disclosures, including any significant judgements made in determining whether an entity is an investment entity and information about financial or other support to an unconsolidated subsidiary, whether intended or already provided to the subsidiary. The amended standard did not have a material impact on the Bank.

5 Adoption of New or Revised Standards and Interpretations (Continued)

IFRIC 21 – "Levies" (issued on 20 May 2013 and effective for annual periods beginning 1 January 2014). The interpretation clarifies the accounting for an obligation to pay a levy that is not income tax. The obligating event that gives rise to a liability is the event identified by the legislation that triggers the obligation to pay the levy. The fact that an entity is economically compelled to continue operating in a future period, or prepares its financial statements under the going concern assumption, does not create an obligation. The same recognition principles apply in interim and annual financial statements. The application of the interpretation to liabilities arising from emissions trading schemes is optional. The interpretation did not have a material impact on the Bank.

Amendments to IAS 36 – "Recoverable amount disclosures for non-financial assets" (issued in May 2013 and effective for annual periods beginning 1 January 2014; earlier application is permitted if IFRS 13 is applied for the same accounting and comparative period). The amendments remove the requirement to disclose the recoverable amount when a CGU contains goodwill or indefinite lived intangible assets but there has been no impairment. The amended standard did not have a material impact on the Bank.

Amendments to IAS 39 – "Novation of Derivatives and Continuation of Hedge Accounting" (issued in June 2013 and effective for annual periods beginning 1 January 2014).The amendments allow hedge accounting to continue in a situation where a derivative, which has been designated as a hedging instrument, is novated (i.e parties have agreed to replace their original counterparty with a new one) to effect clearing with a central counterparty as a result of laws or regulation, if specific conditions are met. The amended standard did not have a material impact on the Bank.

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2015 or later, and which the Bank has not early adopted.

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

- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at 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

5 Adoption of New or Revised Standards and Interpretations (Continued)

- 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 Bank is currently assessing the impact of the new standard on its financial statements.

Amendments to IAS 19 – "Defined benefit plans: Employee contributions" (issued in November 2013 and effective for annual periods beginning 1 July 2014). The amendment allows entities to recognise 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 amendment is not expected to have any material impact on the Bank's financial statements.

Annual Improvements to IFRSs 2012 (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014, unless otherwise stated below). The improvements consist of changes to seven standards. IFRS 2 was amended to clarify the definition of a 'vesting condition' and to define separately 'performance condition' and 'service condition'; The amendment is effective for share-based payment transactions for which the grant date is on or after 1 July 2014. IFRS 3 was amended to clarify that (1) an obligation to pay contingent consideration which meets the definition of a financial instrument is classified as a financial liability or as equity, on the basis of the definitions in IAS 32, and (2) all non-equity contingent consideration, both financial and non-financial, is measured at fair value at each reporting date, with changes in fair value recognised in profit and loss. Amendments to IFRS 3 are effective for business combinations where the acquisition date is on or after 1 July 2014. IFRS 8 was amended to require (1) disclosure of the judgements made by management in aggregating operating segments, including a description of the segments which have been aggregated and the economic indicators which have been assessed in determining that the aggregated segments share similar economic characteristics, and (2) a reconciliation of segment assets to the entity's assets when segment assets are reported. The basis for conclusions on IFRS 13 was amended to clarify that deletion of certain paragraphs in IAS 39 upon publishing of IFRS 13 was not made with an intention to remove the ability to measure short-term receivables and payables at invoice amount where the impact of discounting is immaterial. IAS 16 and IAS 38 were amended to clarify how the gross carrying amount and the accumulated depreciation are treated where an entity uses the revaluation model. IAS 24 was amended to include, as a related party, an entity that provides key management personnel services to the reporting entity or to the parent of the reporting entity ('the management entity'), and to require to disclose the amounts charged to the reporting entity by the management entity for services provided. The Bank is currently assessing the impact of the amendments on its financial statements.

Annual Improvements to IFRSs 2013 (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014). The improvements consist of changes to four standards. The basis for conclusions on IFRS 1 is amended to clarify that, where a new version of a standard is not yet mandatory but is available for early adoption; a first-time adopter can use either the old or the new version, provided the same standard is applied in all periods presented. IFRS 3 was amended to clarify that it does not apply to the accounting for the formation of any joint arrangement under IFRS 11. The amendment also clarifies that the scope exemption only applies in the financial statements of the joint arrangement itself. The amendment of IFRS 13 clarifies that the portfolio exception in IFRS 13, which allows an entity to measure

the fair value of a Bank of financial assets and financial liabilities on a net basis, applies to all contracts (including contracts to buy or sell non-financial items) that are within the scope of IAS 39 or IFRS 9. IAS 40 was amended to clarify that IAS 40 and IFRS 3 are not mutually exclusive. The guidance in IAS 40 assists preparers to distinguish between investment property and owner-occupied property. Preparers also need to refer to the guidance in IFRS 3 to determine whether the acquisition of an investment property is a business combination. The Bank is currently assessing the impact of the amendments on its financial statements.

5 Adoption of New or Revised Standards and Interpretations (Continued)

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 recognise 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 recognise such amounts, the standard requires that the effect of rate regulation must be presented separately from other items. An entity that already presents IFRS financial statements is not eligible to apply the standard.

Accounting for Acquisitions of Interests in Joint Operations - Amendments to IFRS 11 (issued on 6 May 2014 and effective for the periods beginning on or after 1 January 2016). This amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business. The Bank is currently assessing the impact of the amendments on its financial statements.

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). In this amendment, the IASB has clarified that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The Bank is currently assessing the impact of the amendments on its financial statements.

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. The Bank is currently assessing the impact of the new standard on its financial statements.

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. The amended standard will not have a material impact on the Bank.

Equity Method in Separate Financial Statements - Amendments to IAS 27 (issued on 12 August 2014 and effective for annual periods beginning 1 January 2016). 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. The Bank is currently assessing the impact of the amendments on 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 (issued on 11 September 2014 and effective for annual periods beginning on or after 1 January 2016). These amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are held by a subsidiary. The Bank is currently assessing the impact of the amendments on its financial statements.

5 Adoption of New or Revised Standards and Interpretations (Continued)

Annual Improvements to IFRSs 2014 (issued on 25 September 2014 and effective for annual periods beginning on or after 1 January 2016). The amendments impact 4 standards. IFRS 5 was amended to clarify that change in the manner of disposal (reclassification from "held for sale" to "held for distribution" or vice versa) does not constitute a change to a plan of sale or distribution, and does not have to be accounted for as such. The amendment to IFRS 7 adds guidance to help management determine whether the terms of an arrangement to service a financial asset which has been transferred constitute continuing involvement, for the purposes of disclosures required by IFRS 7. The amendment also clarifies that the offsetting disclosures of IFRS 7 are not specifically required for all interim periods, unless required by IAS 34. The amendment to IAS 19 clarifies that for post-employment benefit obligations, the decisions regarding discount rate, existence of deep market in high-quality corporate bonds, or which government bonds to use as a basis, should be based on the currency that the liabilities are denominated in, and not the country where they arise. IAS 34 will require a cross reference from the interim financial statements to the location of "information disclosed elsewhere in the interim financial report". The Bank is currently assessing the impact of the amendments on its financial statements.

Disclosure Initiative Amendments to IAS 1 (issued in December 2014 and effective for annual periods on or after 1 January 2016). The Standard was amended to clarify the concept of materiality and explains that an entity need not provide a specific disclosure required by an IFRS if the information resulting from that disclosure is not material, even if the IFRS contains a list of specific requirements or describes them as minimum requirements. The Standard also provides new guidance on subtotals in financial statements, in particular, such subtotals (a) should be comprised of line items made up of amounts recognised and measured in accordance with IFRS; (b) be presented and labelled in a manner that makes the line items that constitute the subtotal clear and understandable; (c) be consistent from period to period; and (d) not be displayed with more prominence than the subtotals and totals required by IFRS standards. The Bank is currently assessing the impact of the amendments on its financial statements.

Investment Entities: Applying the Consolidation Exception Amendment to IFRS 10, IFRS 12 and IAS 28 (issued in December 2014 and effective for annual periods on or after 1 January 2016). The Standard was amended to clarify that an investment entity should measure at fair value through profit or loss all of its subsidiaries that are themselves investment entities. In addition, the exemption from preparing consolidated financial statements if the entity's ultimate or any intermediate parent produces consolidated financial statements available for public use was amended to clarify that the exemption applies regardless whether the subsidiaries are consolidated or are measured at fair value through profit or loss in accordance with IFRS 10 in such ultimate or any intermediate parent's financial statements. The Bank is currently assessing the impact of the amendments on its financial statements.

Unless otherwise described above, the new standards and interpretations are not expected to affect significantly the Bank's financial statements.

6. Net Interest Income

	Year ended December 31, 2014	Year ended December 31, 2013
Interest income comprises:		
Financial assets recorded at amortized cost:		
- interest income on unimpaired financial assets	39,429,959	29,640,277
- interest income on impaired financial assets	3,161,458	2,333,471
Financial assets at fair value	4,436,258	3,772,072
Total interest income	47,027,675	35,745,820
Financial assets recorded at amortized cost comprises:		
Loans to customers	41,138,723	29,813,176
Due from banks	1,451,472	2,160,572
Total interest income on financial assets recorded at amortized cost	42,590,195	31,973,748
Financial assets at fair value comprises:		
Financial assets available-for-sale	4,437,480	3,772,072
Total interest income on financial assets at fair value	4,437,480	3,772,072
Interest expense comprises:		
Interest on financial liabilities recorded at amortized cost	(21,111,872)	(17,003,932)
Total interest expense	(21,111,872)	(17,003,932)
Interest expense on financial liabilities recorded at amortized cost comprise:		
Interest on deposits by customers	(20,130,029)	(16,318,433)
Interest on loans received from government agencies	(966,579)	(685,499)
Interest on deposits by banks	(15,264)	-
Total interest expense on financial liabilities recorded at amortized cost	(21,111,872)	(17,003,932)
Net interest income before provision for impairment losses on interest bearing financial assets	25,915,803	18,741,888

7. Allowance for Impairment Losses And Other Provisions

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

	Due from banks	Loans to customers	Total
December 31, 2012	5,221,360	3,012,508	8,233,868
Additional provisions recognized/(recovery of provisions)	(2,261,475)	4,034,407	1,772,932
December 31, 2013	**2,959,885**	**7,046,915**	**10,006,800**
(Recovery of provision)/additional provisions recognized	354,298	4,446,721	4,801,019
December 31, 2014	**3,314,183**	**11,493,636**	**14,807,819**

8. Fee and Commission Income and Expense

Fee and commission income and expense comprise:

	Year ended December 31, 2014	Year ended December 31, 2013
Fee and commission income:		
Cash operations	1,490,609	2,657,705
Plastic cards services	1,462,035	1,342,708
Settlements	1,126,635	1,225,244
Foreign exchange operations	852,754	183,705
Documentary operations	23,484	6,728
Other operations	514,331	331,091
Total fee and commission income	**5,469,848**	**5,747,181**
Fee and commission expense:		
Plastic cards services	(816,179)	(699,463)
Settlements	(183,151)	(173,019)
Documentary operations	(16,998)	(55,217)
Cash operations	(15,436)	(6,209)
Other operations	(1,835)	(3,352)
Total fee and commission expense	**(1,033,599)**	**(937,260)**

9. Net Gain on Foreign Exchange Operations

Net gain on foreign exchange operations comprises:

	Year ended December 31, 2014	Year ended December 31, 2013
Dealing, net	1,164,434	1,433,848
Translation differences, net	(252,656)	(147,984)
Total net gain on foreign exchange operations	**911,778**	**1,285,864**

10. Other Income

Other income comprises:

	Year ended December 31, 2014	Year ended December 31, 2013
Rental income	1,858	1,850
Gain from sale of property and equipment	14,064	600
Other	8,279	121
Total other income	**24,201**	**2,571**

11. Operating Expenses

Operating expenses comprise:

	Year ended December 31, 2014	Year ended December 31, 2013
Staff cost	7,188,842	6,187,672
Depreciation and amortization	3,124,482	2,330,093
Contributions to State Social Protection Fund	1,568,044	1,333,269
Entertainment	1,093,458	585,154
Advertising and marketing costs	1,048,770	1,138,729
Operating leases	681,992	693,507
Office expenses	551,608	514,478
Security costs	549,444	495,620
Communication expense	419,724	425,541
Repairs and maintenance	371,406	368,251
Payments to the Deposit Insurance Fund	309,968	620,367
Taxes other than income tax	283,466	156,716
Transportation and travel	218,128	72,573
Professional services fees	98,477	185,149
Insurance	75,469	67,186
Utilities	66,525	79,996
Staff tranings	64,956	77,971
Membership fees	36,722	25,992
Other expenses	160,416	82,236
Total operating expenses	**17,911,897**	**15,440,500**

12. Income Taxes

The Bank measures and records its current income tax payable and its tax bases in its assets and liabilities in accordance with the tax regulations of the Republic of Azerbaijan where the Bank operates, which may differ from IFRS.

The Bank is subject to certain permanent tax differences due to the non-tax deductibility of certain expenses and certain income being treated as non-taxable for tax purposes.

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 December 31, 2014 and 2013 relate mostly to different methods/timing of income and expense recognition as well as to temporary differences generated by tax – book bases' differences for certain assets.

