“ATABANK” OPEN JOINT STOCK COMPANY

The International Financial Reporting Standards Financial Statements and Independent Auditors’ Report
For the Year Ended December 31, 2016

“ATABANK” OPEN JOINT STOCK COMPANY

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INDEPENDENT AUDITORS' REPORT

To the Shareholders and the Management Board of "Atabank" Open Joint Stock Company:

Opinion

We have audited the financial statements of "Atabank" Open Joint Stock Company (the "Bank"), which comprise the statement of financial position as at December 31, 2016, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at December 31, 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the audit of the Financial Statements section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter - Related party transactions and balances

We draw attention to the Note 29 to the financial statements which indicate that the Bank has significant balances and transactions with related parties. Related parties may enter into transactions which unrelated parties may not and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties. Our opinion is not qualified in respect of these matters.

Other Matter

The financial statements of the Bank for the year ended December 31, 2015, were audited by another auditor who expressed an unqualified opinion on those financial statements.

As a part of audit of the 2016 financial statements, we also audited the adjustments described in Note 7 that were applied to the 2015 financial statements. We were not engaged to audit the 2015 financial statements of the Bank other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2015 financial statements taken as a whole.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

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

The audit committee is responsible for overseeing the Bank's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control;
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern;
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

BAKER TILLY
AZERBAIJAN

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Baker Tilly Azerbaijan

June 1, 2017
Baku, the Republic of Azerbaijan

"ATABANK" OPEN JOINT STOCK COMPANY

STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31, 2016

(in Azerbaijani Manats)

	Notes	Year ended December 31, 2016	Year ended December 31, 2015 *(restated)*
Interest income	8, 29	49,953,608	58,981,914
Interest expense	8, 29	(22,724,652)	(31,995,423)
NET INTEREST INCOME BEFORE PROVISION FOR IMPAIRMENT LOSSES ON INTEREST BEARING ASSETS		**27,228,956**	**26,986,491**
Provision for impairment losses on interest bearing assets	9, 29	(18,232,214)	(19,586,333)
NET INTEREST INCOME		**8,996,742**	**7,400,158**
Fee and commission income	10, 29	6,817,863	5,258,426
Fee and commission expense	10, 29	(1,740,124)	(1,219,340)
Gains less losses from trading in foreign currencies	11	2,656,824	2,305,445
Foreign exchange translation gains less losses	11	2,590,685	7,343,113
Fair value (loss)/gain on repossessed assets	22	(937,683)	452,188
Provision of possible guarantee losses	26	(116,041)	-
Share of loss of associate		(26,851)	-
Gains less losses from disposals of available-for-sale investments		-	145,323
Other income	12	15,604	92,033
NET NON-INTEREST INCOME		**9,260,277**	**14,377,188**
OPERATING INCOME		**18,257,019**	**21,777,346**
OPERATING EXPENSES	13, 29	(18,651,534)	(20,865,663)
LOSS BEFORE INCOME TAX		**(394,515)**	**911,683**
Income tax benefit	14	75,392	38,942
NET LOSS FOR THE YEAR		**(319,123)**	**950,625**
EARNINGS PER SHARE			
Basic and diluted (AZN)	15	(0.13)	0.38

On behalf of the Management Board:

Mr. Dayanat Guliyev
Chairman of the Management Board

June 1, 2017
Baku, the Republic of Azerbaijan

Ms. Arzu Nasrullayeva
Director of Financial Department

June 1, 2017
Baku, the Republic of Azerbaijan

The notes on pages 8-64 form an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED DECEMBER 31, 2016
(in Azerbaijani Manats)

	Notes	December 31, 2016	December 31, 2015 *(restated)*
ASSETS:			
Cash and cash equivalents	16	6,692,696	21,494,933
Mandatory cash balances with the CBAR	16	2,347,509	1,661,959
Due from banks	17, 29	4,401,234	5,385,701
Loans to customers	18, 29	411,479,771	525,016,157
Available-for-sale investments	19, 29	19,036,673	17,789,639
Investments in associate		42,664	69,515
Property and equipment	20	15,151,715	19,359,460
Intangible assets	21	1,018,179	1,456,991
Other financial and non-financial assets	22, 29	4,612,019	5,398,878
TOTAL ASSETS		**464,782,460**	**597,633,233**
LIABILITIES AND EQUITY			
LIABILITIES:			
Due to banks and other financial institutions	23	27,315,032	12,163,029
Deposits by customers	24, 29	290,999,169	436,584,196
Loans received from government agencies	25	89,457,286	91,845,746
Current income tax liabilities		66,815	3,402
Deferred income tax liabilities	14	554,222	746,522
Other financial and non-financial liabilities	26, 29	1,944,490	1,272,862
Total liabilities		**410,337,014**	**542,615,757**
EQUITY:			
Share capital	27	50,000,000	50,000,000
Revaluation reserve for property and equipment		3,813,899	3,813,899
Fair value reserve for available-for-sale investments	19	-	252,907
Retained earnings		631,547	950,670
Total equity		**54,445,446**	**55,017,476**
TOTAL LIABILITIES AND EQUITY		**464,782,460**	**597,633,233**

On behalf of the Management Board:

