Caspian Development Bank ("CDB") OJSC

International Financial Reporting Standards Financial Statements and Independent Auditor's Report

31 December 2015

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Independent Auditor's Report

To the Shareholders and Board of Directors of Caspian Development Bank ("CDB") Open Joint-Stock Company:

We have audited the accompanying financial statements of CDB Open Joint-Stock Company (the "Bank") which comprise the statement of financial position as of 31 December 2015 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 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 2015, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers Audit Azerbaijan LLC

02 May 2016
Baku, Azerbaijan Republic

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Caspian Development Bank OJSC
Statement of Financial Position

In thousands of Azerbaijani Manats	Note	31 December 2015	31 December 2014
ASSETS			
Cash and cash equivalents	7	15,857	38,315
Mandatory Reserves with CBAR	7	121	-
Other securities	9	-	12,257
Due from other banks	8	8,061	-
Loans and advances to customers	10	87,435	-
Software and licenses	11	149	-
Premises and equipment	11	2,427	-
Other assets	12	12,324	-
TOTAL ASSETS		**126,374**	**50,572**
LIABILITIES			
Customer accounts	14	44,146	330
Due to other banks	13	801	-
Term borrowings	15	22,845	-
Other liabilities		116	23
TOTAL LIABILITIES		**67,908**	**353**
EQUITY			
Share capital	16	50,020	50,020
Retained earnings		8,446	199
TOTAL EQUITY		**58,466**	**50,219**
TOTAL LIABILITIES AND EQUITY		**126,374**	**50,572**

Approved for issue and signed on behalf of the Management Board on 29 April 2016.

Mr. Nadir Suleyman Yildirim
Chairman of the Supervisory Board

Mr. Kamran Orucaliyev
Chief Financial Officer

In thousands of Azerbaijani Manats	Note	2015	2014
Interest income	17	4,883	-
Interest expense	17	(1,851)	-
Net interest income		**3,032**	-
Provision for loan impairment	10	(22,065)	-
Net interest income after provision for loan impairment		**(19,033)**	-
Fee and commission income	18	378	3
Fee and commission expense	18	(153)	(84)
Gains less losses from trading in foreign currencies		291	-
Provision for deposits in other banks	8	(5,861)	-
Foreign exchange translation gains less losses/(losses less gains)		36,241	37
Other operating income		6	-
Administrative and other operating expenses	19	(1,510)	(43)
Profit/(loss) before tax		**10,359**	**(87)**
Income tax expense	20	(2,112)	-
PROFIT/(LOSS) FOR THE YEAR		**8,247**	**(87)**
Total comprehensive income/(loss) for the year		**8,247**	**(87)**
Earnings/(loss) per share for profit/(loss) attributable to the owners of the Bank, basic and diluted (expressed in AZN per share)	**21**	**32,99**	**(1,23)**

In thousands of Azerbaijani Manats	Note	Share capital	Retained earnings/ (accumulated deficit)	Total equity
Balance at 31 December 2013		**12,020**	**286**	**12,306**
Loss for the year		-	(87)	(87)
Total comprehensive loss for 2014		**-**	**(87)**	**(87)**
Contribution from shareholders	16	38,000	-	38,000
Balance at 31 December 2014		**50,020**	**199**	**50,219**
Profit for the year		-	8,247	8,247
Total comprehensive income for 2015		**-**	**8,247**	**8,247**
Balance at 31 December 2015		50,020	**8,446**	**58,466**

In thousands of Azerbaijani Manats	Note	2015	2014
Cash flows from operating activities			
Interest received	17	4,422	-
Interest paid	17	(237)	-
Fees and commissions received	18	378	3
Fees and commissions paid	18	(153)	(68)
Income received from trading in foreign currencies		291	-
Other operating income received		-	-
Staff costs paid	19	(678)	(40)
Administrative and other operating expenses	19	(760)	(3)
Income tax paid		(12,500)	-
Cash flows from/(used in) operating activities before changes in operating assets and liabilities		**(9,237)**	**(108)**
Net (increase)/decrease in mandatory cash balances with the CBAR	7	(121)	-
Net (increase)/decrease in due from other banks	8	(13,665)	-
Net (increase)/decrease in loans and advances to customers	10	(80,010)	-
Net (increase)/decrease in other assets	12	(1,936)	753
Net increase/(decrease) in customer accounts	14	42,230	(2,010)
Net increase/(decrease) in due to other banks	13	791	(38)
Net increase/(decrease) in other liabilities		93	(78)
Net cash (outflow)/inflow from operating activities		**(52,618)**	**(1,373)**
Cash flows from investing activities			
Proceeds from disposal of other securities	9	12,257	1,528
Acquisition of premises and equipment	11	(2,495)	-
Acquisition of intangible assets	11	(153)	-
Net cash (used in)/from investing activities		**9,609**	**1,528**
Cash flows from financing activities			
Proceeds from term borrowings	15	23,103	-
Repayment of term borrowings	15	(269)	-
Issue of ordinary shares	16	-	38,000
Net cash from/(used in) financing activities		**22,834**	**38,000**
Effect of exchange rate changes on cash and cash equivalents		6,954	(3)
Net (decrease)/increase in cash and cash equivalents		**(22,458)**	**(38,044)**
Cash and cash equivalents at the beginning of the year		38,315	271
Cash and cash equivalents at the end of the year (excluding mandatory reserve deposits with CBAR)		**15,857**	**38,315**

1 Introduction

These financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2015 for CDB OJSC (the "Bank").

The Bank was incorporated in 1988 under the name of "Universal Bank". On 24th of September 2001, Bank was renamed to "Kauthar Bank". On 26th of January 2015, with new board members and charter capital injection, CDB was formed on ground of previously mentioned "Kauthar Bank" and is domiciled in the Republic of Azerbaijan. The Bank is an open joint stock company limited by shares and was set up in accordance with Azerbaijani regulations.

The Bank has 100% ownership in "CDB Capital" OJSC, an investment company registered in the Republic of Azerbaijan on July 8, 2015.The company was established to manage investments of the Bank in the future.

As at 31 December 2015 the following shareholders owned the issued share capital of the Bank:

Shareholder	**31 December2015, %**
Synergy Group	99.91
Mr. İbrahim Alishov	0.01
Mr. Hasan Jafarov	0.08
Total	100.00

As of 31 December 2015 the Bank's immediate parent company was Synergy Group and was ultimately controlled by Mr. A. Kamilov.

Principal activity. The Bank's principal business activity is commercial and retail banking operations within the Republic of Azerbaijan. The Bank has operated under a full banking licence issued by the Central Bank of the Azerbaijan Republic ("CBAR") since 1992. The Bank has 2 (2014: 1) branches within the Azerbaijan Republic.

Registered address and place of business. *The Bank's registered address is:*

Nasimi district , Azadlig avenue 124

AZ 1007

Baku

Republic of Azerbaijan

Presentation currency. These financial statements are presented in thousands of Azerbaijani Manats ("AZN").

2 Operating Environment of the Bank

Republic of Azerbaijan. Azerbaijan continues economic reforms and development of its legal, tax and regulatory frameworks towards the market economy. The future stability of the Azerbaijan economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

Following a significant drop in crude oil prices, the Azerbaijani manat devalued by 34% against the US dollar on 21 February 2015 and a further 47% on 21 December 2015. Following the second devaluation, the Central Bank of the Republic of Azerbaijan announced transition of manat to a floating exchange rate. The exchange rates have not materially changed since year-end to 02 May 2016.

These events resulted in a worsening of liquidity in the banking system and much tighter credit conditions. There continues to be uncertainty regarding economic growth, access to capital and cost of capital which could adversely affect the Bank's future results, financial position and business prospects in a manner not currently determinable.