Differences between IFRS and statutory taxation regulations in Azerbaijan give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below:

	January 1, 2014	Credited/ (charged) to profit or loss	Credited/ (charged) to other comprehensive income	December 31, 2014
Tax effect of deductible temporary differences				
Premises, equipment and intangible	(1,347,484)	-	-	(1,347,484)
Loans to customers	(232,075)	63,743	-	(168,332)
Available-for-sale investments	-	(10,393)	(50,093)	(60,486)
Due from banks	290,432	68,039	-	358,471
Other liabilities	63,242	-	-	63,242
Investment in associate	15,918	15,323	-	31,241
Net deferred tax liability	**(1,209,967)**	**136,712**	**(50,093)**	**(1,123,348)**

12 Income Taxes (Continued)

	January 1, 2013	Credited/ (charged) to profit or loss	Credited/ (charged) to other comprehensive income	December 31, 2013
Tax effect of deductible temporary differences				
Premises, equipment and intangible	(1,326,179)	(21,305)	-	(1,347,484)
Loans to customers	(666,712)	434,637	-	(232,075)
Available-for-sale investments	47,572	(47,572)	-	-
Due from banks	657,579	(367,147)	-	290,432
Other liabilities	4,652	58,590	-	63,242
Investment in associate	-	15,918	-	15,918
Other assets	17,688	(17,688)	-	
Net deferred tax liability	**(1,265,400)**	**55,433**	**-**	**(1,209,967)**

The tax rate used for the reconciliations below is the corporate tax rate of 20% (2013: 20%) payable by corporate entities in the Republic of Azerbaijan on taxable profits (as defined) under tax law in that jurisdiction. The effective tax rate reconciliation is as follows for the years ended December 31, 2014 and 2013:

	Year ended December 31, 2014	Year ended December 31, 2013
Profit before income tax	7,991,327	6,648,999
Tax at the statutory tax rate 20% (2013: 20%)	(1,598,265)	(1,329,800)
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Non-deductible expenses	(141,792)	(63,785)
- Income taxable at 10%	(15,022)	-
Adjustments recognized in the current year in relation to the current tax of prior years	-	(127,614)
Income tax expense	**(1,755,079)**	**(1,521,199)**
Current income tax expense	(1,891,791)	(1,576,632)
Deferred tax benefit recognized in the current year	136,712	55,433
Income tax expense	**(1,755,079)**	**(1,521,199)**

Deferred income tax liabilities	**2014**	**2013**
As at January 1 – deferred tax liabilities	**(1,209,967)**	**(1,265,400)**
Changes in deferred income tax balances recognized in other comprehensive income	(50,093)	-
Change in deferred income tax balances recognized in profit or loss	136,712	55,433
As at December 31– deferred tax liabilities	**(1,123,348)**	**(1,209,967)**

13. Earnings per Share

Basic earnings per share are calculated by dividing the profit or loss attributable to equity holders of the Bank by the weighted average number of ordinary shares in issue during the year. The Bank issued additional 1,250,000 ordinary shares during the year ended December 31, 2014 increasing the number of ordinary shares to 2,500,000. Accordingly, the calculation of earnings per share for the year ended December 31, 2013 was also adjusted.

The Bank has no dilutive potential ordinary shares; therefore, the diluted earnings per share equal the basic earnings per share.

	Year ended December 31, 2014	Year ended December 31, 2013
Net profit for the year attributable to ordinary shareholders	6,236,248	5,127,800
Weighted average number of ordinary shares	2,500,000	2,500,000
Basic earnings per ordinary share	**2.49**	**2.05**

14. Cash and Cash Equivalents

	December 31, 2014	December 31, 2013 (reclassified)	December 31, 2012 (reclassified)
Cash on hand	17,205,910	16,169,295	11,715,191
Cash balances with CBAR (other than mandatory reserve deposits)	7,324,773	50,196,689	7,519,589
Correspondent accounts and time deposits with original maturities up to 90 day	25,084,401	18,341,790	25,500,128
Commemorative coins	78,201	97,377	48,110
Total cash and cash equivalents	**49,693,285**	**84,805,151**	**44,783,018**

The maximum exposure to credit risk and credit quality, geographical concentration, liquidity and currency analysis of cash and cash equivalents balances for the years ended December 31, 2014 and 2013 are disclosed in Note 31.

The fair value of cash and cash equivalents balances for the years ended December 31, 2014 and 2013 are disclosed in Note 29.

As at December 31, 2014, included in correspondent accounts and time deposits with original maturities up to 90 day are AZN 3,579,520 placed in resident banks and AZN 21,504,881 placed in non-resident banks (December 31, 2013: correspondent accounts with other banks of AZN 8,172,189 placed in resident banks and AZN 10,169,601 placed in non-resident banks).

As at December 31, 2014 and 2013, accured interest income included in time deposits with original maturities up to 90 day amounted to AZN 23,532 and AZN 1,258, respectively.

	December 31, 2014	December 31, 2013
Mandatory cash balances with CBAR	8,516,906	7,278,936

In accordance with the CBAR regulations, the Bank is required to maintain mandatory cash balances with the CBAR. The CBAR granted permission to the Bank to reduce the mandatory reserves account in the amount of mortgage loans, which are not refinanced by the Azerbaijan Mortgage Fund. 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 the required mandatory reserve.

15. Due from Banks

Due from banks comprise:

	December 31, 2014	December 31, 2013 (reclassified)	December 31, 2012 (reclassified)
Loans to banks and time deposits	12,095,880	8,772,982	17,051,939
Restricted deposits	847,151	808,298	808,550
	12,943,031	9,581,280	17,860,489
Less: allowance for impairment losses	(3,314,183)	(2,959,885)	(5,221,360)
Total due from banks	**9,628,848**	**6,621,395**	**12,639,129**

Due from banks are not collateralised. Analysis by credit quality of amounts due from other banks outstanding at December 31, 2014 is as follows:

	Loans to banks and time deposits	Restricted deposits	Total
Neither past due nor impaired			
- A+ rated (Fitch)		39,220	39,220
- A rated (Fitch)		807,931	807,931
- B- rated (Fitch and Moody's)	5,139,669	-	5,139,669
Total neither past due nor impaired	**5,139,669**	**847,151**	**5,986,820**
Balances individually determined to be impaired (gross)			
- less than 30 days overdue	-	-	-
- 181 to 360 days overdue	4,512,466	-	4,512,466
- over 360 days overdue	2,443,745	-	2,443,745
Total individually impaired (gross)	**6,956,211**	**-**	**6,956,211**
Less provision for impairment	**(3,314,183)**	**-**	**(3,314,183)**
Total due from banks	**8,781,697**	**847,151**	**9,628,848**

15 Due from Banks (Continued)

Analysis by credit quality of amounts due from banks outstanding at December 31, 2013 is as follows:

	Loans to banks and time deposits	Restricted deposits	Total
Neither past due nor impaired			
- A rated (Fitch)	-	808,298	808,298
- B- rated (Fitch)	2,001,434		2,001,434
Total neither past due nor impaired	**2,001,434**	**808,298**	**2,809,732**
Balances individually determined to be impaired (gross)			
- less than 30 days overdue	4,264,865	-	4,264,865
- 181 to 360 days overdue	-	-	-
- over 360 days overdue	2,506,683	-	2,506,683
Total individually impaired (gross)	**6,771,548**	**-**	**6,771,548**
Less provision for impairment	**(2,959,885)**	**-**	**(2,959,885)**
Total due from banks	**5,813,097**	**808,298**	**6,621,395**

Movements in the allowance for impairment losses on balances due from banks for the years ended December 31, 2014 and 2013 are as follows:

	2014		2013	
	Loans to banks and time deposits	Restricted deposits	Loans to banks and time deposits	Restricted deposits
Provision for impairment at 1 January	**2,959,885**	**-**	**5,221,360**	**-**
Provision (recovery) for impairment during the year	354,298	-	(2,261,475)	-
Provision for impairment at 31 December	**3,314,183**	**-**	**2,959,885**	**-**

As at December 31, 2014 loans to banks of AZN 8,781,697 consist of short term loans to resident banks with a maturity of up to one year with an average interest rate of 12.3% (December 31, 2013: short term loans to resident banks of AZN 5,813,097 with maturity of up to one year bearing an average interest rate of 3%)

As at December 31, 2014, included in restricted deposits are collaterals amounting to AZN 447,107, AZN 360,824 and AZN 39,220 placed by the Bank in National Westminster Bank Plc as a member of VISA International, HSBC Bank Plc as a member of Master Card Inc and Deutsche Banks as a member of Western Union Holdings, Inc, respectively (December 31, 2013, included in restricted deposits are collaterals amounting to AZN 447,165 and AZN 360,870 placed by the Bank in National Westminster Bank Plc as a member of VISA International and HSBC Bank Plc as a member of Master Card Inc, respectively).

As at December 31, 2014 and 2013, accured interest income included in due from banks amounted to AZN 514,915 and AZN 2,761, respectively.

16. Loans to Customers

Loans to customers comprise:

	December 31, 2014	December 31, 2013
Loans to legal entities		
Construction	120,954,911	17,148,438
Trade	119,911,268	33,466,525
Agriculture	67,177,762	32,914,007
Manufacturing	14,131,454	12,352,670
Transportation	8,461,278	6,566,836
Other	895,616	102,871
Total loans to legal entities	331,532,289	102,551,347
Loans to individuals		
Consumer loans	51,829,673	63,762,717
Entrepreneurship loans	28,741,877	5,214,177
Car loans	20,686,001	31,875,780
Mortgage loans	20,310,704	18,996,124
Plastic cards	5,063,935	4,661,923
Other	37,230	314,184
Total loans to individuals	126,669,420	124,824,905
Total loans to customers, gross	458,201,709	227,376,252
Less: allowance for impairment losses	(11,493,636)	(7,046,915)
Total loans to customers	**446,708,073**	**220,329,337**

As at December 31, 2014 and 2013, accrued interest income included in loans to customers amounted to AZN 12,236,605 and AZN 3,925,843, respectively.

16 Loans to Customers (Continued)

Movements in the allowance for impairment losses on loans to customers for the year ended December 31, 2014 are as follows:

	Trade	Agriculture	Construction	Manufacturing	Transportation	Consumer loans	Car loans	Mortgage loans	Entrepreneurship loans	Plastic cards	Other	Total
Provision for loan impairment at 1 January 2014	(1,746,005)	(347,349)	(192,526)	(198,724)	(4,850)	(2,245,123)	(1,597,488)	(22,848)	(516,833)	(165,849)	(9,320)	(7,046,915)
(Provision)/recovery for impairment during the year	(1,643,539)	(131,597)	19,858	(189,523)	4,850	(226,188)	64,288	22,848	(2,197,922)	(176,855)	7,059	(4,446,721)
Provision for loan impairment at 31 December 2014	(3,389,544)	(478,946)	(172,668)	(388,247)	-	(2,471,311)	(1,533,200)	-	(2,714,755)	(342,704)	(2,261)	(11,493,636)

Movements in the allowance for impairment losses on loans to customers for the year ended December 31, 2013 are as follows:

	Trade	Agriculture	Construction	Manufacturing	Transportation	Consumer loans	Car loans	Mortgage loans	Entrepreneurship loans	Plastic cards	Other	Total
Provision for loan impairment at 1 January 2013	(1,065,914)	(597,707)	(101,387)	(32,073)	-	(169,686)	(267,824)	(194,120)	(566,426)	(8,919)	(8,452)	(3,012,508)
(Provision)/recovery for impairment during the year	(680,091)	250,358	(91,139)	(166,651)	(4,850)	(2,075,437)	(1,329,664)	171,272	49,593	(156,930)	(868)	(4,034,407)
Provision for loan impairment at 31 December 2013	(1,746,005)	(347,349)	(192,526)	(198,724)	(4,850)	(2,245,123)	(1,597,488)	(22,848)	(516,833)	(165,849)	(9,320)	(7,046,915)

16 Loans to Customers (Continued)

The table below summarizes carrying value of loans to customers analysed by type of collateral obtained by the Bank:

	December 31, 2014	December 31, 2013
Loans collateralized by deposits	188,178,603	10,429,182
Loans collateralized by pledge of real estate	133,385,392	80,134,104
Loans collateralized by guarantees	34,149,040	30,409,696
Loans collateralized by vehicles	27,050,453	37,723,490
Loans collateralized by inventory and equipment	25,872,388	27,876,167
Loans collateralized by precious metals	2,252,750	1,991,415
Unsecured loans	47,313,083	38,812,198
	458,201,709	227,376,252
Less: allowance for impairment losses	(11,493,636)	(7,046,915)
Total loans to customers	**446,708,073**	**220,329,337**

During the years ended December 31, 2014 and 2013, the Bank received non-financial assets by taking possession of collateral it held as security. Balances of repossessed collateral as at December 31, 2014 and 2013 are disclosed within other financial and non-financial assets in Note 20.

As at December 31, 2014 and 2013, the Bank granted loans to 5 customers, totaling AZN 137,284,409 and AZN 33,719,943, respectively, which individually exceeded 10% of the Bank's equity. Allowance for impairment losses on these customers consisted AZN 78,550 and nil as at December 31, 2014 and 2013, respectively.

As at December 31, 2014 and 2013, all loans to customers are granted to companies operating in the Republic of Azerbaijan, which represents a significant geographical concentration in one region.