Mr. Dayanat Guliyev
Chairman of the Management Board

June 1, 2017
Baku, the Republic of Azerbaijan

Ms. Arzu Nasrullayeva
Director of Financial Department

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STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2016
(in Azerbaijani Manats)

	Share capital	Revaluation reserve for buildings	Fair value reserve for available-for-sale investments	Retained earnings	Total
As at January 1, 2015	**50,000,000**	**5,068,067**	**200,370**	**6,046,004**	**61,314,441**
Other comprehensive (loss)/income for the year	-	(1,254,168)	52,537	-	(1,201,631)
Net profit for the year	-	-	-	950,625	950,625
Dividends declared (Note 27)	-	-	-	(6,045,959)	(6,045,959)
As at December 31, 2015	**50,000,000**	**3,813,899**	**252,907**	**950,670**	**55,017,476**
Other comprehensive loss for the year	-	-	(252,907)	-	(252,907)
Net loss for the year	-	-	-	(319,123)	(319,123)
As at December 31, 2016	**50,000,000**	**3,813,899**	**-**	**631,547**	**54,445,446**

On behalf of the Management Board:

Mr. Dayanat Guliyev
Chairman of the Management Board

June 1, 2017
Baku, the Republic of Azerbaijan

Ms. Arzu Nasrullayeva
Director of Financial Department

June 1, 2017
Baku, the Republic of Azerbaijan

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"ATABANK" OPEN JOINT STOCK COMPANY

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2016
(in Azerbaijani Manats)

	Notes	Year ended December 31, 2016	Year ended December 31, 2015 (reclassified)
CASH FLOWS FROM OPERATING ACTIVITIES:			
Interest received		29,626,661	46,175,825
Interest paid		(26,709,257)	(27,276,776)
Fees and commissions received		6,817,863	5,258,426
Fees and commissions paid		(1,740,124)	(1,219,340)
Income received from trading in foreign currencies		2,656,824	2,305,445
Other operating income received		3,828	125,788
Administrative and other operating expenses paid		(13,877,904)	(15,532,586)
Cash (outflow)/inflow from operating activities before changes in operating assets and liabilities		**(3,222,109)**	**9,836,782**
Net (increase)/decrease in:			
Mandatory cash balances with the CBAR		(685,550)	6,854,947
Due from banks		546,957	7,628,164
Loans to customers		144,018,776	44,554,602
Other financial and non-financial assets		2,760,318	673,190
Net increase/(decrease) in:			
Deposits by customers		(168,585,694)	(151,606,116)
Loans received from government agencies		(2,562,945)	28,202,207
Due to banks and other financial institutions		13,414,323	7,089,303
Other financial and non-financial liabilities		(814,890)	(420,518)
Net cash used in operating activities		**(15,130,814)**	**(47,187,439)**
Income tax paid		(3,401)	(493,267)
Net cash outflow from operating activities		**(15,134,215)**	**(47,680,706)**
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property and equipment and intangible assets		(392,325)	(7,014,988)
Proceeds on disposal of property and equipment		205,790	-
Payments for investments available-for-sale		-	(13,500,000)
Proceeds on sale of available-for-sale investments		-	35,011,264
Net cash (outflow)/inflow from investing activities		**(186,535)**	**14,496,276**
CASH FLOWS FROM FINANCING ACTIVITIES:			
Dividends paid on ordinary shares		-	(6,045,959)
Net cash outflow from financing activities		**-**	**(6,045,959)**
Effect of exchange rate changes on the balance of cash held in foreign currencies		**518,513**	**11,032,037**
Net decrease in Cash and Cash Equivalents		**(14,802,237)**	**(28,198,352)**
Cash and Cash Equivalents, Beginning of the Year	**15**	**21,494,933**	**49,693,285**
Cash and Cash Equivalents, End of the Year	**15**	**6,692,696**	**21,494,933**

On behalf of the Management Board:

Mr. Dayanat Guliyev
Chairman of the Management Board

June 1, 2017
Baku, the Republic of Azerbaijan

Ms. Arzu Nasrullayeva
Director of Financial Department

June 1, 2017
Baku, the Republic of Azerbaijan

The notes on pages 8-64 form an integral part of these financial statements.

1. Organization

"AtaBank" Open Joint Stock Company (the "Bank") is a Joint Stock Bank, which was incorporated in the Republic of Azerbaijan in 1993. The Bank is regulated by the Financial Market Supervision Authority (the "FMSA") and conducts its business under general license number 176. The Bank's primary business consists of commercial activities, originating loans and guarantees, and trading with foreign currencies. The Bank had 21 branches and 4 service points in Azerbaijan as at December 31, 2016 (December 31, 2015: 22 branches and 4 service points).

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

The registered office of the Bank is located at 102, S. Badalbayli Street, Baku AZ 1010, the Republic of Azerbaijan.

As at December 31, 2016 and 2015, the following shareholders owned the issued share capital of the Bank:

Shareholder	December 31, 2016, %	December 31, 2015, %
"AtaHolding" Open Joint Stock Company	76.0	76.0
Mr. Ashraf Kamilov	15.9	15.9
Mr. Mahir Rafiyev	8.1	8.1
Total	**100.0**	**100.0**

These financial statements were authorized for issue on June 1, 2017 by the Management Board.