2 Operating Environment of the Bank (Continued)

The Azerbaijani government announced plans to accelerate reforms and support to the banking system in response to the current economic challenges. Per the official website of the Central Bank of the Azerbaijan Republic, government bonds in national currency have higher yields compared to those in a foreign currency, management board of CBAR increased the refinancing rate from 5% to 7% while the ceiling of interest rate corridor was increased from 10% to 17%. With the intention of encouraging deposit growth and confidence in the financial system, a law on "Full insurance of deposits" number 101VQ dated 19 January 2016 was passed insuring all manat deposits by Deposit Insurance Fund for the upcoming three years regardless of the amount and interest rate and all USD deposits that have interest rate up to 3%.

The Bank's Management is monitoring these developments in the current environment and taking precautionary measures as it considers necessary in order to support the sustainability and development of the Bank's business in the foreseeable future.

3 Summary of Significant Accounting Policies

Basis of preparation. These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention as modified by the revaluation of available-for-sale financial assets, and financial instruments categorised at fair value through profit or loss. The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated (refer to Note 5 for new and amended standards adopted by the Bank).

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Bank's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

Financial instruments - key measurement terms. Depending on their classification financial instruments are carried at fair value or amortised cost as described below.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is the price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the number of instruments held by the entity. This is the case even if a market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees are used to measure fair value of certain financial instruments for which external market pricing information is not available. Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs).

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.

3 Summary of Significant Accounting Policies (Continued)

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 the 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 the related items in the statement of financial position.

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

Earnings per share. 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.

Initial recognition of financial instruments. Financial instruments at fair value through profit or loss are initially recorded at fair value. All other financial instruments are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date on which the Bank commits to deliver a financial asset. All other purchases are recognised when the entity becomes a party to the contractual provisions of the instrument.

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

Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

Cash and cash equivalents. Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents include mandatory reserve deposits with the CBAR and all interbank placements with original maturities of less than three months. Funds restricted for a period of more than three months on origination are excluded from cash and cash equivalents. Cash and cash equivalents are carried at amortised cost.

Mandatory cash balances with the CBAR. Mandatory cash balances with the CBAR are carried at amortised cost and represent non-interest bearing mandatory reserve deposits 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.

3 Summary of Significant Accounting Policies (Continued)

Due from other banks. Amounts due from other banks are recorded when the Bank advances money to counterparty banks with no intention of trading the resulting unquoted non-derivative receivable due on fixed or determinable dates. Amounts due from other banks are carried at amortised cost.

Loans and advances to customers. Loans and advances to customers are recorded when the Bank advances money to purchase or originate an unquoted non-derivative receivable from a customer due on fixed or determinable dates, and has no intention of trading the receivable. Loans and advances to customers are carried at amortised cost.

Impairment of financial assets carried at amortised cost. 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 the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Bank determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics, and collectively assesses them for impairment.

The primary factors that the Bank considers in determining whether a financial asset is impaired are its overdue status and realisability of related collateral, if any. The following other principal criteria are also used to determine whether there is objective evidence that an impairment loss has occurred:

- any instalment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- the borrower experiences a significant financial difficulty as evidenced by the borrower's financial information that the Bank obtains;
- the borrower considers bankruptcy or a financial reorganisation;
- there is an adverse change in the payment status of the borrower as a result of changes in the national or local economic conditions that impact the borrower; or
- the value of collateral significantly decreases as a result of deteriorating market conditions.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment, are estimated on the basis of the contractual cash flows of the assets and the experience of management in respect of the extent to which amounts will become overdue as a result of past loss events and the success of recovery of overdue amounts. Past experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods, and to remove the effects of past conditions that do not exist currently.

If the terms of an impaired financial asset held at amortised cost are renegotiated or otherwise modified because of financial difficulties of the borrower or issuer, impairment is measured using the original effective interest rate before the modification of terms. The renegotiated asset is then derecognized and a new asset is recognized at its fair value only if the risks and rewards of the asset substantially changed. This is normally evidenced by a substantial difference between the present values of the original cash flows and the new expected cash flows.

Impairment losses are always recognised through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

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 recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss for the year.

3 Summary of Significant Accounting Policies (Continued)

Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to impairment loss account in profit or loss for the year.

Credit related commitments. The Bank issues financial guarantees and commitments to provide loans. Financial guarantees represent irrevocable assurances to make payments in the event that a customer cannot meet its obligations to third parties, and carry the same credit risk as loans. Financial guarantees and commitments to provide a loan are initially recognised at their fair value, which is

normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the commitment, except for commitments to originate loans if it is probable that the Bank will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination; such loan commitment fees are deferred and included in the carrying value of the loan on initial recognition. At the end of each reporting period, the commitments are measured at the higher of (i) the remaining unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the commitment at the end of each reporting period.

Other securities. This classification includes quoted non-derivative financial assets with fixed or determinable payments and fixed maturities. Management determines the classification of other securities at their initial recognition and reassesses the appropriateness of that classification at the end of each reporting period. Other securities are carried at amortised cost and are classified as loans and receivables category under IAS 39.

Premises and equipment. Premises and equipment are stated at cost less accumulated depreciation and provision for impairment, where required.

Costs of minor repairs and day-to-day maintenance are expensed when incurred. Costs of replacing major parts or components of premises and equipment items are capitalised, and the replaced part is retired.

At the end of each reporting period management assesses whether there is any indication of impairment of premises and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in profit or loss for the year. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in profit or loss for the year (within other operating income or expenses).

Depreciation. Depreciation on items of premises and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives:

	Useful lives in years
Buildings and constructions	20
Computer equipment	5
Furniture and equipment	5
Vehicles	5
Other fixed assets	5

The residual value of an asset is the estimated amount that the Bank would currently obtain from the disposal of the asset less the estimated costs of disposal, if the asset was already of the age and in the condition expected at the end of its useful life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Intangible assets. The Bank's intangible assets have definite useful life and primarily include capitalised computer software. Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Capitalised computer software is amortised on a straight line basis over expected useful lives of 5 to 10 years.

3 Summary of Significant Accounting Policies (Continued)

Operating leases. Where the Bank is a lessee in a lease, which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Bank, the total lease payments are charged to profit or loss on a straight-line basis over the period of the lease.

Due to other banks. Amounts due to other banks are recorded when money or other assets are advanced to the Bank by counterparty banks. The non-derivative liability is carried at amortised cost.

Customer accounts. Customer accounts are non-derivative liabilities to individuals, state or corporate customers and are carried at amortised cost.

Term borrowings. Term borrowings include loans from resident financial institution with fixed maturity and fixed interest rate. Term borrowings are carried at amortised cost.

Income taxes. Income taxes have been provided for in the financial statements in accordance with legislation enacted or substantively enacted by the end of the reporting period. The income tax charge/credit comprises current tax and deferred tax and is recognised in profit or loss for the year, except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity.

Current tax is the amount expected to be paid to, or recovered from, the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if the financial statements are authorised prior to filing relevant tax returns. Taxes other than on income are recorded within administrative and other operating expenses.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of the reporting period, which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised.

Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Provisions for liabilities and charges. Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. They are accrued when the Bank has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Trade and other payables. Trade payables are accrued when the counterparty performed its obligations under the contract and are carried at amortized cost.

Share capital. Ordinary shares are 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.