16 Loans to Customers (Continued)

Analysis by credit quality of loans to customers outstanding as at December 31, 2014 was as follows:

As at December 31, 2014	Trade	Agriculture	Construction	Manufacturing	Transportation	Consumer loans	Car loans	Mortgage loans	Entrepreneurship loans	Plastic cards	Other	Total
Unimpaired loans												
Not past due:												
- Large borrowers with credit history over two years	5,815,070	27,820,820	68,003,767	-	6,541,929		-	-	-	-	-	108,181,586
- Large new borrowers	67,679,147	9,511,520	44,878,562	-	-		-	-	-	-	-	122,069,229
- Loans to medium size entities	28,676,259	19,170,720	-	6,091,981	1,638,263		-	-	-	-	-	55,577,223
- Loans to small entities	10,803,845	5,979,249	7,708,107	5,821,285	281,086		-	-	-	-	886,579	31,480,151
- Loans to individuals	-	-	-	-	-	44,044,254	16,524,974	20,263,924	21,358,622	4,359,311	36,830	106,587,915
	112,974,321	62,482,309	120,590,436	11,913,266	8,461,278	44,044,254	16,524,974	20,263,924	21,358,622	4,359,311	923,409	423,896,104
Less: allowance for impairment losses	-	-	-	-	-	-	-	-	-	-	-	-
Total unimpaired loans	112,974,321	62,482,309	120,590,436	11,913,266	8,461,278	44,044,254	16,524,974	20,263,924	21,358,622	4,359,311	923,409	423,896,104
Collectively assessed												
Overdue:												
up to 30 days	9,283	8,216	-	-	-	1,032,157	613,398	46,780	402,182	416	-	2,112,432
31 to 60 days	-	25,000	-	206,794	-	831,639	528,838	-	261,131	264,067	399	2,117,868
61 to 90 days	-	119,058	-	-	-	867,615	200,002	-	284,573	209	-	1,471,457
91 to 180 days	331,939	62,610	270,772	-	-	1,362,106	608,741	-	664,682	35,858	-	3,336,708
over 180 days	1,076,325	401,802	93,703	216,932	-	3,691,902	2,210,048	-	4,816,858	404,074	9,038	12,920,682
	1,417,547	616,686	364,475	423,726	-	7,785,419	4,161,027	46,780	6,429,426	704,624	9,437	21,959,147
Less: allowance for impairment losses	(772,230)	(285,967)	(172,668)	(61,229)	-	(2,471,311)	(1,533,200)	-	(2,579,959)	(342,704)	(2,261)	(8,221,529)
Total collectively assessed loans	645,317	330,719	191,807	362,497	-	5,314,108	2,627,827	46,780	3,849,467	361,920	7,176	13,737,618
Individually impaired												
Overdue:												
61 to 90 days	-	-	-	-	-	-	-	-	953,829	-	-	953,829
91 to 180 days	530,594	-	-	894,677	-	-	-	-	-	-	-	1,425,271
over 180 days	4,988,806	4,078,767	-	899,785	-	-	-	-	-	-	-	9,967,358
	5,519,400	4,078,767	-	1,794,462	-	-	-	-	953,829	-	-	12,346,458
Less: allowance for impairment losses	(2,617,314)	(192,979)	-	(327,018)	-	-	-	-	(134,796)	-	-	(3,272,107)
Total individually impaired loans	2,902,086	3,885,788	-	1,467,444	-	-	-	-	819,033	-	-	8,537,941
Total loans to customers	116,521,724	66,698,816	120,782,243	13,743,207	8,461,278	49,358,362	19,152,801	20,310,704	26,027,122	4,721,231	930,585	446,708,073

16 Loans to Customers (Continued)

Analysis by credit quality of loans to customers outstanding as at December 31, 2013 was as follows:

As at December 31, 2013	Trade	Agriculture	Construction	Manufacturing	Transportation	Consumer loans	Car loans	Mortgage loans	Entrepreneurship loans	Plastic cards	Other	Total
Unimpaired loans												
Not past due:												
- Large borrowers with credit history over two years	-	-	10,016,667	-	-	-	-	-	-	-	-	10,016,667
- Large new borrowers	-	7,058,262	-	-	6,513,305	-	-	-	-	-	-	13,571,567
- Loans to medium size entities	21,887,003	17,340,222	5,006,675	8,028,879	-	-	-	-	-	-	-	52,262,779
- Loans to small entities	6,119,777	4,430,387	2,053,783	2,563,328	53,531	-	-	-	-	-	102,871	15,323,677
- Loans to individuals						59,880,770	29,636,854	18,868,820	4,286,071	4,260,887	312,266	117,245,668
	28,006,780	28,828,871	17,077,125	10,592,207	6,566,836	59,880,770	29,636,854	18,868,820	4,286,071	4,260,887	415,137	208,420,358
Less: allowance for impairment losses	-	(29,716)	(121,213)	-	(4,850)	-	-	-	-	-	(7,402)	(163,181)
Total unimpaired loans	28,006,780	28,799,155	16,955,912	10,592,207	6,561,986	59,880,770	29,636,854	18,868,820	4,286,071	4,260,887	407,735	208,257,177
Collectively assessed												
Overdue:												
up to 30 days	-	-	-	863,706	-	819,704	197,269	50,073	81,871	132,115	-	2,144,738
31 to 60 days	10,056	-	-	-	-	468,034	221,477	27,814	36,148	103,029	1,918	868,476
61 to 90 days	47,960	14,156	-	-	-	979,081	305,304	49,417	39,655	30,608	-	1,466,181
91 to 180 days	49,069	7,439	-	-	-	647,357	354,173	-	20,113	12,448	-	1,090,599
over 180 days	796,564	267,379	71,313	134,419	-	967,771	1,160,703	-	500,319	122,836	-	4,021,304
	903,649	288,974	71,313	998,125	-	3,881,947	2,238,926	127,304	678,106	401,036	1,918	9,591,298
Less: allowance for impairment losses	(514,321)	(288,974)	(71,313)	(198,724)	-	(2,245,123)	(1,597,488)	(22,848)	(516,833)	(165,849)	(1,918)	(5,623,391)
Total collectively assessed loans	389,328	-	-	799,401	-	1,636,824	641,438	104,456	161,273	235,187	-	3,967,907
Individually impaired												
Overdue:												
31 to 60 days	-	-	-	312,922	-	-	-	-	-	-	-	312,922
over 180 days	4,556,096	3,796,162	-	449,416	-	-	-	-	250,000	-	-	9,051,674
	4,556,096	3,796,162	-	762,338	-	-	-	-	250,000	-	-	9,364,596
Less: allowance for impairment losses	(1,231,684)	(28,659)	-	-	-	-	-	-	-	-	-	(1,260,343)
Total individually impaired loans	3,324,412	3,767,503	-	762,338	-	-	-	-	250,000	-	-	8,104,253
Total loans to customers	31,720,520	32,566,658	16,955,912	12,153,946	6,561,986	61,517,594	30,278,292	18,973,276	4,697,344	4,496,074	407,735	220,329,337

16 Loans to Customers (Continued)

The table below summarizes an analysis of loans to customers by impairment:

	December 31, 2014			December 31, 2013		
	Carrying value before allowance	Allowance for impairment losses	Carrying value	Carrying value before allowance	Allowance for impairment losses	Carrying value
Loans to customers individually determined to be impaired	12,346,458	(3,808,517)	8,537,941	9,364,596	(1,260,343)	8,104,253
Loans to customers collectively determined to be impaired	21,959,147	(8,221,529)	13,737,618	9,591,298	(5,623,391)	3,967,907
Unimpaired loans	423,896,104	-	423,896,104	208,420,358	(163,181)	208,257,177
Total	**458,201,709**	**(11,493,636)**	**446,708,073**	**227,376,252**	**(7,046,915)**	**220,329,337**

The Bank applied the portfolio provisioning methodology prescribed by IAS 39, Financial Instruments: Recognition and Measurement, and created portfolio provisions for impairment losses that were incurred, but have not been specifically identified with any individual loan, by the end of the reporting period. The Bank's policy is to classify each loan as 'neither past due nor impaired' until specific objective evidence of impairment of the loan is identified. The impairment provisions may exceed the total gross amount of individually impaired loans as a result of this policy and the portfolio impairment methodology.

The primary factors that the Bank considers in determining whether a loan is impaired are its overdue status and realisability of related collateral, if any. As a result, the Bank presents above an ageing analysis of loans that are individually determined to be impaired.

Past due, but not impaired, loans primarily include collateralised loans where the fair value of collateral covers the overdue interest and principal repayments. The amount reported as past due but not impaired is the whole balance of such loans, not only the individual instalments that are past due.

The financial effect of collateral is presented by disclosing collateral values separately for (i) those assets where collateral and other credit enhancements are equal to or exceed carrying value of the asset ("over-collateralised assets") and (ii) those assets where collateral and other credit enhancements are less than the carrying value of the asset ("under-collateralised assets"). The effect of collateral at December 31, 2014:

	Over-collateralised assets		Under-collateralised assets			
	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral	**Total carrying value of assets**	**Total fair value of colalteral**
Trade	54,008,178	138,661,611	62,513,546	45,539,300	**116,521,724**	**184,200,911**
Manufacturing	9,463,270	47,571,004	4,279,937	2,078,000	**13,743,207**	**49,649,004**
Agriculture	42,321,321	107,336,978	24,377,495	20,437,000	**66,698,816**	**127,773,978**
Construction	15,976,226	45,368,099	104,806,017	87,750,000	**120,782,243**	**133,118,099**
Transportation	1,859,742	3,099,000	6,601,536	6,500,000	**8,461,278**	**9,599,000**
Car loans	19,084,437	58,473,392	68,364	-	**19,152,801**	**58,473,392**
Mortgage loans	19,893,471	30,874,122	417,233	-	**20,310,704**	**30,874,122**
Consumer loans	46,439,444	124,230,925	2,918,918	1,938,697	**49,358,362**	**126,169,622**
Entrepreneurship loans	23,459,775	102,106,088	2,567,347	509,706	**26,027,122**	**102,615,794**
Plastic cards	1,776,163	7,566,226	2,945,068	421,593	**4,721,231**	**7,987,819**
Other	905,188	1,161,600	25,397	-	**930,585**	**-**

16 Loans to Customers (Continued)

The effect of collateral at December 31, 2013:

	Over-collateralised assets		Under-collateralised assets			
	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral	**Total carrying value of assets**	**Total fair value of colalteral**
Trade	24,722,053	110,969,361	6,998,467	-	**31,720,520**	**110,969,361**
Manufacturing	11,982,025	51,972,304	171,921	-	**12,153,946**	**51,972,304**
Agriculture	16,344,053	57,343,037	16,222,605	-	**32,566,658**	**57,343,037**
Construction	16,840,819	44,873,199	115,093	-	**16,955,912**	**44,873,199**
Transportation	39,355	163,600	6,522,631	6,500,000	**6,561,986**	**6,663,600**
Car loans	29,551,511	67,832,195	726,781	-	**30,278,292**	**67,832,195**
Mortgage loans	11,473,450	16,649,873	7,499,826	-	**18,973,276**	**16,649,873**
Consumer loans	57,842,980	159,629,184	3,674,614	772,899	**61,517,594**	**160,402,083**
Entrepreneurship loans	4,327,944	19,284,290	369,400	-	**4,697,344**	**19,284,290**
Plastic cards	1,730,532	6,790,620	2,765,542	293,280	**4,496,074**	**7,083,900**
Other	399,459	1,074,665	8,276	-	**407,735**	**1,074,665**

The maximum exposure to credit risk and credit quality, geographical concentration, liquidity and currency analysis of loans to customers balances for the years ended December 31, 2014 and 2013 are disclosed in Note 31.

The fair value of loans to customers balances for the years ended December 31, 2014 and 2013 are disclosed in Note 29.

The loans to customers balances with related parties are disclosed in Note 27.

17. Available-for-Sale Investments

Available-for-sale investments comprise:

	Ownership, %	Nominal annual interest rates	December 31, 2014	December 31, 2013
Corporate bonds of OJSC Akkord Inshaat-Sanaye- Unrated (large construction company)	-	12.00%	15,600,148	15,207,637
Corporate bonds of CJSC Access Bank - BB+ (Fitch)	-	9.00%	4,249,000	2,007,738
Corporate bonds of Bakcell LLC – Unrated (large telecommunication company)	-	9.00%	4,027,200	-
Corporate bonds of OJSC Bank of Baku - B1 (Moody's)	-	12.00%	3,539,145	2,552,011
Corporate bonds of OJSC AGBank - B (Standard and Poor's)	-	12.00%	3,158,000	3,091,845
Corporate bonds of Embawood LLC – Unrated (large production company)		11.00%	2,041,633	-
Corporate bonds of OJSC Unibank - B2 (Moody's)	-	10%-11.00%	2,006,991	6,097,634
Corporate bonds of OJSC Yapi Kredi Bank - BB+ (Standard and Poor's)		9.00%	1,879,244	-
Corporate bonds of Finca Azerbaijan LLC - Unrated	-	12.00%	1,090,695	1,063,400
Corporate bonds of Unileasing CJSC - B2 (Moody's)	-	11.00%	5,250	1,018,682
			37,597,306	31,038,947
Equity securities in Milli Kart LLC	10%	-	280,000	280,000
Total available-for-sale investments			**37,877,306**	**31,318,947**

17 Available-for-Sale Investments (Continued)

All investments are neither past due nor impaired.