2. Operating Environment of the Bank

The Bank's operations are conducted in the Republic of Azerbaijan. As an emerging market, at the present time the Republic of Azerbaijan is developing business and regulatory infrastructure that would generally exist in a more mature market economy.

Major indicators of the Azerbaijan economy were influenced by a number of negative factors. Considering significant drop in crude oil prices starting from the second half of 2014, there continues to be uncertainty regarding the economic growth, access to capital and cost of capital in the Republic of Azerbaijan, because Azerbaijan produces and exports large volumes of oil and gas, its economy is particularly dependent on the price of oil and gas. Economic growth slowed down in 2014 and 2015 approximately 2% and 1.1%, respectively and turned negative 3% in 2016. These factors resulted in the economic slowdown to shift from prosperity to recession economy with high inflation and unemployment and decreasing GDP.

The future economic growth of the Republic of Azerbaijan is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory and political developments. The Management is unable to predict, all developments in the economic environment which would have an impact on the Bank's operations and consequently what effect, if any, they could have on the financial position of the Bank.

Decreasing revenues from oil exports made the Central Bank of the Republic of Azerbaijan abandon its peg policy to the basket of US dollars and Euros. In addition, CBAR devalued the Azerbaijani Manat by approximately 34% on 21 February 2015 and further on 21 December 2015 introduced a floating exchange rate that resulted in one-time devaluation of the AZN against US dollars and other major currencies by approximately 48%. The devaluation of Azerbaijani Manat continued in 2016 and resulted in 14% fall against US dollars and 9% fall against Euro by 31 December 2016.

In January 2016, Standard & Poor's, international credit agency, downgraded long-term and short-term foreign and national currency sovereign rating to the speculative level. Starting from February, 2016 the Central Bank of the Republic of Azerbaijan has gradually increased refinancing rate from 3 to 15% and the minimum capital adequacy ratio was lowered from 12% to 10%. In addition, CBAR prevented speculations in the currency market by setting a limit on the currency exchange rate corridor within 4% of the official rate which was revoked in 2017 and introduced limits on the amount of foreign currency exchange.

The Azerbaijani economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. While the Government has introduced a range of stabilization measures and plans to expedite reforms and support to banking system in response to current economic challenges. The Management believes it is taking appropriate measures to support the sustainability of the Bank's business in the current circumstances, unexpected further deterioration in the areas described above could negatively affect the Bank's results and financial position in manner not currently determinable.

Amidst the ongoing crisis, the government of Azerbaijan shifted its oil-oriented economic policy, dominated for two decades, to the diversification of the economy. For that purpose, a "national strategic roadmap" was adopted to formulate a correct development strategy. The implementation of the "national strategic roadmap" was assigned to the newly formed "Center for Analysis of Economic Reforms and Communications," the aim of which is analyzing the effectiveness of conducted reforms and making new proposals.

Significant measures have been taken in custom services and taxation as well. As of 1 August 2016, new regulations to ensure more operative and transparent custom clearance (a "green corridor" and other access systems) were implemented. The new simplified procedures are intended to stimulate imports and provide favorable conditions for business and external trade. As a continuation of reforms in customs, the reception of e-declarations is introduced minimize the contact of citizens with government officials. In order to amend the existing tax system, the decree approving the "Directions of Reforms in Taxation for 2016" was signed. The presidential decree requires the Ministry of Taxes to ensure that on-site and off-tax audits are performed within short periods of time and extend the coverage of electronic tax audits to limit face-to-face contacts with taxpayers. Another important amendment on monopolistic actions was made to the Criminal Code. Besides, the latest changes in December 2016 to Taxes Code "transfer pricing" will be applied against artificially exaggerated expenses and "voluntary tax disclosure" notion included in the Code which is highly practicable in greatest economies. Furthermore, in order to prevent additional exposure to financial sanctions by the tax authority because of tax liability miscalculation, the mechanism of "determination of tax liability in advance" principle will be in force. Along with them, implementation of electronic invoices will play an important role in prevention of tax evasion and will impact positively on tax system optimization.

The recession is expected to be short-lived, transforming to economic growth in 2017, partly due to positive effects of investments in gas projects. It is estimated that the GDP will grow 1.4% and the non-oil sector will expand about 2.4%. Over the long term, Azerbaijan will benefit from production of the new gas fields, which is expected to come commence in 2018.

3. Significant Accounting Policies

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

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

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

These financial statements have been prepared on the historical cost basis except for buildings and certain financial instruments that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

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

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

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

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

The Bank presents its statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the statement of financial position date (current) and more than 12 months after the statement of financial position date (non-current) is presented (see Note 32).

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

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

The principal accounting policies are set out below:

Revenue recognition.

Recognition of interest income and expense. Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Bank and the amount of income can be measured reliably. Interest income and expense are recognized on an accrual basis using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date, except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortized over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

For financial assets measured at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

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

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

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

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

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

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

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

Financial liabilities and equity instruments issued

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Intangible assets

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

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

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

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

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

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

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

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

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

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

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in associates, except where the Bank is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets arising from deductible temporary differences associated with such investments are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future. The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Bank expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

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

Operating taxes. Azerbaijan also has various other taxes, which are assessed on the Bank's activities. These taxes are included as a component of operating expenses in the statement of profit or loss and other comprehensive income.