Income and expense recognition. Interest income and expense are recorded for all debt instruments on an accrual basis using the effective interest method. This method defers, as part of interest income or expense, all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

3 Summary of Significant Accounting Policies (Continued)

Fees integral to the effective interest rate include origination fees received or paid by the entity relating to the creation or acquisition of a financial asset or issuance of a financial liability, for example fees for evaluating creditworthiness, evaluating and recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents. Commitment fees received by the Bank to originate loans at market interest rates are integral to the effective interest rate if it is probable that the Bank will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination. The Bank does not designate loan commitments as financial liabilities at fair value through profit or loss.

When loans and other debt instruments become doubtful of collection, they are written down to the present value of expected cash inflows and interest income is thereafter recorded for the unwinding of the present value discount based on the asset's effective interest rate which was used to measure the impairment loss.

All other fees, commissions and other income and expense items are generally recorded on an accrual basis where applicable by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Foreign currency translation. The functional currency of the Bank and the Bank's presentation currency, is the national currency of the Republic of Azerbaijan, New Azerbaijani Manats ("AZN").

Monetary assets and liabilities are translated into Bank's functional currency at the official exchange rate of the CBAR at the end of the respective reporting period. Foreign exchange gains and losses resulting from the settlement of transactions and from the translation of monetary assets and liabilities into Bank's functional currency at year-end official exchange rates of the CBAR, are recognised in profit or loss for the year (as foreign exchange translation gains less losses). Translation at year-end rates does not apply to non-monetary items that are measured at historical cost. Non-monetary items measured at fair value in a foreign currency, including equity investments, are translated using the exchange rates at the date when the fair value was determined.

Effects of exchange rate changes on non-monetary items measured at fair value in a foreign currency are recorded as part of the fair value gain or loss.

At 31 December 2015, the principal rate of exchange used for translating foreign currency balances was USD 1 = AZN 1.5594 (2014: USD 1 = AZN 0.7844). The principal average rate of exchange used for translating income and expenses was USD 1 = AZN 1.0285 (2014: USD 1 = AZN 0.7844).

Offsetting. Financial assets and 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 either settle on a net basis, or to realise the asset and settle the liability simultaneously. Such a 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.

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.

Presentation of statement of financial position in order of liquidity. The Bank does not have a clearly identifiable operating cycle and therefore does not present current and non-current assets and liabilities separately in the statement of financial position. Instead, assets and liabilities are presented in order of their liquidity. Refer to Note 22 for analysis of financial instruments by expected maturity.

4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies

The Bank makes estimates and assumptions that affect the amounts recognised in the financial statements, and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Impairment losses on loans and advances. The Bank regularly reviews its loan portfolios to assess impairment. In determining whether an impairment loss should be recorded in profit or loss for the year, the Bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio.

This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or 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 portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

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 2,207 thousand (2014: nil), 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 2,170 thousand (2014: nil), respectively.

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. Transactions with related parties are disclosed in Note 27.

Term borrowings. The Bank obtains long-term financing from the government agencies and CBAR at interest rates which are lower than rates at which the Bank could source the funds from local lenders. As a result of such financing, the Bank is able to advance funds to specific customers (under specific lending programmes) at advantageous rates. Management have considered whether gains or losses should arise on initial recognition of such instruments. Due to its unique terms and conditions, its subordinated nature and the absence of observable current market transactions providing evidence of a market rate for such instruments, the loan was originally recognised and is subsequently carried on the statement of financial position at amortised contractual value. Management's judgement is that these instruments are a separate market segment and the related lending are at the market rates and no initial recognition gains or losses should arise.

5 Adoption of New or Revised Standards and Interpretations

The following amended standards became effective for the Bank from 1 January 2015, but did not have any material impact on the Bank:

- Amendments to IAS 19 – "Defined benefit plans: Employee contributions" (issued in November 2013 and effective for annual periods beginning 1 July 2014).
- Annual Improvements to IFRSs 2012 (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014).
- Annual Improvements to IFRSs 2013 (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014

6 New Accounting Pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2016 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 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 will not have any impact on the Bank's 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 (1) 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.

6 New Accounting Pronouncements (Continued)

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). An entity that already presents IFRS financial statements is not eligible to apply the standard.

IFRS 14, Regulatory deferral accounts (issued in January 2014 and effective for annual periods beginning on or after 1 January 2016). 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). The amendment will not have any impact on the Bank's 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). The amendment will not have any impact on the Bank's 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 amendment will not have any impact on the Bank's 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 amendment will not have any impact on the Bank's financial statements.

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 amendment will not have any impact on the Bank's 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). The amendment will not have any impact on the Bank's financial statements.

IFRS 16 "Leases" (issued in January 2016 and effective for annual periods beginning on or after 1 January 2019). The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The Bank is currently assessing the impact of the new standard on its financial statements.

Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IAS 12 (issued in January 2016 and effective for annual periods beginning on or after 1January 2007). The amendment has clarified the requirements on recognition of deferred tax assets for unrealised losses on debt instruments. The entity will have to recognise deferred tax asset for unrealised losses that arise as a result of discounting cash flows of debt instruments at market interest rates, even if it expects to hold the instrument to maturity and no tax will be payable upon collecting the principal amount. The economic benefit embodied in the deferred tax asset arises from the ability of the holder of the debt instrument to achieve future gains (unwinding of the effects of discounting) without paying taxes on those gains. The Bank is currently assessing the impact of the amendments on its financial statements.

Disclosure Initiative – Amendments to IAS 7 (issued on 29 January 2016 and effective for annual periods beginning on or after 1 January 2017). The amended IAS 7 will require disclosure of a reconciliation of movements in liabilities arising from financing activities. The Bank is currently assessing the impact of the amendment on its financial statements.

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

7 Cash and Cash Equivalents and Mandatory Balances with CBAR

In thousands of Azerbaijani Manats	31 December 2015	31 December 2014
Cash on hand	4,254	7
Cash balances with CBAR (other than mandatory reserve deposits)	8,499	38,068
Mandatory cash balances with CBAR	121	-
Correspondent accounts and overnight placements with other banks:		
– Republic of Azerbaijan	154	240
– Other countries	256	-
Placements with other banks with original maturities of less than three months:		
– Republic of Azerbaijan	2,694	-
Total cash and cash equivalents	**15,978**	**38,315**

The credit quality of cash and cash equivalents balances at 31 December 2015 may be summarised as follows:

In thousands of Azerbaijani Manats	Cash balances with CBAR, including mandatory reserves	Correspondent accounts and overnight placements with other banks	Total
Neither past due nor impaired			
- Central Bank of the Azerbaijan Republic	8,620	-	8,620
- Rated Azerbaijani banks:			
- A- to A+ rated	-	56	56
- BB- to BB+ rated	-	297	297
- B- to B+ rated	-	19	19
- Unrated Azerbaijani banks	-	2,732	2,732
Total cash and cash equivalents, excluding cash on hand	**8,620**	**3,104**	**11,724**

The published international rating (by Standard & Poor's) of the Republic of Azerbaijan is BBB- (2014: BBB-).

The credit quality of cash and cash equivalents balances at 31 December 2014 is as follows:

In thousands of Azerbaijani Manats	Cash balances with CBAR, including mandatory reserves	Correspondent accounts and overnight placements with other banks	Total
Neither past due nor impaired			
- Central Bank of the Azerbaijan Republic	38,068	-	38,068
- Unrated Azerbaijani banks	-	240	240
Total cash and cash equivalents, excluding cash on hand	**38,068**	**240**	**38,308**

Unrated banks in which the Bank has correspondent accounts are among top 25 banks in the Republic of Azerbaijan based on their total assets.