The debt securities are not collateralized. Management could not reliably estimate the fair value of the Bank's investment in shares of "Milli Kart" LLC. This investment is carried at cost. This investee company has not published its recent financial information about its operations. Its shares are not quoted and recent trade prices are not publicly accessible as at December 31, 2014.

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

	Note	2014	2013
Carrying amount at January 1		**31,318,947**	**50,493,615**
Fair value gains less losses		(123,219)	-
Interest income accrued	6	4,437,480	3,772,072
Interest income received		(4,174,090)	(3,432,459)
Purchases		56,780,761	26,459,850
Disposals of investment securities available for sale		(50,362,573)	(45,974,131)
Carrying amount at December 31		**37,877,306**	**31,318,947**

As at December 31, 2014 and 2013, accured interest income on these available-for-sale investments amounted to AZN 690,256 and AZN 426,861, respectively.

The maximum exposure to credit risk and credit quality, geographical concentration, liquidity and currency analysis of available-for-sale investments balances for the years ended December 31, 2014 and 2013 are disclosed in Note 31.

18. Property and Equipment

Property and equipment comprise:

	Buildings	Furniture and equipment	Computers	Vehicles	Leasehold improve-ments	Other fixed assets	Total
At initial/revalued cost							
January 1, 2013	9,843,165	4,030,555	6,049,390	1,417,244	178,089	236,831	21,755,274
Additions	133,291	515,221	276,236	134,520	76,152	76,334	1,211,754
Disposals	-	(1,555,283)	(991,227)	-	(90,776)	(147,430)	(2,784,716)
December 31, 2013	**9,976,456**	**2,990,493**	**5,334,399**	**1,551,764**	**163,465**	**165,735**	**20,182,312**
Additions	228,387	922,068	5,410,965	46,000	162,269	143,444	6,913,133
Disposals	-	(494,455)	(175,201)	(17,627)	-	(26,901)	(714,184)
December 31, 2014	**10,204,843**	**3,418,106**	**10,570,163**	**1,580,137**	**325,734**	**282,278**	**26,381,261**
Accumulated depreciation							
January 1, 2013	-	(2,701,415)	(1,886,259)	(893,841)	(117,650)	(196,842)	(5,796,007)
Depreciation charge	(267,619)	(370,714)	(1,316,114)	(150,657)	(19,604)	(18,102)	(2,142,810)
Eliminated on disposals	-	1,539,518	991,227	-	90,776	147,430	2,768,951
December 31, 2013	**(267,619)**	**(1,532,611)**	**(2,211,146)**	**(1,044,498)**	**(46,478)**	**(67,514)**	**(5,169,866)**
Depreciation charge	(236,206)	(417,645)	(1,826,941)	(165,993)	(55,310)	(42,171)	(2,744,266)
Eliminated on disposals	-	494,455	175,201	8,446		10,118	688,220
December 31, 2014	**(503,825)**	**(1,455,801)**	**(3,862,886)**	**(1,202,045)**	**(101,788)**	**(99,567)**	**(7,225,912)**
Net book value							
December 31, 2013	**9,708,837**	**1,457,882**	**3,123,253**	**507,266**	**116,987**	**98,221**	**15,012,446**
December 31, 2014	**9,701,018**	**1,962,305**	**6,707,277**	**378,092**	**223,946**	**182,711**	19,155,349

As at December 31, 2014 and 2013 included in property and equipment were fully depreciated assets of AZN 861,545 and 895,331 AZN respectively.

18 Property and Equipment (Continued)

As at December 31, 2014 and 2013 the buildings owned by the Bank are carried at revalued amounts based on an independent appraiser's report conducted on December 31, 2012, less any subsequent depreciation and impairment. The following methods were used for the estimation of their fair value: discounted cash flow method (income approach), integrated cost estimation method (cost based method), method of sales comparison (comparative approach). For the estimation of the final value, certain weights were assigned to the results obtained using different approaches, depending on the degree to which the estimates met the following characteristics: reliability and completeness of the information, specifics of the estimated property and other criteria. The carrying value of these building as at December 31, 2014 totaled AZN 9,701,018 (December 31, 2013: AZN 9,708,837). If the buildings were accounted at historical cost less accumulated depreciation and impairment losses, its carrying value as at December 31, 2014 would be AZN 3,975,750 (December 31, 2013: AZN 3,882,879).

Details of the Bank's buildings and information about the fair value hierarchy as at December 31, 2014 and 2013 are as follows:

	December 31, 2014		December 31, 2013	
	Level 2	Total	Level 2	Total
Buildings	9,701,018	**9,701,018**	9,708,837	9,708,837

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

19. Intangible Assets

Intangible assets comprise:

	Software programs	Licenses	Total
At intital cost			
January 1, 2013	**1,276,421**	**233,081**	**1,509,502**
Additions	467,479	(30,797)	467,479
Disposal	(58,716)		(89,513)
December 31, 2013	**1,685,184**	**202,284**	**1,887,468**
Additions	760,500	-	760,500
Disposal	(25,318)	(42,928)	(68,246)
December 31, 2014	**2,420,366**	**159,356**	**2,579,722**
Accumulated amortization			
January 1, 2013	**(567,620)**	**(41,807)**	**(609,427)**
Amortization charge	(172,283)	(15,000)	(187,283)
Eliminated on disposals	85,213	4,300	89,513
December 31, 2013	**(654,690)**	**(52,507)**	**(707,197)**
Amortization charge	(380,216)	-	(380,216)
Eliminated on disposals	25,317	42,928	68,245
December 31, 2014	(1,009,589)	(9,579)	(1,019,168)
Net book value			
December 31, 2013	**1,030,494**	**149,777**	**1,180,271**
December 31, 2014	**1,410,777**	**149,777**	**1,560,554**

20. Other Financial and Non-Financial Assets

Other financial and non-financial assets comprise:

	December 31, 2014	December 31, 2013
Other financial assets:		
Receivables on plastic card operations from other banks	537,523	181,133
Settlements on money transfers	120,668	244,865
Accrued interest income on guarantees issued	35,455	16,254
Other	40,383	49,822
	734,029	**492,074**
Other non-financial assets:		
Repossessed collateral	2,849,609	2,716,900
Deferred expenses	450,004	601,670
Prepayments for purchase of property and equipment	195,417	2,501,222
Receivables from the Ministry of Taxes of the Republic of Azerbaijan	12,706	10,169
Other	3,390	13,279
Total financial and non-financial assets	**4,245,155**	**6,335,314**

Movements in provision for impairment of repossessed collateral are as follows:

	Repossessed collaterals
Provision for impairment at January 31, 2013	88,442
Provision for impairment during the year	1,075,943
Provision for impairment at December 31, 2013	**1,164,385**
Provision for impairment during the year	56,876
Provision for impairment at December 31, 2014	**1,221,261**

21. Deposits by Banks

Deposits by banks comprise:

	December 31, 2014	December 31, 2013
Time deposits	453,906	-
Correspondent accounts of other banks	63,449	62,224
Total deposits by banks	**517,355**	**62,224**

22. Deposits by Customers

Deposits by customers comprise:

	December 31, 2014	December 31, 2013
State and public organisations		
- Current/settlement accounts	2,874,970	793,287
- Term deposits		
Other legal entities		
- Current/settlement accounts	43,435,164	55,206,922
- Term deposits	211,514,356	26,960,648
Individuals		
- Current/demand accounts	22,837,902	18,222,377
- Term deposits	168,543,173	176,944,057
Total deposits by customers	**449,205,565**	**278,127,291**

23 Deposits by Customers (Continued)

	December 31, 2014	December 31, 2013
Time deposits	380,057,529	203,904,705
Repayable on demand	69,148,036	74,222,586
Total deposits by customers	**449,205,565**	**278,127,291**

As at December 31, 2014 and 2013, deposits by customers totaling AZN 250,516,560 and AZN 112,372,416 (56% and 40% of total deposits by customers, respectively), were due to 14 customers respectively.

As at December 31, 2014 and 2013 accrued interest payable, included in deposits by customers amounted to AZN 2,669,737 and AZN 4,230,288, respectively.

	December 31, 2014	December 31, 2013
Analysis by economic sector/customer type:		
Trade	191,615,785	30,160,575
Individuals	191,381,075	195,166,434
Energy	16,860,049	12,498,874
Construction	16,855,739	16,077,038
Insurance	11,571,506	11,240,068
Transport and communication	9,932,103	3,214,465
Financial institutions	5,954,859	5,141,242
Public organizations	2,874,970	793,287
Manufacturing	1,331,584	1,795,783
Agriculture	296,609	1,735,853
Other	531,286	303,672
Total deposits by customers	**449,205,565**	**278,127,291**

23. Loans Received from Government Agencies

Loans received from government agencies comprise:

	December 31, 2014	December 31, 2013
National Fund for Support of Entrepreneurship	45,841,574	29,176,401
Azerbaijan Mortgage Fund	17,774,740	15,315,743
Total loans from government agencies	**63,616,314**	**44,492,144**

As at December 31, 2014 and 2013, included in loans received from government agencies are loans borrowed from the National Fund for Support of Entrepreneurship amounting to AZN 45,841,574 and AZN 29,176,401, respectively. These loans have maturity periods of 1 to 7 years and bear an interest rate of 1% p.a. Management assess that the interest rates for these loans are equivalent to the interest rates at which the National Fund for Support of Entrepreneurship lends to local banks in the Republic of Azerbaijan. The Bank acts as an intermediary between the entrepreneurs wishing to obtain concessionary credits on account of resources of the National Fund for the Entrepreneurship Support. The loans are provided to entrepreneurs whose investment projects are assessed as positive by the Fund. These loans are provided at the rate from 6% to 7%.

As at December 31, 2014 and 2013, included in loans received from government agencies are loans from Azerbaijan Mortgage Fund amounting to AZN 17,774,740 and AZN 15,315,743, respectively. These loans have maturity periods of 8 to 30 years and bear interest rates of 1-4% p.a. Management assess

24 Loans Received from Government Agencies (Continued)

that the interest rates for these loans are equivalent to the interest rates at which the National Fund for Support of Entrepreneurship lends to local banks in the Republic of Azerbaijan. The Bank further on lends these funds to eligible borrowers at rates not higher than 4% to 8.0% per annum.

As at December 31, 2014 accrued interest payable amounted AZN 52,571 included in loans from government agencies (as at December 31, 2013: AZN 42,856).

24. Other Financial and Non-Financial Liabilities

Other financial and non-financial liabilities comprise:

	December 31, 2014	December 31, 2013
Other financial liabilities:		
Payable to the Deposit Insurance Fund	191,899	158,898
Professional fees payable	81,005	28,043
Payables on plastic card operations from other banks	70,079	414,830
Settlements on money transfers and plastic card operations	25,478	7,969
Other	223,962	68,302
	592,423	**678,042**
Other non-financial liabilities:		
Taxes other than income tax payable	300,041	145,511
Payable to the employees	287,414	287,414
Other	4,825	3,352
Total other funancual and non-financial liabilities	**1,184,703**	**1,114,319**

25. Share Capital

As at December 31, 2014, the Bank's shareholders' authorized, issued and fully paid capital amounted to AZN 50,000,000 (December 31, 2013 AZN 25,000,000) and comprised 2,500,000 (December 31, 2013 AZN 1,250,000) ordinary shares with a par value of AZN 20 each. Each share entitles one vote to the shareholder.

On 29 October 2012 the shareholders of the Bank decided to increase share capital of the Bank to AZN 50,000,000 through the issue of additional shares of AZN 25,000,000. As part of this emission plan, AZN 2,986,399 was transferred from retained earnings to additional paid-in capital during the year ended 31 December 2013. In addition, the Bank issued shares in the amount of AZN 12,499,320 and AZN 9,514,281 during the years ended December 31, 2014 and 2013 respectively. As at December 31, 2013 shares in the amount of AZN 12,500,680 were issued but not yet registered as share capital and recognized in the financial statements of the Bank as additional paid-in capital. On December 30, 2014 issued share capital in the amount of AZN 25,000,000 was registered at the National Depository Center of Azerbaijan Republic and the Extract from The State Registry of the Commercial Legal Entities was obtained on February 5, 2015.

During the year ended December 31, 2014 the Bank declared dividends of AZN 4.10 per share on ordinary shares amounting to AZN 5,127,800 (during the year ended December 31, 2013: AZN 4,311,411).

26. Commitments and Contingencies

In the normal course of business, the Bank 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 statement of financial position.

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

As at December 31, 2014 and 2013, contingent liabilities comprise:

	December 31, 2014	December 31, 2013
Contingent liabilities and credit commitments		
Commitments on loans and unused credit lines	21,945,289	21,201,770
Guarantees issued and similar commitments	16,719,887	18,879,072
Total contingent liabilities and credit commitments	**38,665,176**	**40,080,842**

Extension of loans to customers within credit line limits is approved by the Bank on a case-by-case basis and depends on borrowers' financial performance, debt service and other conditions. As at December 31, 2014 and 2013, such unused credit lines amounted to AZN 21,945,290 and AZN 21,201,270 respectively.

Compliance with covenants- As at December 31, 2014 and at certain times during the period then ended the Bank was in breach of the ratios stipulated by the Central Bank of Azerbaijan Republic.