Provisions. Provisions are recognized when the Bank has a present obligation (legal or constructive) as a result of a past event, it is probable that the Bank will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material). When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

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

Foreign currencies. The functional currency of the Bank is the currency of the primary economic environment, in which it operates. The Bank's functional currency is AZN.

Financial assets and liabilities denominated in foreign currencies are translated into AZN at the appropriate spot rates of exchange of the CBAR ruling at the end of reporting date. Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transaction. Profits and losses arising from these translations are included in foreign exchange translation gain/(loss) account.

On February 21, 2015 the Central Bank of the Republic of Azerbaijan ("CBAR") devalued the Azerbaijani Manat (AZN). As a result, the official exchange rates of AZN to the US dollars fell to AZN 1.05 US dollars, and the official exchange rate of AZN to the Euro fell to AZN 1.19 per Euro, i.e. by approximately 34% from the exchange rates at the effective date of devaluation.

On December 21, 2015 the CBAR introduced a floating exchange rate that resulted in one-time devaluation of the Azerbaijani Manat ("AZN") against US dollars and other major currencies by approximately 48%.

The devaluation of Azerbaijani Manat continued in 2016 and resulted in 14% fall against US dollars and 9% fall against Euro by December 31, 2016.

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

	December 31, 2016	December 31, 2015
AZN/1 US Dollar	1.7707	1.5594
AZN/1 Euro	1.8644	1.7046

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

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

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

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

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

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

- "Fair value reserve for available-for-sale investments" which comprises changes in fair value of available-for-sale financial assets;
- "Revaluation reserve for property" which comprises revaluation reserve of building.

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

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. Under the equity method, an investment in an associate is initially recognized in the statement of financial position at cost and adjusted thereafter to recognize the Bank's share of the profit or loss and other comprehensive income of the associate. When the Bank's share of losses of an associate or a joint venture exceeds the Bank's interest in that associate (which includes any long-term interests that, in substance, form part of the Bank's net investment in the associate), the Bank discontinues recognizing its share of further losses.

Additional losses are recognized only to the extent that the Bank has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

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

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

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

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

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

4. Critical Accounting Judgements and Key Sources of Estimation Uncertainty

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

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

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

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

A 10% increase or decrease in actual loss experience compared to the loss estimates used would result in an increase or decrease in available-for-sale equity investments impairment losses of AZN 12,000 (2015: AZN 12,000), respectively.

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

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

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

As at December 31, 2016 and 2015, gross loans and receivables totaled AZN 456,176,967 and AZN 553,184,478, respectively, and the allowance for impairment losses amounted to AZN 44,697,196 and AZN 28,168,321, respectively.

A 10% increase or decrease in actual loss experience compared to the loss estimates used would result in an increase or decrease in loan impairment losses of AZN 4,469,720 (2015: AZN 2,816,832), 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 1,404,868 (2015: AZN 740,122), 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. No fair value adjustment was booked in respect of the transaction with related parties during years ended December 31, 2016 and 2015.Transactions with related parties and terms and conditions of these transactions are disclosed in Note 29.

Valuation of financial instruments. As described (see Note 30), the Bank uses valuation techniques that include inputs that are not based on observable market date to estimate the fair value of certain types of financial instruments. Note 30 provides detailed information about the key assumptions used in the determination of the fair value of financial instruments, as well as the detailed sensitivity analysis for these assumptions. The Bank management believes that the chosen valuation techniques and assumptions used are appropriate in determining the fair value of financial instruments.

Useful lives of property, plant and equipment. As described above, the Bank reviews the estimated useful lives of property and equipment at the end of each annual reporting period. Were the estimated useful lives to differ by 10% from management’s estimates, the impact on depreciation for the year ended December 31, 2016 would be to increase/decrease it by AZN 423,251 (2015: increase/decrease by AZN 455,552).

Property carried at revalued amounts. Certain property (buildings) is measured at revalued amounts. The date of the latest appraisal was December 2015. The carrying value of revalued property amounted to AZN 7,661,273 and AZN 7,648,213 as at December 31, 2016 and 2015, respectively. Details of the valuation techniques used are set out.

Liquidity mismatch. As disclosed in Note 32 to these financial statements, the Bank has a cumulative negative liquidity gap as at December 31, 2016 and 2015. Management is confident that the future strategic plans of the Bank and negotiations with the lenders and support from shareholders will allow the Bank to obtain appropriate resources should all liabilities require settlement as disclosed in Note 32.

5. Adoption of new and revised standards and interpretations

In the current year, the Bank has adopted all of the applicable new and revised Standards and Interpretations issued by the IASB and the IFRIC of the IASB that are relevant to its operations and effective for annual reporting periods ending in December 31, 2016. The adoption of these new and revised Standards and Interpretations has not resulted in significant changes to the Bank’s accounting policies that have affected the amounts reported for the current or prior years.

Amendments to IAS 1 “Presentation of Financial Statements”: Disclosure Initiative – The amendments to IAS 1 “Presentation of Financial Statements” clarify, rather than significantly change, existing IAS 1 requirements.