At 31 December 2015 the Bank had 2 counterparty banks (2014: 2 banks) with aggregated cash and cash equivalent balances above AZN 200 thousand. The total aggregate amount of these balances was AZN 11,314 thousand (2014: AZN 38,306 thousand) or 96.5% of the cash and cash equivalents (2014: 99.99%).

Refer to Note 25 for the estimated fair value of each class of cash and cash equivalents. Maturity, geographical, interest rate and currency analysis of cash and cash equivalents is disclosed in Note 22.

8 Due from Other Banks

In thousands of Azerbaijani Manats	2015	2014
Placements with other banks with original maturities of more than three months	13,664	-
Interest accrued on term deposits	258	-
Less: Provision for impairment	(5,861)	-
Total due from other banks	**8,061**	-

Due from other banks are not collateralised. Analysis by credit quality of amounts due from other banks outstanding at 31 December 2015, is as follows:

In thousands of Azerbaijani Manats	Placements with other banks	Total
Neither past due nor impaired		
- Unrated Azerbaijani banks	13,922	**13,922**
Total neither past due nor impaired	**13,922**	**13,922**
Less provision for impairment	**(5,861)**	**(5,861)**
Total due from other banks	**8,061**	**8,061**

The primary factor that the Bank considers in determining whether a deposit is impaired is its overdue status. As a result, the Bank presents above an ageing analysis of deposits that are individually determined to be impaired.

Movements in the provision for impairment of due from other banks are as follows:

In thousands of Azerbaijani Manats	2015 Placements with other banks	2014 Placements with other banks
Provision for impairment at 1 January	-	-
Provision for impairment during the year	5,861	-
Provision for impairment at 31 December	**5,861**	-

9 Other Securities

In thousands of Azerbaijani Manats	2015	2014
Corporate bonds from Sevinj-M LLC	-	12,257
Total other securities	-	**12,257**

Other securities are neither past due nor impaired.

9 Other Securities (Continued)

The movements in other securities are as follows:

In thousands of Azerbaijani Manats	2015	2014
Carrying amount at 1 January	**12,257**	**13,746**
Disposals of other securities	(12,257)	(1,489)
Carrying amount at 31 December	**-**	**12,257**

10 Loans and Advances to Customers

In thousands of Azerbaijani Manats	31 December 2015	31 December 2014
Corporate - Oil & Gas sector	81,089	-
Corporate – Manufacturing	2,545	-
Corporate – Agriculture	6,341	-
Corporate - Business loans	4,767	-
Corporate - Construction	2,700	
	97,442	-
Loans to individuals - Consumer loans	1,712	-
Loans to individuals - Business loans	277	-
Loans to individuals - Car loans	1,957	-
Loans to individuals - Agriculture	199	-
Mortgage loans	7,913	-
	12,058	-
Less provision for loan impairment	**(22,065)**	-
Total loans and advances to customers	**87,435**	-

10 Loans and Advances to Customers (Continued)

Movements in the provision for loan impairment during 2015 are as follows:

In thousands of Azerbaijani Manats	Corporate – Oil & Gas sector	Corporate - Manufacturing	Corporate - Agriculture	Corporate - Business loans	Corporate - Construction	Loans to individuals - Consumer loans	Loans to individuals - Business loans	Loans to individuals - Car loans	Loans to individuals - Agriculture	Mortgage loans	Total
Provision for loan impairment at 1 January 2015	-	-	-	-	-	-	-	-	-	-	-
(Recovery of)/provision for impairment during the year	16,219	1,105	2,378	713	1,511	36	3	19	2	79	**22,065**
Provision for loan impairment at 31 December 2015	**16,219**	**1,105**	**2,378**	**713**	**1,511**	**36**	**3**	**19**	**2**	**79**	**22,065**

10 Loans and Advances to Customers (Continued)

Economic sector risk concentrations within the customer loan portfolio are as follows:

In thousands of Azerbaijani Manats	31 December 2015 Amount	%
Oil & Gas	81,089	37
Manufacturing	2,213	14
Construction	2,700	13
Agricultural	6,838	13
Trade	1,041	10
Individuals	10,402	7
Other	5,217	5
Total loans and advances to customers (before impairment)	**109,500**	**100%**

At 31 December 2015 the Bank had 5 borrowers (2014: nil) with aggregated loan amounts above AZN 1,000 thousand. The total aggregate amount of these loans was AZN 92,061 thousand (2014: nil) or 84 % of the gross loan portfolio (2014: nil).

Approximately, 72% of gross loan portfolio comprises with a loan provided to the State Oil Company of the Azerbaijan Republic (hereinafter "SOCAR"). SOCAR was issued a credit for 5 years with 6% interest rate. Taking into account the conditions under which the loan was provided to SOCAR by the local banks, Management considers that it is in compliance with market conditions.

10 Loans and Advances to Customers (Continued)

Information about collateral at 31 December 2015 is as follows:

In thousands of Azerbaijani Manats	Corporate - Oil & Gas sector	Corporate - Manufacturing	Corporate - Agriculture	Corporate - Business loans	Corporate - Construction	Loans to individuals - Consumer loan	Loans to individuals - Business loans	Loans to individuals - Car loans	Loans to individuals - Agriculture	Mortgage loans	Total
Loans guaranteed by other parties	-	1,439	67	200	702	402	275	20	5	-	3,110
Unsecured loans	64,871	-	1,295	-	-	-	-	-	-	-	66,166
Loans collateralised by:											
Real estate	-	-	-	535	486	11	-	-	192	7,835	9,059
Cash deposits	-	-	-	-	-	1,263	-	-	-	-	1,263
Other assets	-	-	2,600	-	-	-	-	-	-	-	2,600
Transportation	-	-	-	3,319	-	-	-	1,918	-	-	5,237
Total loans and advances to customers	**64,871**	**1,439**	**3,962**	**4,054**	**1,188**	**1,676**	**275**	**1,938**	**197**	**7,835**	**87,435**

Other assets mainly comprise of equipment. The disclosure above represents the lower of the carrying value of the loan or collateral taken; the remaining part is disclosed within the unsecured exposures. The carrying value of loans was allocated based on liquidity of the assets taken as collateral. Loans guaranteed by other parties represent salary cards of customers taking loan and individual guarantors.

10 Loans and Advances to Customers (Continued)

Analysis by credit quality of loans outstanding at 31 December 2015 is as follows:

In thousands of Azerbaijani Manats	Corporate - Oil & Gas sector	Corporate - Manufacturing	Corporate - Agriculture	Corporate - Business loans	Corporate - Construction	Loans to individuals - Consumer loan	Loans to individuals - Business loans	Loans to individuals - Car loans	Loans to individuals - Agriculture	Mortgage loans
Neither past due nor impaired										
Large new borrowers	81,089	-	-	-	-	-	-	-	-	-
Loans to medium size entities	-	2,545	6,341	4,767	1,199	-	-	-	-	-
Loans to individuals	-	-	-	-	-	1,712	277	1,957	199	7,524
Total neither past due nor impaired	**81,089**	**2,545**	**6,341**	**4,767**	**1,199**	**1,712**	**277**	**1,957**	**199**	**7,524**
Past due but not impaired										
less than 30 days overdue	-	-	-	-	1,500	-	-	-	-	337
30 to 90 days overdue	-	-	-	-	-	-	-	-	-	53
Total past due but not impaired	**-**	**-**	**-**	**-**	**1,500**	**-**	**-**	**-**	**-**	390
Less impairment provisions	(16,219)	(1,105)	(2,378)	(713)	(1,511)	(36)	(3)	(19)	(2)	(79)
Total loans and advances to customers	**64,870**	**1,440**	**3,963**	**4,054**	**1,188**	**1,676**	**274**	**1,938**	**197**	**7,835**

10 Loans and Advances to Customers (Continued)

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 31 December 2015:

	Over-collateralised Assets		Under-collateralised Assets	
In thousands of Azerbaijani Manats	**Carrying value of the assets**	**Fair value of collateral**	**Carrying value of the assets**	**Fair value of collateral**
Corporate - Oil & Gas sector	-	-	64,871	-
Corporate - Manufacturing	-	-	1,439	1,439
Corporate - Agriculture	-	-	3,963	2,667
Corporate - Business loans	3,853	27,338	200	200
Corporate - Construction	486	900	702	702
	4,339	**28,238**	**71,175**	**5,008**
Loans to individuals - Consumer loans	1,274	2,204	402	402
Loans to individuals - Business loans	-	-	275	275
Loans to individuals - Car loans	1,918	4,210	20	20
Loans to individuals - Agriculture	192	598	5	5
Mortgage loans	7,835	14,210	-	-
	11,219	**21,222**	**702**	**702**

The fair value of real estate and other assets was determined by the Bank's credit department by considering the condition and location of the assets accepted as collateral. The Bank uses independent valuators in valuation of collaterals.