- Actual ratio of the aggregate exposure to related parties of the Bank is 240% while the limit of the maximum exposure is 20% of the Bank's total statutory capital.
- Actual ratio of the loans issued to single related party which is legal entity is 91% while it should not be more than 10% of total statutory capital of the Bank.
- Actual credit exposure on a single borrower or a group of related borrowers of the Bank is 273%, while it may not exceed 20% of Tier I Capital; when the value of collateral on credit exposure does not fall below 100% (when collateral is real estate, 150%) of the liability amount it secures.
- Actual credit exposure on a single borrower or a group of related borrowers of the Bank is 48%, while it may not exceed 7% of Tier I Capital; when the value of collateral on credit exposure falls below 100% (when collateral is real estate, 150%) of the liability amount it secures.
- Actual ratio of the loans issued to the group of borrowers where fair value of collateral is more than 150% of loaned amount (if real estate) and 100% of loaned amount (if other collateral) was 210% of total capital, while it should not exceed 20%.
- Actual ratio of loans issued to related parties, where collateral amount is below 150% of the loan value, constituted 28% of total statutory capital. Per requirements of CBAR if the market value of collateral is below the specified level, this collateral must be replaced or completed within 10 business days.

The management of the Bank believes that the CBAR will not take any actions against the Bank, since historically CBAR did not revoke banks' licenses which were in breach of the ratios mentioned above. The Bank plans to take appropriate actions to maintain the ratios below the stipulated limits.

Capital commitments – As at December 31, 2014 and 2013, the Bank had no material commitments for capital expenditure outstanding.

Operating lease commitments – As at December 31, 2014 and 2013, the Bank does not have material commitments under non cancelable operating leases where the Bank is the lessee.

Legal proceedings – From time to time and in the normal course of business, claims against the Bank may be received. On the basis of its own estimates and both internal professional advice, management is of the opinion that no material losses will be incurred in respect of claims, and accordingly no provision has been made in these financial statements.

26 Commitments and Contingencies (Continued)

Taxation – Commercial legislation of the Republic of Azerbaijan, including tax legislation, may allow more than one interpretation. In addition, there is a risk of tax authorities making arbitrary judgments of business activities. If a particular treatment, based on management's judgment of the Bank's business activities, was to be challenged by the tax authorities, the Bank may be assessed additional taxes, penalties and interest.

Such uncertainty may relate to the valuation of financial instruments, valuation of provision for impairment losses and the market pricing of deals. Additionally such uncertainty may relate to the valuation of temporary differences on the provision and recovery of the provision for impairment losses on loans to customers and receivables, as an underestimation of the taxable profit. The management of the Bank believes that it has accrued all tax amounts due and therefore no allowance has been made in the financial statements.

Generally, taxpayers are subject to tax audits with respect to three calendar years preceding the year of the audit. However, completed audits do not exclude the possibility of subsequent additional tax audits performed by upper-level tax inspectorates reviewing the results of tax audits of their subordinate tax inspectorates. In the case of criminal investigation statute of limitation maybe extended up to seven years based on the court decision.

27. Transactions with Related Parties

Detals of transactions between the Bank and related parties are disclosed below:

	December 31, 2014		December 31, 2013	
	Related party balances	Total category as per the financial statements caption	Related party balances	Total category as per the financial statements caption
Loans to customers (contractual interest rate: 5-28%; loans are collateralized by deposits, guarantees, pledge of real estate, vehicles,precious metals)		458,201,709		227,376,252
- shareholders and entities in which a substantial interest is owned by shareholders of the Bank	147,259,341		1,068,812	
- associate				
- key management personnel of the Bank or its parent and other individuals	883,754		1,271,135	
Allowance for impairment losses		(11,493,636)		(7,046,915)
- shareholders and entities in which a substantial interest is owned by shareholders of the Bank	(73,409)		(96,667)	
- key management personnel of the Bank or its parent and other individuals	(8,309)		(8,368)	
Due from banks (contractual interest rate: 9%)		9,628,848		6,621,395
- shareholders and entities in which a substantial interest is owned by shareholders of the Bank	3,139,169		-	
Available-for-sale investments (contractual interest rate: 12%)		37,877,306		31,318,947
- shareholders and entities in which a substantial interest is owned by shareholders of the Bank	15,600,147		15,207,637	
Investments in associate		69,517		222,747
- associate	69,517		222,747	
Other financial and non-financial assets		1,395,546		3,618,414
- shareholders and entities in which a substantial interest is owned by shareholders of the Bank	13,559		40,681	
Deposits by customers (contractual interest rate: 4-12%)		449,205,565		278,127,291
- shareholders and entities in which a substantial interest is owned by shareholders of the Bank	26,709,940		35,140,237	
- associate			3,108	
- key management personnel of the Bank or its parent and other individuals	4,073,606		6,720,311	
Commitments on loans and unused credit lines		21,945,289		21,201,770
- shareholders and entities in which a substantial interest is owned by shareholders of the Bank	898,932		822,744	
- key management personnel of the Bank or its parent and other individuals	315,465		356,135	
Guarantees issued and similar commitments (financial guarantess with contractual interest rate: 2-3%)		16,719,887		18,879,072
- shareholders and entities in which a substantial interest is owned by shareholders of the Bank	9,579,585		76,398	

27 Transactions with Related Parties (Continued)

The remuneration of directors and other members of key management were as follows:

	Year ended December 31, 2014		Year ended December 31, 2013	
	Related party transactions	**Total category as per the financial statements caption**	**Related party transactions**	**Total category as per the financial statements caption**
Key management personnel compensation:				
- short-term employee benefits	992,769	7,188,842	874,614	6,187,672
Total	**1,191,728**	**7,188,842**	**889,200**	**6,187,672**

27 Transactions with Related Parties (Continued)

Included in the income statement for the years ended December 31, 2014 and 2013 are the following amounts which were recognized in transactions with related parties:

	Year ended December 31, 2014		Year ended December 31, 2013	
	Related party transaction	**Total category as per the financial statements caption**	**Related party transactions**	**Total category as per the financial statements caption**
Interest income		47,027,675		35,745,820
- shareholders and entities in which a substantial interest is owned by shareholders of the Bank	4,249,788		35,342	
-associate				
- key management personnel of the Bank or its parent and other individuals	81,385		85,314	
Interest expense		(21,111,872)		(17,003,932)
- shareholders and entities in which a substantial interest is owned by shareholders of the Bank	(564,303)		(3,632,533)	
- key management personnel of the Bank or its parent and other individuals	(1,377,415)		(372,422)	
Provision for impairment losses on interest bearing assets		(4,801,019)		(1,772,932)
- shareholders and entities in which a substantial interest is owned by shareholders of the Bank	23,258		(96,667)	
- associate			-	
- key management personnel of the Bank or its parent and other individuals	-		5,711	
Fee and commission income		5,469,848		5,747,181
- shareholders and entities in which a substantial interest is owned by shareholders of the Bank	335,939		77,626	
- key management personnel of the Bank or its parent and other individuals	18,087		8,002	
Gains less losses from dealing in foreign currency		1,164,434		1,433,848
- shareholders and entities in which a substantial interest is owned by shareholders of the Bank	405,008		-	
Share of loss of associate		(153,230)		(79,590)
- associate	(153,230)		(79,590)	
Other income		24,200		2,571
- associate			1,850	
Operating expense		(17,929,621)		(15,440,500)
- shareholders and entities in which a substantial interest is owned by shareholders of the Bank	(84,329)		(61,305)	
- key management personnel of the Bank or its parent and other individuals	(1,290,728)		(1,084,824)	

Other individuals are close members of the persons' families who are considered related parties of the Bank.

28. Segment Analysis

Operating segments are components that engage in business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed by the chief operating decision maker (CODM), and for which discrete financial information is available. The CODM is the person - or group of persons - who allocates resources and assesses the performance for the entity. The functions of the CODM are performed by the Board of Directors (management board) of the Bank.

(a) Description of products and services from which each reportable segment derives its revenue

The Bank is organised on the basis of three main business segments:

Retail banking – representing private banking services, private customer current accounts, savings, deposits, investment savings products, custody, credit and debit cards, consumer loans and mortgages;

Corporate banking – representing direct debit facilities, current accounts, deposits, overdrafts, loan and other credit facilities, foreign currency and derivative products;

Investment banking – representing financial instruments trading, structured financing, corporate leasing, research advice.

(b) Factors that management used to identify the reportable segments

The Bank's segments are strategic business units that focus on different customers. They are managed separately because each business unit requires different marketing strategies and service level.

Segment financial information reviewed by the CODM includes loans and advances to customers of the Bank's subsidiaries, but not their results and other items in the statement of financial position. The CODM obtains financial statements of the Bank. Such financial information overlaps with segment analysis provided internally to the CODM. Management, therefore, applied the core principle of IFRS 8, *Operating Segments*, in determining which of the overlapping financial information sets should form the basis of operating segments.

(c) Measurement of operating segment profit or loss, assets and liabilities

The CODM reviews financial information prepared based on Azerbaijani accounting standards adjusted to meet the requirements of internal reporting. Such financial information differs in certain aspects from International Financial Reporting Standards:

(i) the fair value changes in available for sale securities are reported within the segments' profits or losses rather than in other comprehensive income;

(ii) income taxes are not allocated to segments;

The CODM evaluates performance of each segment based on profit before tax.

28 Segment Analysis (Continued)

(d) Information about reportable segment profit or loss, assets and liabilities

Segment information for the reportable segments for the year ended December 31, 2014 is set out below:

	Retail Banking	Corporate banking	Investment banking	Total
External revenues:				
- Interest income	14,927,326	27,662,869	4,437,480	47,027,675
- Fee and commission income	1,917,112	3,552,736	-	5,469,848
- Other income	8,479	15,722	-	24,201
Total revenues	**16,852,917**	**31,231,327**	**4,437,480**	**52,521,724**
Interest expense	(7,399,445)	(13,712,427)	-	(21,111,872)
Provision for impairment losses on interest bearing assets	(2,505,072)	(2,295,947)	-	(4,801,019)
Fee and commission expense	(362,263)	(671,336)	-	(1,033,599)
Gains less losses from dealing in foreign currencies	408,120	756,314	-	1,164,434
Foreign exchange translation gains less losses	(88,552)	-164,104	-	(252,656)
Net loss on available-for-sale investments	-	-	(496,901)	(123,219)
Provision on other operations	(19,934)	(36,942)	-	(56,876)
Operating expenses	(5,183,060)	(9,604,355)	-	(14,787,415)
Share of gain of associates	-	-	(153,230)	(153,230)
Segment result	**1,702,711**	**5,502,530**	**3,787,349**	**10,992,590**

	Retail banking	Corporate banking	Investment banking	Total
Reportable segment assets:				
Cash and cash equivalents	17,416,869	32,276,416	-	49,693,285
Mandatory cash balances with CBAR	2,985,068	5,531,838	-	8,516,906
Due from banks	-	9,628,848	-	9,628,848
Loans to customers	121,959,179	324,748,894	-	446,708,073
Available-for-sale investments	-	-	37,877,306	37,877,306
Investments in associates	-	-	69,517	69,517
Other financial and non-financial assets	1,487,874	2,757,281	-	4,245,155
Total reportable segment assets	**143,848,990**	**374,943,277**	**37,946,823**	**556,739,090**
Reportable segment liabilities:				
Deposits by banks	-	517,355	-	517,355
Deposits by customers	191,381,075	257,824,490	-	449,205,565
Loans received from government agencies	31,762,823	31,853,491	-	63,616,314
Other financial and non-financial liabilities	415,245	769,458	-	1,184,703
Total reportable segment liabilities	**223,559,143**	**290,964,794**	**-**	**514,523,937**
Capital expenditure	**(1,881,356)**	**(3,486,471)**	**-**	**(5,367,827)**

28 Segment Analysis (Continued)

Segment information for the reportable segments for the year ended December 31, 2013 is set out below:

	Retail banking	Corporate banking	Investment banking	Total
External revenues:				
- Interest income	20,239,863	11,733,885	3,772,072	35,745,820
- Fee and commission income	3,638,052	2,109,129	-	5,747,181
- Other income	1,627	944	-	2,571
Total revenues	**23,879,542**	**13,843,958**	**3,772,072**	**41,495,572**
Interest expense	(10,763,744)	(6,240,188)	-	(17,003,932)
Provision for impairment losses on interest bearing assets	(3,343,731)	1,570,799	-	(1,772,932)
Fee and commission expense	(593,300)	(343,960)	-	(937,260)
Gains less losses from dealing in foreign currencies	907,647	526,201		1,433,848
Foreign exchange translation gains less losses	(93,676)	(54,308)	-	(147,984)
Net loss on available-for-sale investments			177,720	177,720
Provision on other operations	(681,088)	(394,855)	-	(1,075,943)
Operating expenses	(8,299,085)	(4811,322)	-	(13,110,407)
Share of gain of associates	-	-	(79,590)	(79,590)
Segment result	**1,012,565**	**4,096,325**	**3,870,202**	**8,979,092**

	Retail banking	Corporate banking	Investment banking	Total
Reportable segment assets:				
Cash and cash equivalents	53,682,935	31,122,216	-	84,805,151
Mandatory cash balances with CBAR	4,607,676	2,671,260	-	7,278,936
Due from banks	-	6,621,395	-	6,621,395
Loans to customers	120,265,747	100,063,590	-	220,329,337
Available-for-sale investments	-	-	31,318,947	31,318,947
Investments in associates	-	-	222,747	222,747
Other financial and non-financial assets	4,010,349	2,324,965	-	6,335,314
Total reportable segment assets	**182,566,707**	**142,803,426**	**31,541,694**	**356,911,827**
Reportable segment liabilities:	-	62,224	-	62,224
Deposits by banks	195,166,434	82,960,857	-	278,127,291
Deposits by customers	26,591,509	17,900,635	-	44,492,144
Loans received from government agencies	705,381	408,938	-	1,114,319
Other financial and non-financial liabilities				
Total reportable segment liabilities	**222,463,324**	**101,332,654**	**-**	**323,795,978**
Capital expenditure	**(2,554,735)**	**(1,481,085)**	**-**	**(4,035,820)**

28 Segment Analysis (Continued)

(e) Reconciliation of reportable segment revenues, profit or loss, assets and liabilities

	2014	2013
Total revenues for reportable segments	52,521,724	41,495,572
Total revenues	**52,521,724**	**41,495,572**

Total revenues comprise interest income, fee and commission income and other income.