The amendments clarify:

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

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

Amendments to IAS 16 and IAS 38 "Clarification of Acceptable Methods of Depreciation and Amortization" – The amendments to IAS 16 prohibit entities from using a revenue-based depreciation method for items of property and equipment. The amendments to IAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortization of intangible assets. This presumption can only be rebutted in the following two limited circumstances:

a) When the intangible asset is expressed as a measure of revenue; or
b) When it can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated.

Amendments to IAS 16 and IAS 41 "Agriculture": Bearer Plants – The amendments to IAS 16 "Property and equipment" and IAS 41 "Agriculture" define a bearer plant and require biological assets that meet the definition of a bearer plant to be accounted for as property and equipment in accordance with IAS 16, instead of IAS 41. In terms of the amendments, bearer plants can be measured using either the cost model or the revaluation model set out in IAS 16.

On the initial application of the amendments, entities are permitted to use the fair value of items of bearer plant as their deemed cost as at beginning of the earliest period presented. Any difference between the previous carrying amount and fair value should be recognized in opening retained earnings at the beginning of the earliest period presented.

The produce growing on bearer plants continues to be accounted for in accordance with IAS 41.

Amendments to IAS 27 "Equity Method in Separate Financial Statements" – The amendments to IAS 27 "Separate Financial Statements" allow an entity to use the equity method as described in IAS 28 to account for its investments in subsidiaries, joint ventures and associates in its separate financial statements. Therefore, an entity must account for these investments either:

- At cost;
- In accordance with IFRS 9 (or IAS 39); or
- Using the equity method.

The entity must apply the same accounting for each category of investments. A consequential amendment was also made to IFRS 1 "First-time Adoption of International Financial Reporting Standards". The amendment to IFRS 1 allows a first-time adopter accounting for investments in the separate financial statements using the equity method, to apply the IFRS 1 exemption for past business combinations to the acquisition of the investment.

Amendments to IFRS 10, IFRS 12 and IAS 28 "Investment Entities: Applying the Consolidation Exception" – The amendments address issues that have arisen in applying the investment entities exception under IFRS 10.

The amendments to IFRS 10 clarify that the exemption (in IFRS 10.4) from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value.

Furthermore, the amendments to IFRS 10 clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value.

The amendments to IAS 28 allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries.

Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture" – The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture.

The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3 "Business Combinations", between an investor and its associate or joint venture, is recognized in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture.

Amendments to IFRS 11 "Accounting for Acquisitions of Interests in Joint Operations" – The amendments to IFRS 11 provide guidance on how to account for the acquisition of an interest in a joint operation in which the activities constitute a business as defined in IFRS 3 "Business Combinations". Specifically, the amendments state that the relevant principles on accounting for business combinations in IFRS 3 and other standards (e.g. IAS 36 "Impairment of Assets" regarding impairment testing of a cash-generating unit to which goodwill on acquisition of a joint operation has been allocated) should be applied. The same requirements should be applied to the formation of a joint operation if and only if an existing business is contributed to the joint operation by one of the parties that participate in the joint operation.

A joint operator is also required to disclose the relevant information required by IFRS 3 and other standards for business combinations.

IFRS 14 "Regulatory Deferral Accounts" allows rate-regulated entities to continue recognizing regulatory deferral accounts in connection with their first-time adoption of IFRS. Existing IFRS preparers are prohibited from adopting this standard. Entities that adopt IFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and other comprehensive income. The standard requires disclosures on the nature of, and risks associated with, the entity's rate regulation and the effects of that rate regulation on its financial statements.

Annual improvements to IFRSs 2012-2014 Cycle – The Annual Improvements include amendments to a number of IFRSs, which have been summarized below.

Standard	**Subject of amendment**
IFRS 5 "Non-Current Assets Held for Sale and Discontinued Operations"	Changes in methods of disposal
IFRS 7 "Financial Instruments: Disclosures"	Servicing contracts and applicability of the offsetting disclosures to condensed interim financial
IAS 19 "Employee Benefits"	Discount rate: regional market issue
IAS 34 "Interim Financial Reporting"	Disclosure of information "elsewhere in the interim financial report"

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

6. Standard and interpretations issued but not yet adopted

At the date of authorization of these financial statements, other than the Standards and Interpretations adopted by the Bank in advance of their effective dates, the following Interpretations were in issue but not yet effective.

Amendments to IAS 7 "Statement of Cash Flows" – The amendments are intended to clarify IAS 7 to improve information provided to users of financial statements about an entity's financing activities. To achieve this objective, the IASB requires that the following changes in liabilities arising from financing activities are disclosed (to the extent necessary): (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

The amendments are effective for annual periods beginning on or after January 1, 2017, with earlier application being permitted.

Amendments to IAS 12 "Income Taxes" – The amendments to IAS 12 "Income Taxes" clarify how to account for deferred tax assets related to debt instruments measured at fair value and clarify recognition of deferred tax assets for unrealized losses, to address diversity in practice.

Entities are required to apply the amendments for annual periods beginning on or after January 1, 2017. Earlier application is permitted.

Annual Improvements to IFRS Standards 2014-2016 Cycle contains amendments to three International Financial Reporting Standards (IFRSs) as result of the IASB's annual improvements project.