Refer to Note 25 for the estimated fair value of each class of loans and advances to customers. Interest rate, currency, maturity and geographical analysis of loans and advances to customers is disclosed in Note 22. Information on related party balances is disclosed in Note 27.

11 Premises, Equipment and Intangible Assets

In thousands of Azerbaijani Manats	Note	Furniture & Fixtures	Office Equipment	Motor Vehicles	Leasehol improveme	Other fixed assets	Total premises and equipment	Computer software and licenses	Total
Cost at 1 January 2015		-	-	-	-	-	-	-	-
Accumulated depreciation/amortisation		-	-	-	-	-	-	-	-
Carrying amount at 1 January 2015		-	-	-	-	-	-	-	-
Additions		410	363	155	1,514	53	**2,495**	153	**2,648**
Depreciation/amortisation charge	15	(8)	(26)	(19)	(13)	(2)	**(68)**	(4)	**(72)**
Carrying amount at 31 December 2015		**402**	**337**	**136**	**1,501**	**51**	**2,427**	**149**	**2,576**
Cost at 31 December 2015		410	363	155	1,514	53	**2,495**	153	**2,648**
Accumulated depreciation/amortisation		(8)	(26)	(19)	(13)	(2)	(68)	(4)	**(72)**
Carrying amount at 31 December 2015		**402**	**337**	**136**	**1,501**	**51**	**2,427**	**149**	**2,576**

Leasehold improvements consists of construction and refurbishment of branch premises and equipment. Upon completion, assets are transferred to premises and equipment.

12 Other Assets

In thousands of Azerbaijani Manats	2015	2014
Current income tax prepayment	10,388	-
Prepayments for purchase of property and equipment	802	-
Prepayments for purchase of intangible assets	935	-
Settlements in progress on purchase of precious metals	47	-
Settlements in progress on plastic cards	23	-
Other settlements	129	-
Total other assets	**12,324**	**-**

All of the above assets are expected to be recovered within twelve months after the year-end. Information on related party balances is disclosed in Note 27.

13 Due to Other Banks

In thousands of Azerbaijani Manats	2015	2014
Short-term loans from resident banks	790	-
Correspondent accounts and overnight placements of other banks	11	-
Total due to other banks	801	-

Refer to Note 25 for the disclosure of the fair value of each class of amounts due to other banks. Interest rate analysis of due to other banks is disclosed in Note 22. Information on related party balances is disclosed in Note 27.

14 Customer Accounts

In thousands of Azerbaijani Manats	31 December 2015	31 December 2014
Other legal entities		
- Term deposits	10,255	-
- Current/settlement accounts	2,527	-
Individuals		
- Term deposits	30,560	
- Current/demand accounts	804	330
Total customer accounts	**44,146**	**330**

Economic sector concentrations within customer accounts are as follows:

	31 December 2015		31 December 2014	
In thousands of Azerbaijani Manats	Amount	%	Amount	%
Individuals	31,364	71	330	100
Trade	9,492	22		
Manufacturing	1,982	4		
Insurance	799	2		
Information Technology	423	1		
Others	86	-		
Total customer accounts	**44,146**	**100%**	**330**	**100**

14 Customer Accounts (Continued)

Refer to Note 25 for the disclosure of the fair value of each class of customer accounts. Interest rate, maturity, currency and geographical analysis of customer accounts is disclosed in Note 22. Information on related party balances is disclosed in Note 27.

At 31 December 2015, the Bank had 8 customers (2014: nil) with balances above AZN 1,000 thousand. The aggregate balance of these customers was AZN 26,379 thousand (2014: nil) or 86 % (2014: nil) of total customer accounts.

15 Term Borrowings

In thousands of Azerbaijani Manats	31 December 2015	31 December 2014
Loans from CBAR	15,000	-
Loans from the Azerbaijan Mortgage Fund	7,646	-
Loans from the Azerbaijan National Fund for Entrepreneurship Support	199	-
Total term borrowings	**22,845**	-

Loans borrowed from CBAR. It represents funds borrowed for one year at an interest rate of 3-3.5% per annum. The purpose of the borrowings are to finance lending activity of the Bank. There are no financial covenants with regard to the borrowings from the CBAR that the Bank should comply with.

Loans borrowed from the Azerbaijan National Fund for Entrepreneurship Support ("ANFES"). These loans have maturity period of 3 years and bear an interest rate of 1% p.a. Management assess that the interest rate for these loans are equivalent to the interest rates at which ANFES 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 ANFES. The loans are provided to entrepreneurs whose investment projects are assessed as positive by ANFES. These loans are provided at the rate of 6%.

Loans borrowed from the Azerbaijan Mortgage Fund ("AMF"). These loans have maturity periods of 4 to 30 years and bear interest rates of 1-4% p.a. Management assess that the interest rates for these loans are equivalent to the interest rates at which AMF lends to local banks in the Republic of Azerbaijan. The Bank further on lends these funds to eligible borrowers at rates from 3% to 8% per annum.

As at 31 December 2015 accrued interest payable amounted AZN 11,994 thousand included in term borrowings (as at 31 December 2014: nil).

Refer to Note 25 for disclosure of the fair value of each class of term borrowings. Interest rate, maturity, currency and geographical analysis of term borrowings is disclosed in Note 22.

16 Share Capital

In thousands of Azerbaijani Manats	Ordinary shares
At 1 January 2014	**12,020**
New shares issued	38,000
At 31 December 2014	50,020
New shares issued	-
At 31 December 2015	**50,020**

The total authorised number of ordinary shares is 250,100 shares (2014: 250,100 shares), with a par value of AZN 200 per share (2014: AZN 200 per share). All issued ordinary shares are fully paid. Each ordinary share carries one vote.

17 Interest Income and Expense

In thousands of Azerbaijani Manats	2015	2014
Interest income		
Loans and advances to customers	3,968	-
Due from other banks	915	-
Total interest income	**4,883**	**-**
Interest expense		
Term deposits of individuals	1,250	-
Term borrowings from other banks and financial institutions	380	-
Term deposits of legal entities	221	-
Total interest expense	**1,851**	**-**
Net interest income	**3,032**	**-**

18 Fee and Commission Income and Expense

In thousands of Azerbaijani Manats	2015	2014
Fee and commission income		
- Settlements	216	-
- Cash transactions	131	3
- Plastic cards services	12	-
- Other	19	-
Total fee and commission income	**378**	**3**
Fee and commission expense		
- Settlements	62	84
- Plastic cards services	50	-
- Foreign exchange operations	41	-
Total fee and commission expense	**153**	**84**
Net fee and commission income/(loss)	**225**	**(81)**

19 Administrative and Other Operating Expenses

In thousands of Azerbaijani Manats	2015	2014
Staff costs	682	40
Depreciation and amortization	72	-
Rent expenses	225	-
Membership fees	90	-
Office expenses	70	-
Communication	62	3
Fees paid to Deposit Insurance Fund	59	-
Advertising and marketing	50	-
Professional services fees	42	-
Security services	41	-
Business travel	35	-
Other expense	82	-
Total administrative and other operating expenses	**1,510**	**43**

Included in staff costs are statutory pension contributions of AZN 125 thousand (2014: AZN 7 thousand).