	2014	2013
Total reportable segment result	10,992,590	8,979,092
Depreciation and amortisation	(3,124,482)	(2,330,093)
Fair value gain on available-for-sale investments	123,219	-
Profit before tax	**7,991,327**	**6,648,999**

	2014	2013
Total reportable segment assets	556,739,090	356,911,827
Property and equipment	19,155,349	15,012,446
Intangible assets	1,560,554	1,180,271
Total assets	**577,454,993**	**373,104,544**

	2014	2013
Total reportable segment liabilities	514,523,937	323,795,978
Current income tax liabilities	493,267	592,296
Deferred income tax liabilities	1,123,348	1,209,967
Total liabilities	**516,140,552**	**325,598,241**

28 Segment Analysis (Continued)

Reconciliation of other material items of income or expenses for the year ended December 31, 2014 is as follows:

	Total amount for all reportable segment	Adjustment 1	Adjustment 2	As reported under IFRS
Material income or expenses for year ended December 31, 2014				
External revenues:				
- Interest income	47,027,675	-		47,027,675
- Fee and commission income	5,469,848	-		5,469,848
- Other income	24,201	-		24,201
Interest expense	(21,111,872)	-		(21,111,872)
Provision for impairment losses on interest bearing assets	(4,801,019)	-		(4,801,019)
Fee and commission expense	(1,033,599)	-		(1,033,599)
Gains less losses from dealing in foreign currencies	1,164,434	-	-	1,164,434
Foreign exchange translation gains less losses	(252,656)	-		(252,656)
Net loss on available-for-sale investments	(496,901)	-	123,219	(373,682)
Provision on other operations	(56,876)	-		(56,876)
Operating expenses	(14,787,415)	(3,124,482)		(17,911,897)
Share of gaint of associates	(153,230)	-		(153,230)

The reconciling items are attributable to the following:

(i) Depreciation and amortization;

(ii) Fair value gain on available-for-sale investments

Reconciliation of material assets and liabilities for the year ended December 31, 2014 is as follows:

	Total amount for all portable segment	Adjust-ment 1	Adjust-ment 2	Adjust-ment 3	Adjust-ment 4	As reported under IFRS
Reportable segment assets:						
Cash and cash equivalents	49,693,285	-	-	-	-	49,693,285
Mandatory cash balances with with CBAR	8,516,906	-	-	-	-	8,516,906
Due from banks	9,628,848	-	-	-	-	9,628,848
Loans to customers	446,708,073	-	-	-	-	446,708,073
Available-for-sale investments	37,877,306	-	-	-	-	37,877,306
Investments in associate	69,517	-	-	-	-	69,517
Intangible assets	-	1,560,554	-	-	-	1,560,554
Property and equipment	-	-	19,155,349	-	-	19,155,349
Repossessed collaterals	2,849,609	-	-	-	-	2,849,609
Other assets	1,395,546	-	-	-	-	1,395,546
Reportable segment liabilities:						
Deposits by banks	517,355	-	-	-	-	517,355
Deposits by customers	449,205,565	-	-	-	-	449,205,565
Loans received from government agencies	63,616,314	-	-	-	-	63,616,314
Current income tax liabilities	-	-	-	493,267	-	493,267
Deferred income tax liabilities	-	-	-	-	1,123,348	1,123,348
Other liabilities	1,184,703	-	-	-	-	1,184,703

28 Segment Analysis (Continued)

The reconciling items are attributable to the following:

(i) Intangible assets- property, equipment and intangible assets are not allocated to segments;

(ii) Property and equipment- property, equipment and intangible assets are not allocated to segments;

(iii) Current income tax liabilities- income taxes are not allocated to segments;

(iv) Deferred income tax liabilities- income taxes are not allocated to segments

Reconciliation of other material items of income or expenses for the year ended December 31, 2013 is as follows:

	Total amount for all reportable segment	Adjust-ment 1	As reported under IFRS
Material income or expenses for year ended December 31, 2013			
External revenues:			
- Interest income	35,745,820	-	35,745,820
- Fee and commission income	5,747,181	-	5,747,181
- Other income	2,571	-	2,571
Interest expense	(17,003,932)	-	(17003,932)
Provision for impairment losses on interest bearing assets	(1,772,932)	-	(1772,932)
Fee and commission expense	(937,260)	-	(937,260)
Gains less losses from dealing in foreign currencies	1,433,848	-	1,433,848
Foreign exchange translation gains less losses	(147,984)	-	(147,984)
Net loss on available-for-sale investments	177,720	-	177,720
Provision on other operations	(1,075,943)	-	(1,075,943)
Operating expenses	(13,110,407)	(2,330,093)	(15440500)
Share of gaint of associates	(79,590)	-	(79,590)

The reconciling items are attributable to the following:

(i) Depreciation and amortization;

28 Segment Analysis (Continued)

Reconciliation of material assets and liabilities for the year ended December 31, 2013 is as follows:

	Total amount for all portable segment	Adjust-ment 1	Adjust-ment 2	Adjust-ment 3	Adjust-ment 4	As reported under IFRS
Reportable segment assets:						
Cash and cash equivalents	84,805,151	-	-	-	-	84,805,151
Mandatory cash balances with CBAR	7,278,936	-	-	-	-	7,278,936
Due from banks	6,621,395	-	-	-	-	6,621,395
Loans to customers	220,329,337	-	-	-	-	220,329,337
Available-for-sale investments	31,318,947	-	-	-	-	31,318,947
Investments in associate	222,747	-	-	-	-	222,747
Intangible assets	-	1,180,271	-	-	-	1,180,271
Property and equipment	-	-	15,012,446	-	-	15,012,446
Repossessed collaterals	2,716,900	-	-	-	-	2,716,900
Other assets	3,618,414	-	-	-	-	3,618,414
Reportable segment liabilities:						
Deposits by banks	62,224	-	-	-	-	62,224
Deposits by customers	278,127,291	-	-	-	-	278,127,291
Loans received from government agencies	44,492,144	-	-	-	-	44,492,144
Current income tax liabilities	-	-	-	592,296	-	592,296
Deferred income tax liabilities	-	-	-	-	1,209,967	1,209,967
Other liabilities	1,114,319	-	-	-	-	1,114,319

The reconciling items are attributable to the following:

(i) Intangible assets- property, equipment and intangible assets are not allocated to segments;

(ii) Premises and equipment- - property, equipment and intangible assets are not allocated to segments;

(iii) Current income tax liabilities- income taxes are not allocated to segments;

(iv) Deferred income tax liabilities- income taxes are not allocated to segments

29. Fair Value of Financial Instruments

IFRS defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Fair value of the Bank's financial assets and financial liabilities measured at fair value on a recurring basis.

The Bank classifies its financial instruments using a fair value hierarchy that reflects the significance of the inputs used in measuring the fair value of those instruments. The fair value hierarchy has the following levels:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).
- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Some of the Bank's financial assets are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets are determined (in particular, the valuation technique(s) and inputs used).

29 Fair Value of Financial Instruments (Continued)

Financial assets/financial liabilities	Fair value as at December 31, 2014	Fair value as at December 31, 2013	Fair value hierarchy	Valuation technique(s) and key input(s)
Available-for-sale investments:				
Debt securities	37,597,306	15,831,310	Level 1	Quoted bid prices in an active market.
Debt securities	-	15,207,637	Level 2	Discounted cash flows based on contractual terms of debt securities and yield of similar instruments of counterparties with credit risk adjustment using internal model.

Reconciliation from the beginning balances to the ending balances in Level 2 of fair value hierarchy for financial assets measured at fair value on recurring basis for the years ended December 31, 2014 and 2013 was presented as follows:

	2014	2013
Beginning of the year	15,207,637	15,006,778
Transfer from level 2 to level 1 fair value hierarchy	(15,207,637)	-
Gain recognized in the statement of profit or loss	-	200,859
End of the year	-	15,207,637

Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis (but fair value disclosures are required).

The following methods and assumptions are used by the Bank to estimate the fair value of financial instruments not measured at fair value:

For assets and liabilities maturing within three months, the carrying amount approximates fair value due to the relatively short-term maturity of these financial instruments. For all others the fair value is estimated as the present value of estimated future cash flows discounted at the appropriate year-end market rates and making adjustments for credit risk of the Bank or counterparty.

Loans to customers – the estimate was made by discounting the scheduled future cash flows of the individual loans through the estimated maturity using market rates as at the respective year-end.

Due from banks – the estimate was made by discounting the scheduled future cash flows of the individual deposits and loans through the estimated maturity using market rates as at the respective year-end.

Deposits by customers – market values have been used, where available, to determine the fair value of debt securities traded on an active market

Loans received from government agencies – the estimate was made by discounting the scheduled future cash flows of the individual loans through the estimated maturity using market rates as at the respective year-end.

29 Fair Value of Financial Instruments (Continued)

Fair values analysed by level in the fair value hierarchy and carrying value of assets not measured at fair value are as follows:

	December 31, 2014		December 31, 2013	
	Level 2	Total	Level 2	Total
ASSETS AT FAIR VALUE				
Cash and cash equivalents				
Correspondent accounts and time deposits with original maturities up to 90 day	25,084,401	25,084,401	18,341,790	18,341,790
Cash on hand and commemorative coins	17,284,111	17,205,910	16,266,672	16,266,672
Cash balances with CBAR (including mandatory reserve deposits)	15,841,679	15,841,679	57,475,625	57,475,625
Due from banks				
Loans to banks and time deposits	8,781,697	8,781,697	5,813,360	5,813,360
Restricted deposits	847,151	847,151	808,035	808,035
Loans to customers				
- Corporate loans – construction	120,782,243	120,782,243	16,955,912	16,955,912
- Corporate loans – trade	116,740,741	116,740,741	31,720,520	31,720,520
- Corporate loans – agriculture	66,479,799	66,479,799	32,566,658	32,566,658
- Corporate loans – manufacturing	13,743,207	13,743,207	12,153,946	12,153,946
- Corporate loans – transportation	8,461,278	8,461,278	6,561,986	6,561,986
- Corporate loans – other	893,355	893,355	93,551	93,551
- Loans to individuals – consumer loans	49,358,362	49,358,362	61,517,594	61,517,594
- Loans to individuals – entrepreneurs	26,027,122	26,027,122	4,697,344	4,697,344
- Loans to individuals – car loans	19,152,801	19,152,801	30,278,292	30,278,292
- Loans to individuals – mortgage loans	20,310,704	20,310,704	18,973,276	18,973,276
- Loans to individuals – plastic cards	4,721,231	4,721,231	4,496,074	4,496,074
- Loans to individuals – other	37,230	37,230	314,184	314,184
Other financial assets				
- Receivables on plastic card operations from other banks	537,523	537,523	181,133	181,133
- Settlements on money transfers	120,668	120,668	244,865	244,865
- Accrued interest income on guarantees issued	35,455	35,455	16,254	16,254
- Other	40,383	40,383	49,822	49,822
TOTAL	**515,281,141**	**515,281,141**	**319,526,893**	**319,526,893**

29 Fair Value of Financial Instruments (Continued)

Fair values analysed by level in the fair value hierarchy and carrying value of liabilities not measured at fair value are as follows:

	December 31, 2014		December 31, 2013	
	Level 2	Total	Level 2	Total
FINANCIAL LIABILITIES				
Deposits by banks				
-Time deposits	453,906	453,906	-	-
-Correspondent accounts of other banks	63,449	63,449	62,224	62,224
Deposits by customers				
- Current/settlement accounts of state and public organisations	2,874,970	2,874,970	793,287	793,287
- Current/settlement accounts of other legal entities	43,435,164	43,435,164	55,206,922	55,206,922
- Term deposits of other legal entities	211,514,356	211,514,356	26,960,648	26,960,648
- Current/demand accounts of individuals	22,837,902	22,837,902	18,222,377	18,222,377
- Term deposits of individuals	168,543,173	168,543,173	176,944,057	176,944,057
Term borrowings				
- Loans received from government agencies	63,616,314	63,616,314	44,492,144	44,492,144
Other financial liabilities				
- Payable to the Deposit Insurance Fund	191,899	191,899	158,898	158,898
- Professional fees payable	81,005	81,005	28,043	28,043
- Payables on plastic card operations from other banks	70,079	70,079	414,830	414,830
- Settlements on money transfers and plastic card operations	25,478	25,478	7,969	7,969
- Other	223,962	223,962	68,302	68,302
TOTAL	**513,931,657**	**513,931,657**	**323,359,701**	**323,359,701**

30. Capital Risk Management

The Bank's objectives when managing capital is to comply with the capital requirements set by the Central Bank of the Republic of Azerbaijan, to safeguard the Bank's ability to continue as a going concern and to maintain a sufficient capital base to achieve a capital adequacy ratio of at least 12%. Compliance with capital adequacy ratios set by the Central Bank of the Republic of Azerbaijan is monitored monthly with reports outlining their calculation reviewed and signed by the Bank's Financial Director, Chief Accountant, Chief of Audit Department, Head of Audit Committee and the Head of Supervisory Board. Other objectvies of capital management are evaluated annually.