Standard	Subject of amendment
IFRS 1 "First-time Adoption of International Financial Reporting Standards"	Deletion of short-term exemptions for the first-time adopters: The amendments delete the short-term exemptions in IFRS 1 that relate to IFRS 7, IAS 19, IFRS 12 and IAS 27.
IFRS 12 "Disclosure of Interests in Other Entities"	Clarification of the scope of the Standard: IFRS 12 states that an entity need not provide summarized financial information for interests in subsidiaries, associates or joint ventures that are classified as held for sale. The amendment clarifies that this is the only concession from disclosure requirements of IFRS 12 for such interests.
IAS 28 "Investments in Associates and Joint Ventures"	Measuring an associate or joint venture at fair value: The amendments clarify that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is a venture capital organization, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.

The amendments to IFRS 1 and IAS 28 are effective for annual periods begin on or after January 1 2018, the amendment to IFRS 12 for annual periods beginning on or after January 1, 2017.

The IASB and FASB have issued their joint revenue recognition standard, IFRS 15 "Revenue from Contracts with Customers", which replaces all existing IFRS and US GAAP revenue requirements. IFRS 15 specifies how and when an IFRS reporter will recognize revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures. The standard provides a single, principles based five-step model to be applied to all contracts with customers. IFRS 15 was issued in May 2014 and applies to an annual reporting period beginning on or after January 1, 2018. An earlier application is permitted.

Amendments to IAS 40 "**Transfers of Investment Property"** are intended to clarify that an entity can only reclassify a property to/from investment property when, and only when, there is evidence that a change in the use of the property occurred. The amendments are effective for periods beginning on or after January 1, 2018. Earlier application is permitted. An entity applies the amendments to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. Retrospective application is also permitted if that is possible without the use of hindsight.

IFRIC 22 "Foreign Currency Transactions and Advance Consideration" addresses foreign currency transactions or parts of transactions where:

- there is consideration that is denominated or priced in a foreign currency;
- the entity recognizes a prepayment asset or a deferred income liability in respect of that consideration, in advance of the recognition of the related asset, expense or income; and
- the prepayment asset or deferred income liability is non-monetary.

The Interpretations Committee came to the following conclusion that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt. The interpretation applies to annual reporting periods beginning or after January 1, 2018. An earlier adoption is permitted.

IFRS 9 "Financial Instruments" issued in November 2009 and amended in October 2010 introduces new requirements for the classification and measurement of financial assets and financial liabilities and for de-recognition.

- IFRS 9 requires all recognized financial assets that are within the scope of IAS 39 "Financial Instruments: Recognition and Measurement" to be subsequently measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods;
- The most significant effect of IFRS 9 regarding the classification and measurement of financial liabilities relates to the accounting for changes in fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under IFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognized in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit and loss accounts. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit and loss accounts. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit and loss accounts was recognized in profit and loss accounts.

IFRS 9 is effective for annual periods beginning on or after January 1, 2018.

Amendments to IFRS 2 "Share-Based Payment" – The IASB have published final amendments to IFRS 2 "Share-based Payment" that clarify the classification and measurement of share-based payment transactions. Classification and Measurement of Share-based Payment Transactions contains the following clarifications and amendments:

Accounting for cash-settled share-based payment transactions that include a performance condition

Until issue of these amendments, IFRS 2 contained no guidance on how vesting conditions affect the fair value of liabilities for cash-settled share-based payments. IASB has now added guidance that introduces accounting requirements for cash-settled share-based payments that follows the same approach as used for equity-settled share-based payments.

Classification of share-based payment transactions with net settlement features

The IASB has introduced an exception into IFRS 2 so that a share-based payment where the entity settles the share-based payment arrangement net is classified as equity-settled in its entirety provided the share-based payment would have been classified as equity-settled had it not included the net settlement feature.

Accounting for modifications of share-based payment transactions from cash-settled to equity-settled

Until issue of these amendments, IFRS 2 did not specifically address situations where a cash-settled share-based payment changes to an equity-settled share-based payment because of modifications of the terms and conditions. The IASB has introduced the following clarifications:

- On such modifications, the original liability recognized in respect of the cash-settled share-based payment is derecognized and the equity-settled share-based payment is recognized at the modification date fair value to the extent services have been rendered up to the modification date;
- Any difference between the carrying amount of the liability as at the modification date and the amount recognized in equity at the same date would be recognized in profit and loss immediately.

The amendments are effective for annual periods beginning on or after January 1, 2018. Earlier application is permitted.

IFRS 16 "Leases", which specifies how and IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.

IFRS 16 was issued in January 13, 2016 and applies to an annual reporting period beginning on or after January 1, 2019.

The Management is considering the implications of these standards, their impact on the financial statements and the timing of its adoption by the Bank.