20 Income Taxes

(a) Components of income tax expense

Income tax expense recorded in profit or loss for the year comprises the following:

In thousands of Azerbaijani Manats	2015	2014
Current tax charge	2,112	-
Income tax expense for the year	**2,112**	**-**

(b) Reconciliation between the tax expense and profit or loss multiplied by applicable tax rate

The income tax rate applicable to the Bank's 2015 income is 20% (2014: 20%). Reconciliation between the expected and the actual taxation charge is provided below.

In thousands of Azerbaijani Manats	2015	2014
Profit/(loss) before tax	**10,359**	**(87)**
Theoretical tax charge at statutory rate (20%)	(2,072)	17
Unrecognised potential deferred tax assets	(40)	(17)
Income tax expense for the year	**(2,112)**	**-**

21 Earnings per Share

Basic earnings/(loss) per share are calculated by dividing the profit or loss attributable to owners of the Bank by the weighted average number of ordinary shares in issue during the year.

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

Earnings per share is calculated as follows:

In thousands of Azerbaijani Manats, except for number of shares	Note	2015	2014
Profit/(loss) for the year attributable to ordinary shareholders (thousands)		8,247	(87)
Weighted average number of ordinary shares in issue (thousands)	16	250	71
Earnings/(loss) per ordinary share (expressed in AZN per share)		**32,99**	**(1,23)**

22 Financial Risk Management

The risk management function within the Bank is carried out in respect of financial risks, operational risks and legal risks. Financial risk comprises market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures, in order to minimise operational and legal risks.

Risk Management Framework. The Management Board is the primary body responsible for the risk management function in the Bank. The risk management function is carried out in respect of financial risks (credit, market, and liquidity risks) and operational risks. Financial risk comprises market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits. The Management Board is also responsible for ensuring an appropriate balance is established between risk and return, whilst minimizing any potential adverse effects on the Bank's financial performance. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures to minimise operational and legal risks.

22 Financial Risk Management (Continued)

The Bank's risk management methodology, policies and assessment procedures are designed to identify, analyze, mitigate and manage the risks faced by the Bank. This is accomplished through setting of appropriate risk limits and controls, whilst ensuring suitable monitoring of risk levels and

compliance with the limits and procedures on an ongoing basis. The risk management policies and procedures are reviewed regularly to reflect changes in market conditions, and new products and services offered. This is to ensure that "best practices" are implemented in the Bank.

Risk Management Bodies and Governance. Risk management policies and processes around the assessment, approval, monitoring and control of risks are performed by a number of specialized bodies within the Bank, including committees and departments which comply with the requirement of the respective Azerbaijani regulatory framework, the CBAR regulations and industry best practices.

The Supervisory Board has overall responsibility for the oversight of the risk management framework. This includes the management of key risks, along with the review and approval of risk management policies and key risk limits such as large exposures, economic and product sector limits. It also delegates certain risk supervision authority levels to the Management Board and the Credit Committee. The risk management framework are shown below:

Credit risk. The Bank takes on exposure to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Exposure to credit risk arises as a result of the Bank's lending and other transactions with counterparties giving rise to financial assets including likelihood that borrower or counterparty fails to meet their obligations in accordance with agreed terms.

The Bank's maximum exposure to credit risk is reflected in the carrying amounts of financial assets on the statement of financial position. For guarantees and commitments to extend credit, the maximum exposure to credit risk is the amount of the commitment. The credit risk is mitigated by collateral and other credit enhancements as disclosed in Note 10.

The principal credit risk management methods used is described in the formal Credit Policy adopted and implemented by the Bank. These include the setting of limits and the diversification of the credit portfolio based upon defined criterion (such as industry, duration, related persons, region, etc.). Credits will also be classified at initiation and throughout the life of the loan based upon a risk level determined using best practice rating and scoring systems. Such tools will also be used to establish appropriate provisions for potential losses as necessary. All restrictions and norms issued by the CBAR, related to lending operations, have also been carefully considered and embedded into the Bank's credit policy.

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Limits on the level of credit risk by product and industry sector are approved regularly by management. Such risks are monitored on a revolving basis and are subject to an annual, or more frequent, review.

The Bank established control over authorisation of the loans issued. The Credit Committee reviews and approves all loans with exceptional terms and they are approved by the Management Board.

Loan applications originated by the relevant client relationship managers are passed on to the relevant credit committee for approval of the credit limit. Exposure to credit risk is also managed, in part, by obtaining collateral and corporate and personal guarantees. In order to monitor credit risk exposures, regular reports are produced by the credit department and risk department's officers based on a structured analysis focusing on the customer's business and financial performance. Any significant exposure to customers with deteriorating creditworthiness are reported to, and reviewed by, the Management Board. Management monitors and follows up on past due balances on weekly basis.

The Bank's credit department reviews the ageing analysis of outstanding loans and follows up on past due balances on monthly basis. Management, therefore, considers it appropriate to provide ageing and other information about credit risk.

22 Financial Risk Management (Continued)

Credit risk for off-balance sheet financial instruments is defined as the possibility of sustaining a loss as the result of another party to a financial instrument failing to perform in accordance with the terms of the contract. The Bank uses the same credit policies in assuming conditional obligations as it does for on-balance sheet financial instruments, through established credit approvals, risk control limits and monitoring procedures.

Market risk. The Bank takes on exposure to market risks. Market risks arise from open positions in (a) currency, (b) interest rates and (c) equity products, all of which are exposed to general and specific market movements. Management sets limits on the value of risk that may be accepted, which is monitored on a daily basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

Currency risk. In respect of currency risk, management sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily.

The table below summarises the Bank's exposure to foreign currency exchange rate risk at the end of the reporting period:

	At 31 December 2015			At 31 December 2014		
In thousands of Azerbaijani Manats	Monetary financial assets	Monetary financial liabilities	Net position	Monetary financial assets	Monetary financial liabilities	Net position
Azerbaijani Manats	19,748	(26,063)	(6,315)	49,383	(39)	49,344
US Dollars	82,844	(31,258)	51,586	1,184	(313)	871
Euros	8,860	(10,587)	(1,727)	5	-	5
Russian Roubles	22	-	22	-	-	-
Total	**111,474**	**(67,908)**	**43,566**	**50,572**	**(352)**	**50,220**

The above analysis includes only monetary assets and liabilities. Investments in equities and non-monetary assets are not considered to give rise to any material currency risk.

The following table presents sensitivities of profit or loss to reasonably possible changes in exchange rates applied at the end of the reporting period relative to the functional currency of the Bank, with all other variables held constant:

	At 31 December 2015	At 31 December 2014
In thousands of Azerbaijani Manats	Impact on profit or loss	Impact on profit or loss
US Dollar strengthening by 30% (2014: 20%)	15.476	174
US Dollar weakening by 30% (2014: 20%)	(15.476)	(174)
Euro strengthening by 30% (2014: 20%)	(518)	1
Euro weakening by 30% (2014: 20%)	518	(1)
Russian Roubles strengthening by 30% (2014: 20%)	7	-
Russian Roubles weakening by 30% (2014: 20%)	(7)	-

The exposure was calculated only for monetary balances denominated in currencies other than the functional currency of the Bank.