Under the current capital requirements set by the Central Bank of the Republic of Azerbaijan, banks have to: (a) hold the minimum level of share capital of AZN 50,000,000 (2013: AZN 10,000,000); (b) maintain a ratio of regulatory capital to risk weighted assets ("statutory capital ratio") at or above a prescribed minimum of 12% (2013: 12%) and (c) maintain a ratio of tier-1 capital to the risk-weighted assets (the "tier-1 capital ratio") at or above the prescribed minimum of 6% (2013: 6%).

The Central Bank of Azerbaijan Republic has taken a decision to increase minimum level of capital to AZN 50,000,000 at July 25, 2012. The requirement is effective from January 1, 2015. In order to keep the level of capital in compliance with the CBAR's requirement, the shareholder of the Bank decided to increase share capital of the Bank to AZN 50,000,000 by issuing an additional AZN 25,000,000 worth of ordinary shares (see Note 26).

30 Capital Risk Management (Continued)

The capital structure of the Bank as at December 31, 2014 and 2013, calculated in accordance with requirements of the Central Bank of the Republic of Azerbaijan is presented in following table:

	December 31, 2014	December 31, 2013
Tier-1 capital	48,249,212	36,510,698
Total capital	57,400,151	45,318,404
Tier-1 capital ratio	13.25%	10.91%
Statutory capital ratio	15.74%	13.27%

31. Risk Management Policies

Management of risk is fundamental to the Bank's banking business and is an essential element of the Bank's operations. The main risks inherent to the Bank's operations are those related to:

- Credit exposures
- Liquidity risk
- Market risk

The Bank recognizes that it is essential to have efficient and effective risk management processes in place. To enable this, the Bank has established a risk management framework, whose main purpose is to protect the Bank from risk and allow it to achieve its performance objectives. Through the risk management framework, the Bank manages the following risks:

Credit risk
The Bank 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. These processes are performed by the Credit Committees and the Bank'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 branch risk-manager or the Risk Management Department. Daily risk management is performed by the Head of Credit Departments and Branch Credit Divisions.

The Bank structures the level of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or Banks of borrowers, and to industry segments. Limits on the level of credit risk by a borrower and a product (by industry sector) are approved 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 Bank obtains collateral and corporate and personal guarantees. A certain portion of loans 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 Bank 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 Bank applies the same credit policy to the contingent liabilities as it does to the statement of financial position financial instruments, i.e. the one based on the procedures for approving the granting of loans, using limits to mitigate the risk, and current monitoring. The Bank 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.

31 Risk Management Policies (Contiuned)

Maximum exposure of credit risk

The Bank's 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 balance sheet and off balance sheet financial assets and also financial liabilities, which are subject to offsetting, enforceable master netting arrangements and similar agreements. For financial assets in the statement of financial position, the maximum exposure is equal to the carrying amount of those assets prior to any offset or collateral. The Bank's maximum exposure to credit risk 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 Bank has no financial assets or liabilities which were set-off in accordance with the requirements of IFRS and presented net in the statement of financial position.

	Net amount after offsetting in the statement of financial position	Amounts subject to master netting and similar arrangements not set off in the statement of financial position		Net amount
		Financial instruments	Cash collateral received	
December 31, 2014				
Balances with the CBAR (including restricted deposits)	24,358,585	-	-	24,358,585
Correpondent accounts and short term deposits in other banks	25,084,401	-	-	25,084,401
Due from banks	9,628,848	-	-	9,628,848
Loans to customers	446,708,073		(193,846,014)	252,862,059
Available-for-sale investments	37,877,306	-	-	37,877,306
Other financial assets	734,029	-	-	734,029
Commitments on loans and unused credit lines	21,945,289	-	-	21,945,289
Guarantees issued and similar commitments	16,719,887	-	(165,007)	16,554,880
December 31, 2013				
Balances with the CBAR (including restricted deposits)	57,475,625	-	-	57,475,625
Correpondent accounts and short term deposits in other banks	18,341,790	-	-	18,341,790
Due from banks	6,621,395	-	-	6,621,395
Loans to customers	220,329,337	-	(10,414,858)	209,914,479
Available-for-sale investments	31,318,947	-	-	31,318,947
Other financial assets	492,074	-	-	492,074
Commitments on loans and unused credit lines	21,201,770	-	-	21,201,770
Guarantees issued and similar commitments	18,879,072	-	(480,000)	18,399,072

31 Risk Management Policies (Contiuned)

The following financial liabilities are subject to offsetting, enforceable master netting arrangements and similar agreements:

	Net amount after offsetting in the statement of financial position	Amounts subject to master netting and similar arrangements not set off in the statement of financial position		Net amount
		Financial instruments	Cash collateral pledged	
December 31, 2014				
Deposits by banks	517,355	-	-	517,355
Deposits by customers	449,205,565	(194,011,021)	-	255,194,544
Loans received from government agencies	63,616,314	-	-	63,616,314
Other financial liabilities	592,423	-	-	1,202,427
December 31, 2013				
Deposits by banks	62,224	-	-	62,224
Deposits by customers	278,127,291	(10,894,858)	-	267,232,433
Loans received from government agencies	44,492,144	-	-	44,492,144
Other financial liabilities	678,042	-	-	1,114,319

<u>Off – balance sheet risk</u>

The Bank applies fundamentally the same risk management policies for off-balance sheet risks as it does for its on-balance sheet risks. In the case of commitments to lend, customers and counterparties will be subject to the same credit management policies as for loans and advances. Collateral may be sought depending on the strength of the counterparty and the nature of the transaction.

31 Risk Management Policies (Contiuned)

Geographical concentration

The Risk Management Committee exercises control over the risk in the legislation and regulatory arena and assesses its influence on the Bank's activity. This approach allows the Bank to minimize potential losses from the investment climate fluctuations in the Republic of Azerbaijan.

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

	The Republic of Azerbaijan	OECD countries	Other non-OECD countries	December 31, 2014 Total
NON-DERIVATIVE FINANCIAL ASSETS				
Cash and balances with the Central Bank of the Republic of Azerbaijan	36,705,310	21,232,429	272,452	58,210,191
Due from banks	8,781,696	847,152	-	9,628,848
Loans to customers	446,708,073	-	-	446,708,073
Available-for-sale investments	37,877,306	-	-	37,877,306
Other financial assets	734,029	-	-	734,029
Total non-derivative financial assets	**530,806,414**	**22,079,581**	**272,452**	**553,158,447**
NON-DERIVATIVE FINANCIAL LIABILITIES				
Deposits by banks	48,815	453,906	14,634	517,355
Deposits by customers	440,351,361	4,227,269	4,626,935	449,205,565
Loans received from government agencies	63,616,314			63,616,314
Other financial liabilities	592,423			592,423
Total non-derivative financial liabilities	**504,608,913**	**4,681,175**	**4,641,569**	**513,931,657**
NET POSITION ON NON-DERIVATIVE FINANCIAL INSTRUMENTS	**26,197,501**	**17,398,406**	**(4,369,117)**	

	The Republic of Azerbaijan	OECD countries	Other non-OECD countries	December 31, 2013 Total
NON-DERIVATIVE FINANCIAL ASSETS				
Cash and balances with the Central Bank of the Republic of Azerbaijan	84,758,727	3,476,752	3,848,608	92,084,087
Due from banks	5,813,097	808,298	-	6,621,395
Loans to customers	220,329,337	-	-	220,329,337
Available-for-sale investments	31,318,947	-	-	31,318,947
Other financial assets	245,665	-	246,409	492,074
Total non-derivative financial assets	**342,465,773**	**4,285,050**	**4,095,017**	**350,845,840**
NON-DERIVATIVE FINANCIAL LIABILITIES				
Deposits by banks	62,224	-	-	62,224
Deposits by customers	269,328,036	5,077,829	3,721,426	278,127,291
Loans received from government agencies	44,492,144	-	-	44,492,144
Other financial liabilities	415,442	262,441	159	678,042
Total non-derivative financial liabilities	**314,297,846**	**5,340,270**	**3,721,585**	**323,359,701**
NET POSITION ON NON-DERIVATIVE FINANCIAL INSTRUMENTS	**28,167,927**	**(1,055,220)**	**373,432**	

31 Risk Management Policies (Contiuned)

Collateral

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- For commercial lending, charges over real estate properties and inventory
- For retail lending, mortgages over residential properties.

At December 31, 2014 and 2013, the fair value of collateral that the bank holds related to loans individually determined to be impaired amounts to AZN 57,926,960 and AZN 18,017,784. The collaterals consist of real estate, equipment and inventories (December 31, 2013: real estate, equipment, inventories, and deposits).

During the year ended December 31, 2014 and 2013, the Bank took possession of property with a carrying value of AZN 327,037and AZN 2,219,060, respectively, at the reporting date, which the Bank is in the process of selling.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses.

<u>Credit quality of financial assets</u>

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

December 31, 2014	**A**	**<BBB**	**Not rated**	**Total**
Balances with the CBAR (including restricted deposits)	-	24,358,585	-	24,358,585
Correpondent accounts and short term deposits in other banks	21,209,549	638,182	3,236,670	25,084,401
Due from banks	847,152	5,138,100	3,643,596	9,628,848
Loans to customers	-	-	446,708,073	446,708,073
Available-for-sale investments	-	14,837,630	23,039,676	37,877,306
Other financial assets	-	-	734,029	734,029
December 31, 2013				
Balances with the CBAR (including restricted deposits)	-	57,475,625	-	57,475,625
Correpondent accounts and short term deposits in other banks	3,380,013	5,393,755	9,568,022	18,341,790
Due from banks	809,298	2,000,500	3,811,597	6,621,395
Loans to customers	-	-	220,329,337	220,329,337
Available-for-sale investments	-	13,749,228	17,569,719	31,318,947
Other financial assets	36,027	187,607	268,440	492,074

Financial assets other than loans to customers are graded according to the current credit rating they have been issued by an internationally regarded agency such as Fitch, Standard & Poor's and Moody's. 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.

As at December 31, 2014 and 2013, the balances with the Central Bank of the Republic of Azerbaijan amounted to 15,841,679 AZN and AZN 57,475,625, respectively. The credit rating of the Republic of Azerbaijan according to the international rating agencies in 2014 corresponded to BBB- (2013: BBB-).

Unrated banks in which the Bank has correspondent accounts and short term deposit balances are among top 25 banks in The Republic of Azerbaijan based on their total assets.

31 Risk Management Policies (Contiuned)

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.

The Asset Liability Management Committee (ALMC) controls these types of risks by means of maturity analysis, determining the Bank's strategy for the next financial period. Current liquidity is managed by the Treasury Department, which deals in the money markets for current liquidity support and cash flow optimization.

In order to manage liquidity risk, the Bank performs daily monitoring of future expected cash flows on clients' and banking operations, which is a part of the assets/liabilities management process. The Management Board sets limits on the minimum proportion of maturing funds available to meet deposit withdrawals and on the minimum level on interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

The Bank is not exposed to variable interest rates as all of its interest bearing assets and liabilities have only fixed rates. The table below summarises the Bank's exposure to interest rate risks and liquidity risk. The table presents the aggregated amounts of the Bank's financial assets and liabilities at carrying amounts, categorised by contractual maturity dates. There are no contractual interest repricing dates as the Bank does not hold instruments with variable interest rates. In the recent years average interest rates on financial instruments has not shown significant volatility in Azerbaijani banking market. The presentation below is based upon the information provided internally to key management personnel of the Bank.