7. Restatement and Reclassification

During the year ended December 31, 2016, the Management of the Bank determined that its statement of financial position as at December 31, 2015 and profit or loss and other comprehensive income and cash flow for the year then ended were inappropriately presented as:

	As previously reported December 31, 2015	Effect of adjustment	As restated December 31, 2015
Statement of profit or loss and other comprehensive income:			
Fee and commission income	5,594,309	(335,883)	5,258,426
Fee and commission expense	(1,555,223)	335,883	(1,219,340)

	As previously reported December 31, 2015	Effect of adjustment	As restated December 31, 2015
Statement of financial position:			
Other financial and non-financial assets : -			
Receivables from the Ministry of Taxes of the Republic of Azerbaijan (Note 22)	1,274,154	(634,841)	639,313
Other financial and non-financial liabilities: -			
Taxes other than income tax payable (Note 26)	(634,841)	634,841	-

	As previously reported December 31, 2015	Effect of adjustment	As restated December 31, 2015
Statement of cash flow:			
Fees and commissions received	5,594,309	(335,883)	5,258,426
Fees and commissions paid	(1,555,223)	335,883	(1,219,340)
Other financial and non-financial assets	38,349	(634,841)	673,190
Other financial and non-financial liabilities	214,323	634,841	(420,518)

8. Net Interest Income

	Year ended December 31, 2016	Year ended December 31, 2015
Interest income comprises:		
Financial assets recorded at amortized cost:		
- interest income on unimpaired financial assets	42,766,223	52,338,857
- interest income on impaired financial assets	5,637,350	4,338,719
Financial assets at fair value	1,550,035	2,304,338
Total interest income	**49,953,608**	**58,981,914**
Financial assets recorded at amortized cost comprises:		
Loans to customers	48,359,739	55,652,474
Due from banks	43,834	1,025,102
Total interest income on financial assets recorded at amortized cost	48,403,573	56,677,576
Financial assets at fair value comprises:		
Financial assets available-for-sale	1,550,035	2,304,338
Total interest income on financial assets at fair value	1,550,035	2,304,338
Interest expense comprises:		
Interest on financial liabilities recorded at amortized cost	(22,724,652)	(31,995,423)
Total interest expense	(22,724,652)	(31,995,423)
Interest expense on financial liabilities recorded at amortized cost comprise:		
Interest on deposits by customers	(20,372,719)	(30,189,608)
Interest on loans received from government agencies	(1,371,444)	(1,264,050)
Interest on due to banks and other financial institutions	(980,489)	(541,765)
Total interest expense on financial liabilities recorded at amortized cost	(22,724,652)	(31,995,423)
Net interest income before provision for impairment losses on interest bearing financial assets	**27,228,956**	**26,986,491**

9. Allowance for Impairment Losses and Other Provisions

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

	Due from banks	Loans to customers	Total
January 1, 2015	**3,314,183**	**11,493,636**	**14,807,819**
Additional provisions recognized	2,911,648	16,674,685	19,586,333
December 31, 2015	**6,225,831**	**28,168,321**	**34,394,152**
Additional provisions recognized	1,892,253	16,339,961	18,232,214
Recovery of assets previously written-off	-	188,914	188,914
December 31, 2016	**8,118,084**	**44,697,196**	**52,815,280**

10. Fee and Commission Income and Expense

Fee and commission income and expense comprise:	Year ended December 31, 2016	Year ended December 31, 2015 *(as restated)*
Fee and commission income:		
Cash operations	3,876,532	1,377,378
Plastic cards services	1,375,571	1,701,603
Settlements	995,667	937,236
Foreign exchange operations	366,808	876,751
Documentary operations	26,928	10,393
Other operations	176,357	355,065
Total fee and commission income	**6,817,863**	**5,258,426**
Fee and commission expense:		
Plastic cards services	(1,371,921)	(948,043)
Settlements	(187,785)	(208,355)
Cash operations	(152,210)	(42,839)
Documentary operations	(21,539)	(20,103)
Other operations	(6,669)	-
Total fee and commission expense	**(1,740,124)**	**(1,219,340)**

11. Net Gain on Foreign Exchange Operations

Net gain on foreign exchange operations comprises:

	Year ended December 31, 2016	Year ended December 31, 2015
Dealing, net	2,656,824	2,305,445
Translation differences, net	2,590,685	7,343,113
Total net gain on foreign exchange operations	**5,247,509**	**9,648,558**

12. Other Income

Other income comprises:

	Year ended December 31, 2016	Year ended December 31, 2015
Gain from sale of property and equipment	11,776	82,265
Other	3,828	9,768
Total other income	**15,604**	**92,033**

13. Operating Expenses

Operating expenses comprise:

	Year ended December 31, 2016	Year ended December 31, 2015
Staff cost	7,362,897	7,883,354
Depreciation and amortization	4,677,091	5,121,356
Social security cost	1,661,679	1,704,357
Payments to the deposit insurance fund	1,070,780	649,684
Operating lease expenses	787,612	936,005
Security expenses	478,170	564,890
Communication expenses	452,349	462,389
Advertising expenses	484,782	1,002,523
Repairs and maintenance	374,827	438,644
Office expenses	308,080	588,841
Professional services fees	246,849	255,343
Taxes, other than income tax	243,911	375,415
Transportation and travel expenses	121,241	187,205
Entertainment	103,412	167,685
Utility expenses	94,148	71,350
Insurance expenses	93,120	83,668
Membership fees	28,227	34,080
Net loss resulting from revaluation of property	-	211,720
Other expenses	62,359	127,154
Total operating expenses	**18,651,534**	**20,865,663**

14. Income Taxes

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

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

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences as at December 31, 2016 and 2015 relate mostly to different methods/timing of income and expense recognition as well as to temporary differences generated by tax – book bases' differences for certain assets.