Interest rate risk. The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes, but may reduce or create losses in the event that unexpected movements arise. Management monitors on a daily basis and sets limits on the level of mismatch of interest rate repricing that may be undertaken.

22 Financial Risk Management (Continued)

The table below summarises the Bank's exposure to interest rate risks. The table presents the aggregated amounts of the Bank's financial assets and liabilities at carrying amounts, categorised by the earlier of contractual interest repricing or maturity dates:

In thousands of Azerbaijani Manats	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	Total
31 December 2015					
Total financial assets	16,255	11,233	6,973	77,013	111,474
Total financial liabilities	(3,501)	(44,396)	(12,595)	(7,416)	(67,908)
Net interest sensitivity gap at 31 December 2015	**12,754**	**(33,163)**	**(5,622)**	**69,597**	**43,566**
31 December 2014					
Total financial assets	50,572	-	-	-	50,572
Total financial liabilities	(352)	-	-	-	(352)
Net interest sensitivity gap at 31 December 2014	**50,220**	**-**	**-**	**-**	**50,220**

As per CBAR, the Bank should maintain 30% of its liabilities in form of liquid assets. Management maintain compliance with this ratio and is confident that the Bank will be able to obtain required funds in order to replace attracted liabilities with duration of up to twelve months.

Subsequently to the reporting date management was able to renegotiate and prolong AZN 12,331 thousand customer deposit account for period of 4 years from the date of prolongation.

At 31 December 2015, the Bank did not have financial instruments at variable interest rates.

Geographical risk concentrations. The geographical concentration of the Bank's financial assets and liabilities at 31 December 2015 is set out below:

In thousands of Azerbaijani Manats	Azerbaijan	OECD	Non-OECD	Total
Financial assets				
Cash and cash equivalents	15,722	56	200	15,978
Due from other banks	8,061	-	-	8,061
Loans and advances to customers	87,435	-	-	87,435
Total financial assets	**111,218**	**56**	**200**	**111,474**
Financial liabilities				
Due to other banks	(801)			(801)
Customer accounts	(44,146)	-	-	(44,146)
Term borrowings	(22,845)	-	-	(22,845)
Other financial liabilities	(116)	-	-	(116)
Total financial liabilities	**(67,908)**	-	-	**(67,908)**
Net position in on-balance sheet financial instruments	**43,310**	**56**	**200**	**43,566**

22 Financial Risk Management (Continued)

The geographical concentration of the Bank's financial assets and liabilities at 31 December 2014 is set out below:

In thousands of Azerbaijani Manats	Azerbaijan	OECD	Non-OECD	Total
Financial assets				
Cash and cash equivalents	38,315	-	-	**38,315**
Other securities	12,257	-	-	**12,257**
Total financial assets	**50,572**	-	-	**50,572**
Financial liabilities				
Customer accounts	(330)	-	-	(330)
Other financial liabilities	(22)	-	-	(22)
Total financial liabilities	**(352)**	-	-	**(352)**
Net position in on-balance sheet financial instruments	**50,220**	-	-	**50,220**

Liquidity risk. Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations associated with financial liabilities. The Bank is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw-downs, guarantees and from margin and other calls on cash-settled derivative instruments. The Bank does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty.

The Bank monitors and reports liquidity risk daily, paying particular attention to ensuring that there are optimal levels of cash and cash equivalent instruments to fund increases in assets, unexpected decreases in liabilities, as well as meeting legal requirements, while optimizing the cost of carrying any excess liquidity.

To manage liquidity risk, the Bank performs daily monitoring of future expected cash flows on clients' and banking operations, which forms part of the asset and liability management process. The Bank also has to comply with minimum levels of liquidity required by the CBAR. This ratio is calculated as the ratio of highly-liquid assets to liabilities payable on demand. The ratio 90% at 31 December 2015, whereas the minimum percentage required by the CBAR is 30%.

The Bank seeks to maintain a stable funding base primarily consisting of the Bank's funds in CBAR. The liquidity management of the Bank requires consideration of the level of liquid assets necessary to settle obligations as they fall due; maintaining access to a range of funding sources; maintaining funding contingency plans; and monitoring liquidity ratios against regulatory requirements including minimum levels of liquidity required by the CBAR.

The Treasury Department receives information about the liquidity profile of the financial assets and liabilities.

The table below shows liabilities at 31 December 2015 by their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows, including contractual amounts to be exchanged under gross loan commitments. Such undiscounted cash flows differ from the amount included in the statement of financial position because the amount in the statement of financial position is based on discounted cash flows.

The table below shows the maturity analysis of non-derivative financial assets at their carrying amounts and based on their contractual maturities, except for assets that are readily saleable if it should be necessary to meet cash outflows on financial liabilities. Such financial assets are included in the maturity analysis based on their expected date of disposal. Impaired loans are included at their carrying amounts net of impairment provisions, and based on the expected timing of cash inflows.

22 Financial Risk Management (Continued)

When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the end of the reporting period. Foreign currency payments are translated using the spot exchange rate at the end of the reporting period.

The maturity analysis of financial instruments at 31 December 2015 is as follows:

In thousands of Azerbaijani Manats	**Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**From 12 months to 5 years**	**Over 5 years**	**Total**
Assets						
Cash and cash equivalents	15,978	-	-	-	-	15,978
Due from other banks	-	4,087	3,974	-	-	8,061
Loans and advances to customers	277	7,146	2,999	71,529	5,484	87,435
Total	**16,255**	**11,233**	**6,973**	**71,529**	**5,484**	**111,474**
Liabilities						
Due to other banks	(20)	(787)	-	-	-	(807)
Customer accounts	(3,591)	(31,059)	(11,444)	(99)	(7)	(46,200)
Other borrowed funds	(113)	(10,479)	(5,461)	(3,257)	(9,491)	(28,801)
Other financial liabilities	(116)	-	-	-	-	(116)
Total potential future payments for financial obligations	**(3,840)**	**(42,325)**	**(16,905)**	**(3,356)**	**(9,498)**	**(75,924)**
Liquidity gap arising from financial instruments	**12,415**	**(31,092)**	**(9,932)**	**68,173**	**(4,014)**	**35,550**

Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitment disclosed in the above maturity analysis, because the Bank does not generally expect the third party to draw funds under the agreement. The total outstanding contractual amount of commitments to extend credit as included in the above maturity table does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

22 Financial Risk Management (Continued)

The maturity analysis of financial instruments at 31 December 2014 is as follows:

In thousands of Azerbaijani Manats	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 12 months to 5 years	Over 5 years	Total
Assets						
Cash and cash equivalents	38,315	-	-	-	-	**38,315**
Other securities	12,257	-	-	-	-	**12,257**
Total	**50,572**	-	-	-	-	**50,572**
Liabilities						
Customer accounts	(330)	-	-	-	-	**(330)**
Other financial liabilities	(22)	-	-	-	-	**(22)**
Total potential future payments for financial obligations	**(352)**	-	-	-	-	**(352)**
Liquidity gap arising from financial instruments	**50,220**	-	-	-	-	**50,220**

The Bank does not use the above maturity analysis based on undiscounted contractual maturities of liabilities to manage liquidity. Instead, the Bank monitors expected maturities and the resulting expected liquidity gap as follows:

In thousands of Azerbaijani Manats	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	1 year to 5 years	Over 5 years	Total
31 December 2015						
Total financial assets	16,255	11,233	6,973	71,529	5,484	**111,474**
Total financial liabilities	(3,501)	(44,396)	(12,584)	(2,091)	(5,336)	**(67,908)**
Net liquidity gap at 31 December 2015	**12,754**	**(33,163)**	**(5,611)**	**69,438**	**148**	**43,566**
31 December 2014						
Total financial assets	50,572	-	-	-	-	**50,572**
Total financial liabilities	(352)	-	-	-	-	**(352)**
Net liquidity gap at 31 December 2014	**50,220**	-	-	-	-	**50,220**

Management believe that despite a substantial portion of customer accounts maturing from 1 to 6 months, diversification of these accounts by number and type of customers and the past experience of the Bank would indicate that these customer accounts provide a long-term and stable source of funding for the Bank.