31 Risk Management Policies (Continued)

	Weighted average effective interest rate	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	December 31, 2014 Total
NON-DERIVATIVE FINANCIAL ASSETS								
Time deposits in other banks with original maturity less than or equal to 90 days	9.%	3,922	3,161,132	-	-	-	-	3,165,054
Due from banks	12.33%	3,642,028	2,000,000	3,139,669	-	-	-	8,781,697
Loans to customers	11.49%	7,595,487	6,032,731	87,470,724	288,890,999	56,718,124	-	446,708,073
Available-for-sale investments	10.90%	37,597,306	-	-	-	-	-	37,597,306
Cash and balances with the Central Bank of the Republic of Azerbaijan	0%	25,871,611	80,377	7,173,802	-	-	-	33,125,790
Correspondent accounts	0%	21,919,347	-	-	-	-	-	21,919,347
Due from banks	0%	-	-	-	-	-	847,151	847,151
Available-for-sale investments	0%	-	-	-	-	-	280,000	280,000
Other financial assets	0%	734,029	-	-	-	-	-	734,029
Total non-derivative financial assets		97,363,730	11,274,240	97,784,195	288,890,999	56,718,124	1,127,151	553,158,447
NON-DERIVATIVE FINANCIAL LIABILITIES AND COMMITMENTS								
Deposits by Banks	8%	-	-	453,906	-	-	-	453,906
Deposits by customers	8%	16,891,083	30,731,747	141,895,269	190,539,430	-	-	380,057,529
Loans received from government agencies	1.62%	52,570	4,167	316,935	10,474,989	52,767,653	-	63,616,314
Deposits by banks	0%	63,449	-	-	-	-	-	63,449
Deposits by customers	0%	69,148,036	-	-	-	-	-	69,148,036
Other financial liabilities	0%	592,423	-	-	-	-	-	592,423
Commitments on loans and unused credit lines	0%	1,297,481	4,258,339	14,855,587	1,533,882	-	-	21,945,289
Guarantees issued and similar commitments	2.15%	1,489,471	856,540	14,373,876	-	-	-	16,719,887
Total non-derivative financial liabilities and commitments		89,534,513	35,850,793	171,895,573	202,548,301	52,767,653	-	552,596,833
Liquidity gap		7,829,217	(24,576,553)	(74,111,378)	86,342,698	3,950,471		
Cumulative liquidity gap		7,829,217	(16,747,336)	(90,858,714)	(4,516,016)	(565,545)		

31 Risk Management Policies (Continued)

	Weighted average effective interest rate	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	December 31, 2013 Total
NON-DERIVATIVE FINANCIAL ASSETS								
Time deposits in other banks with original maturity less than or equal to 90 days	6.20%	3,141,922	4,756,258	-	-	-	-	7,898,180
Due from banks	3.00%	-	-	5,813,360	-	-	-	5,813,360
Loans to customers	15.47%	6,787,421	7,506,845	48,454,340	116,175,518	41,405,213	-	220,329,337
Available-for-sale investments	11.32%	31,038,947	-	-	-	-	-	31,038,947
Cash and balances with the Central Bank of the Republic of Azerbaijan	0%	73,742,297	-	-	-	-	-	73,742,297
Correspondent accounts	0%	10,443,610	-	-	-	-	-	10,443,610
Due from banks	0%	-	-	-	-	-	808,035	808,035
Available-for-sale investments	0%	-	-	-	-	-	280,000	280,000
Other financial assets	0%	492,074	-	-	-	-	-	492,074
Total non-derivative financial assets		125,646,271	12,263,103	54,267,700	116,175,518	41,405,213	1,088,035	350,845,840
NON-DERIVATIVE FINANCIAL LIABILITIES AND COMMITMENTS								
Deposits by customers	9.34%	6,426,506	55,703,136	99,551,947	42,103,998	119,118	-	203,904,705
Loans received from government agencies	1.85%	395,935	867,939	2,877,036	29,003,423	11,347,811	-	44,492,144
Deposits by banks	0%	62,224	-	-	-	-	-	62,224
Deposits by customers	0%	74,222,586	-	-	-	-	-	74,222,586
Other financial liabilities	0%	678,042	-	-	-	-	-	678,042
Commitments on loans and unused credit lines	0%	7,964,171	825,497	10,444,512	1,967,590	-	-	21,201,770
Guarantees issued and similar commitments	1.54%	912,464	154,644	17,811,964	-	-	-	18,879,072
Total non-derivative financial liabilities and commitments		90,661,928	57,551,216	130,685,459	73,075,011	11,466,929	-	363,440,543
Liquidity gap		34,984,343	(45,288,113)	76,417,759	43,100,507	29,938,284		
Cumulative liquidity gap		34,984,343	(10,303,770)	(86,721,529)	(43,621,022)	(13,682,738)		

31 Risk Management Policies (Continued)

In the table above, the terms to maturity correspond to the contractual terms. However, individuals are entitled to terminate the deposit agreement ahead of schedule according to effective laws.

Based on prior experience, the Bank considers it highly unlikely that all customer accounts seek repayment on maturity. Historically the majority of such deposits are rolled over. The Bank is aware of the importance of maintaining the stability of these deposits. In order to achieve this it is essential that the Bank ensures depositor confidence in the Bank's liquidity, by continuing to position itself as the depositor of choice in local markets and a leading financial institution in both the Republic of Azerbaijan and abroad.

The following tables detail the Bank's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Bank can be required to pay. The tables include both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curves at the end of the reporting period. The contractual maturity is based on the earliest date on which the Bank may be required to pay.

	Weighted average effective interest rate	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	December 31, 2014 Total
Deposits by customers	8%	18,832,606	34,651,517	159,161,821	225,073,010	-	437,718,954
Deposits by banks	8%	2,928	5,857	465,620	-	-	474,405
Loans received from government agencies	1.62%	85,765	175,696	774,509	14,332,936	61,353,391	76,722,297
Guarantees issued and similar commitments	2.15%	1,489,471	856,540	14,373,876	-	-	16,719,887
Deposits by banks	0%	63,449					63,449
Deposits by customers	0%	69,148,036	-	-	-	-	69,148,036
Other financial liabilities	0%	592,423	-	-	-	-	592,423
Commitments on loans and unused credit lines	0%	1,297,482	4,258,339	14,855,586	1,533,882	-	21,945,289
Total financial liabilities and commitments		**91,512,160**	**39,947,949**	**370,199,895**	**60,727,285**	**61,353,391**	**623,740,680**

31 Risk Management Policies (Continued)

	Weighted average effective interest rate	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	December 31, 2013 Total
Deposits by customers	9.34%	9,576,469	57,828,435	103,494,813	46,059,340	119,118	217,078,175
Loans received from government agencies	1.85%	421,710	1,002,982	3,452,868	31,444,622	15,060,630	51,382,812
Guarantees issued and similar commitments	1.54%	912,464	154,644	17,811,964	-	-	18,879,072
Deposits by banks	0%	62,224	-	-	-	-	62,224
Deposits by customers	0%	74,222,586	-	-	-	-	74,222,586
Other financial liabilities	0%	678,042	-	-	-	-	678,042
Commitments on loans and unused credit lines	0%	7,964,171	825,497	10,444,512	1,967,590	-	21,201,770
Total financial liabilities and commitments		**93,837,666**	**59,811,558**	**135,204,157**	**79,471,552**	**15,179,748**	**383,504,681**

The amounts included above for financial guarantee contracts are the maximum amounts the Bank could be forced to settle under the arrangement for the full guaranteed amount if that amount is claimed by the counterparty to the guarantee.

The maximum amount the Bank could be forced to settle under the financial guarantee contracts if the fully guaranteed amount is claimed by the counterparty to the guarantee is AZN 16,719,887 (2013: AZN 18,879,072).

Market Risk

Market risk is that the risk that the Bank's earnings or capital or its ability to meet business objectives will be adversely affected by changes in the level or volatility of market rates or prices. Market risk covers interest rate risk, currency risk, credit spreads, commodity prices and equity prices that the Bank is exposed to. There have been no changes as to the way the Bank measures risk or to the risk it is exposed or the manner in which these risks are managed and measured.

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

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

Interest rate sensitivity

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

31 Risk Management Policies (Continued)

If interest rates had been 200 basis points higher/lower and all other variables were held constant, the Bank's total comprehensive income for the year ended December 31, 2014 would increase/decrease by AZN 4,347,953 (If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Bank's total comprehensive income for the year ended December 31, 2013 would increase/decrease by AZN 26,556). This is mainly attributable to the Bank's exposure to interest rates on its variable and fixed rates borrowings.

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 Bank is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

The ALMC controls currency risk by management of the open currency position on the estimated basis of AZN devaluation and other macroeconomic indicators, which gives the Bank an opportunity to minimize losses from significant currency rates fluctuations toward its national currency. The Treasury Department performs daily monitoring of the Bank's open currency position with the aim to match the requirements of the Central Bank of the Republic of Azerbaijan.

The Bank's exposure to foreign currency exchange rate risk is presented in the table below:

	AZN	USD USD 1 = AZN 0.7844	EUR EUR 1 = AZN 0.9522	Other currency	December 31, 2014 Total
NON-DERIVATIVE FINANCIAL ASSETS					
Cash and balances with the CBAR	24,272,634	28,506,045	4,992,471	439,041	58,210,191
Due from banks	2,980,398	3,986,321	2,662,129	-	9,628,848
Loans to customers	410,287,958	33,676,596	2,743,519	-	446,708,073
Available-for-sale investments	37,877,306	-	-	-	37,877,306
Other financial assets	607,740	88,304	37,780	205	734,029
Total non-derivative financial assets	**476,026,036**	**66,257,266**	**10,435,899**	**439,246**	**553,158,447**
NON-DERIVATIVE FINANCIAL LIABILITIES					
Deposits by banks	-	515,204	2,151	-	517,355
Deposits by customers	360,031,832	78,935,776	10,173,212	64,745	449,205,565
Loans received from government agencies	63,616,314	-	-	-	63,616,314
Other financial liabilities	535,635	40,209	16,008	571	592,423
Total non-derivative financial liabilities	**424,183,781**	**79,491,189**	**10,191,371**	**65,316**	**513,931,657**
OPEN POSITION	**51,842,255**	**(13,233,923)**	**244,528**	**373,930**	

31 Risk Management Policies (Continued)

	AZN	USD USD 1 = AZN 0.7845	EUR EUR 1 = AZN 1.0780	Other currency	December 31, 2013 Total
NON-DERIVATIVE FINANCIAL ASSETS					
Cash and balances with the Central Bank of the Republic of Azerbaijan	68,927,177	19,631,928	1,702,716	1,822,266	92,084,087
Due from banks	3,779,551	809,035	2,032,809	-	6,621,395
Loans to customers	184,641,478	30,887,783	4,800,076	-	220,329,337
Available-for-sale investments	31,318,947	-	-	-	31,318,947
Other financial assets	253,182	113,934	1,620	123,338	492,074
Total non-derivative financial assets	**288,920,335**	**51,442,680**	**8,537,221**	**1,945,604**	**350,845,840**
NON-DERIVATIVE FINANCIAL LIABILITIES					
Deposits by banks	-	61,117	1,107	-	62,224
Deposits by customers	214,825,281	52,620,673	10,223,112	458,225	278,127,291
Loans received from government agencies	44,492,144	-	-	-	44,492,144
Other financial liabilities	347,958	38,238	274,056	17,790	678,042
Total non-derivative financial liabilities	**259,665,383**	**52,720,028**	**10,498,275**	**476,015**	**323,359,701**
OPEN POSITION	**29,254,952**	**(1,277,348)**	**(1,961,054)**	**1,469,589**	

Currency risk sensitivity

The following table details the Bank's sensitivity to a 30% increase and decrease (2013 10% increase and decrease) in the AZN against the relevant foreign currencies. 30% (2013: 10%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 30% (2013: 10%) change in foreign currency rates. A positive number below indicates an increase in profit and other equity where the AZN strengthens 30% (2013: 10%) against the relevant currency. For a 30% (2013: 10%) weakening of the AZN against the relevant currency, there would be a comparable impact on the profit and other equity, and the balances below would be negative.

	USD impact 2014	USD impact 2013		EUR impact 2014	EUR impact 2013
Profit before tax	(3,970,177)	(127,735)	(i)	73,358	(196,105)
Equity	(3,176,142)	(102,188)	(i)	58,687	(156,884)

(i) This is mainly attributable to the exposure outstanding on USD and EUR receivables and payables in the Bank at the end of the reporting period.

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk because the year end exposure does not reflect the exposure during the year.

31 Risk Management Policies (Continued)

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 Bank's assets and liabilities are actively managed. Additionally, the financial position of the Bank may vary at the time that any actual market movement occurs. For example, the Bank'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 in the 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 Bank'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.

Equity price risk

Equity price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices whether those changes are caused by factors specific to the individual security or its issuer or factors affecting all securities traded in the market.

The sensitivity analyses below have been determined based on the exposure to equity price risks at the end of the reporting period.

If equity prices had been 5% higher/lower, net profit for the year ended December 31, 2014 would have been unaffected as the equity investments are carried at cost although classified as available-for-sale investments. Management could not reliably estimate the fair value of the Bank's investment in shares of "Milli Kart" LLC. This investee company has not published its recent financial information about its operations. Its shares are not quoted and recent trade prices are not publicly accessible as at December 31, 2014.

The Bank's sensitivity to equity prices has not changed significantly from the prior year

Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Bank cannot expect to eliminate all operational risks, but it endeavours to manage these risks through a control framework and by monitoring and responding to potential risks. Controls include effective segregation of duties, access, authorization and reconciliation procedures, staff education and assessment processes.

32. Presentation of Financial Instruments by Measurement Category

For the purposes of measurement, IAS 39 "Financial Instruments: Recognition and Measurement", classifies financial assets into the following categories: (a) loans and receivables; (b) available-for-sale financial assets; (c) financial assets held to maturity and (d) financial assets at fair value through profit or loss ("FVTPL"). Financial assets at fair value through profit or loss have two sub-categories: (i) assets designated as such upon initial recognition, and (ii) those classified as held for trading. All of the Bank's financial assets fall in the loans and receivables category except available-for-sale financial assets. All of the Bank's financial liabilities were carried at amortised cost.

33. Subsequent Events

The functional currency of the Bank, AZN was devalued by approximately 33% against the major international currencies on 21 February 2015. As at February 28, 2015 the Bank's foreign currency exposure in relation to USD and EUR was AZN 24,016,361 and AZN 1,760,549, respectively. Since, only about 32% of the Bank's loans to customers balance was denominated in foreign currencies as at February 28, 2015, possible payment difficulties of the Bank's customers did not affect the financial position of the Bank significantly.