23 Management of Capital

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 Finance Manager, and the member of the Executive Board. Other objectives 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 regulatory capital of AZN 50,000,000 (b) maintain a ratio of regulatory capital to risk weighted assets at or above a prescribed minimum of 10% 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 5%.

Regulatory capital is based on the Bank's reports to the Central Bank of the Azerbaijan Republic and comprises:

In thousands of Azerbaijani Manats	**2015**
Tier 1 Capital	
Share capital	50,020
Retained Earnings	199
Less intangible assets	149
Total tier 1 capital	**50,070**
Current year profit	8,426
Plus: general provision for impairment	396
Total regulatory capital	**58,892**
Risk weighted assets	**111,514**
Capital adequacy ratio	53%
Tier I Capital to risk weighted assets	45%

24 Contingencies and Commitments

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.

Tax legislation. Azerbaijani tax legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Bank may be challenged by the relevant authorities.

The Bank's management believes that its interpretation of the relevant legislation is appropriate and the Bank's tax, currency and customs positions will be sustained. Accordingly, at 31 December 2015 no provision for potential tax liabilities was recorded.

Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

25 Fair Value Disclosures

Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on observable market data (that is, unobservable inputs). Management applies judgement in categorising financial instruments using the fair value hierarchy. If a fair value measurement

25 Fair Value of Disclosures (Continued)

uses observable inputs that require significant adjustment, that measurement is a Level 3 measurement. The significance of a valuation input is assessed against the fair value measurement in its entirety.

(a) Recurring fair value measurements

Recurring fair value measurements are those that the accounting standards require or permit in the statement of financial position at the end of each reporting period. The level in the fair value hierarchy into which the recurring fair value measurements are categorised are as follows:

	31 December 2015	31 December 2014
In thousands of Azerbaijani Manats	Level 2	Level 2
ASSETS AT FAIR VALUE		
FINANCIAL ASSETS		
Other securities		
- Corporate bonds	-	12,257
TOTAL ASSETS RECURRING FAIR VALUE MEASUREMENTS	**-**	**12,257**

The description of valuation technique and description of inputs used in the fair value measurement for level 2 measurements at 31 December 2014:

In thousands of Azerbaijani Manats	Fair value	Valuation technique	Inputs used
ASSETS AT FAIR VALUE			
FINANCIAL ASSETS			
Other securities			
- Corporate bonds	12,257	Market comparable companies	EBITDA Multiple and Revenue multiple
TOTAL RECURRING FAIR VALUE MEASUREMENTS AT LEVEL 2	**12,257**		

(b) Assets and liabilities not measured at fair value but for which fair value is disclosed

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

25 Fair Value of Disclosures (Continued)

In thousands of Azerbaijani Manats	31 December 2015 Level 2 fair value	31 December 2015 Level 3 Fair value	31 December 2015 Carrying value	31 December 2014 Level 2 fair value	31 December 2014 Carrying value
ASSETS					
Due from other banks					
- Placements with other banks with original maturities of more than three months	8,061	-	8,061	-	-
Loans and advances to customers					
- Corporate - Oil & Gas sector	64,870	-	64,870	-	-
- Corporate - Manufacturing	1,440	-	1,440	-	-
- Corporate - Agriculture	3,963	-	3,963	-	-
- Corporate - Business loans	4,054	-	4,054	-	-
- Corporate – Construction	1,189	-	1,189	-	-
- Loans to individuals - Car loans	1,938	-	1,938	-	-
- Loans to individuals - Consumer loans	1,676	-	1,676	-	-
- Loans to individuals - Business loans	274	-	274	-	-
- Loans to individuals - Agriculture	197	-	197		
- Mortgage loans	7,834	-	7,834	-	-
NON-FINANCIAL ASSETS					
- Premises and equipment	-	2,427	2,427	-	-
- Intangible assets	149		149	-	-
- Other	12,324	-	12,324	-	-
TOTAL	**107,969**	**2,427**	**110,396**	**-**	**-**

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

In thousands of Azerbaijani Manats	31 December 2015 Level 2 fair value	31 December 2015 Carrying value	31 December 2014 Level 2 fair value	31 December 2014 Carrying value
FINANCIAL LIABILITIES				
Due to other banks				
- Correspondent accounts and overnight placements of other banks	11	11	-	-
- Short-term placements of other banks	790	790	-	-
Customer accounts				
- Current/settlement accounts of other legal entities	2,527	2,527	-	-
- Term deposits of other legal entities	10,255	10,255	-	-
- Current/demand accounts of individuals	804	804	330	330
- Term deposits of individuals	30,560	30,560	-	-
Term borrowings				
- Loans from CBAR	15,000	15,000	-	-
- Loans from the AMF	7,646	7,646	-	-
- Loans from ANFES	199	199	-	-
Other financial liabilities				
- Trade payables	116	116	23	23
TOTAL	**67,908**	**67,908**	**353**	**353**

The fair values in level 2 of fair value hierarchy were estimated using the discounted cash flows valuation technique. The fair value of floating rate instruments that are not quoted in an active market was estimated to be equal to their carrying amount. The fair value of unquoted fixed interest rate instruments was estimated based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity.

26 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. All of the Bank's financial liabilities were carried at amortised cost.

27 Related Party Transactions

Parties are generally considered to be related if the parties are under common control, or one party has the ability to control the other party or can exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

At 31 December 2015, the outstanding balances with related parties were as follows:

In thousands of Azerbaijani Manats	**Immediate parent company**	**Entities under common control**	**Subsidiaries**	**Key management personnel**	**Other related parties**
Gross amount of loans and advances to customers (contractual interest rate: 7 – 19%)	-	3,768	-	4	-
Impairment provisions for loans and advances to customers at 31 December	-	(76)	-	-	-
Other assets	-	935	-	-	767
Customer accounts (contractual interest rate: 12%)	2	433	4	40	4

The income and expense items with related parties for 2015 were as follows:

In thousands of Azerbaijani Manats	**Immediate parent company**	**Entities under common control**	**Subsidiaries**	**Key management personnel**	**Other related parties**
Interest income	-	53	-	1	221
Interest expense	-	-	-	1	-
Provision for loan impairment	-	76	-	-	-
Foreign exchange translation gains less losses	-	2,419	-	-	-
Administrative and other operating expenses	-	1	-	76	4

Aggregate amounts lent to and repaid by related parties during 2015 were:

In thousands of Azerbaijani Manats	**Entities under common control**	**Key management personnel**
Amounts lent to related parties during the year	3,937	7
Amounts repaid by related parties during the year	(174)	5

27 Related Party Transactions (Continued)

Key management compensation is presented below:

In thousands of Azerbaijani Manats	2015 Expense	2014 Expense
Short-term benefits:		
- Salaries	69	-
- Shor-term bonuses	5	-
Total	**74**	**-**