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

	January 1, 2016	Credited/ (charged) to profit or loss	Credited/(charged) to other comprehensive income	December 31, 2016
Tax effect of deductible temporary differences				
Premises, equipment and intangible assets	(960,752)	-	-	(960,752)
Available-for-sale investments	(60,486)	10,393	50,093	-
Loans to customers	244,070	(93,869)	-	150,201
Investment in associate	30,646	5,370	-	36,016
Due from banks	-	39,407	-	39,407
Other financial and non-financial liabilities	-	2,900	-	2,900
Other financial and non-financial assets	-	178,006	-	178,006
Net deferred income tax liabilities	**(746,522)**	**142,207**	**50,093**	**(554,222)**

	January 1, 2015	Credited/ (charged) to profit or loss	Credited/(charged) to other comprehensive income	December 31, 2015
Tax effect of deductible temporary differences				
Premises, equipment and intangible assets	(1,347,484)	52,249	334,483	(960,752)
Loans to customers	(168,332)	412,402	-	244,070
Available-for-sale investments	(60,486)	-	-	(60,486)
Due from banks	358,471	(358,471)	-	-
Other financial and non-financial liabilities	63,242	(63,242)	-	-
Investment in associate	31,241	(595)	-	30,646
Net deferred income tax liabilities	**(1,123,348)**	**42,343**	**334,483**	**(746,522)**

The tax rate used for the reconciliations below is the corporate tax rate of 20% (2015: 20%) payable by corporate entities in the Republic of Azerbaijan on taxable profits (as defined) under tax law in that jurisdiction. The effective tax rate reconciliation is as follows for the years ended December 31, 2016 and 2015:

	Year ended December 31, 2016	Year ended December 31, 2015
Profit before income tax	(394,515)	911,683
Tax at the statutory tax rate 20% (2015: 20%)	78,903	(182,337)
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Non-deductible expenses	-	-
- Revision of tax estimation	(3,511)	160,167
- Income taxable at 10%	-	61,112
Income tax (expense)/benefit	**75,392**	**38,942**
Current income tax expense	(66,815)	(3,401)
Deferred tax benefit recognized in the current year	142,207	42,343
Income tax (expense)/benefit	**75,392**	**38,942**
As at January 1 – deferred tax liabilities	**(746,522)**	**(1,123,348)**
Changes in deferred income tax balances recognized in other comprehensive income	50,093	334,483
Change in deferred income tax balances recognized in profit or loss	142,207	42,343
As at December 31 – deferred tax liabilities	**(554,222)**	**(746,522)**

15. Earnings per Share

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

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

	Year ended December 31, 2016	Year ended December 31, 2015
Net (loss)/profit for the year attributable to ordinary shareholders	(319,123)	950,625
Weighted average number of ordinary shares	2,500,000	2,500,000
Basic earnings per ordinary share	**(0.13)**	**0.38**

16. Cash and Cash Equivalents

	December 31, 2016	December 31, 2015
Cash on hand	1,954,265	15,134,266
Cash balances with CBAR (other than mandatory reserve deposits)	4,427,565	1,081,230
Correspondent accounts and time deposits with original maturities up to 90 day	292,191	5,241,554
Commemorative coins	18,675	37,883
Total cash and cash equivalents	**6,692,696**	**21,494,933**

The maximum exposure to credit risk and credit quality, geographical concentration, liquidity and currency analysis of cash and cash equivalents balances for the years ended December 31, 2016 and 2015 are disclosed in Note 32.

The fair value of cash and cash equivalents balances for the years ended December 31, 2016 and 2015 are disclosed in Note 30.

As at December 31, 2016, included in correspondent accounts and time deposits with original maturities up to 90 day are AZN 16,210 placed in resident banks and AZN 275,981 placed in non-resident banks (at December 31, 2015 AZN 1,637,125 and 3,604,429 respectively).

As at December 31, 2016 and 2015, accrued interest income included in time deposits with original maturities up to 90 day amounted to AZN nil in both years.

	December 31, 2016	December 31, 2015
Mandatory cash balances with CBAR	2,347,509	1,661,959

The balances with the CBAR as at December 31, 2016 and 2015 include AZN 2,347,509 and AZN 1,661,959 which represent the obligatory minimum reserve deposits with the CBAR. The Bank is entitled to use all funds on its correspondent accounts provided that average daily balance for one month period will be eventually higher than required mandatory reserve. The Bank is required to maintain the reserve balance at the CBAR at all times.

17. Due from Banks

Due from banks comprise:

	December 31, 2016	December 31, 2015
Loans to banks and time deposits	10,099,306	9,657,604
Restricted deposits	2,420,012	1,953,928
	12,519,318	11,611,532
Less: allowance for impairment losses (Note 9)	(8,118,084)	(6,225,831)
Total due from banks	**4,401,234**	**5,385,701**

Due from banks are not collateralized. Analysis by credit quality of amounts due from other banks outstanding at December 31, 2016 is as follows:

	Loans to banks and time deposits	Restricted deposits	Total
Neither past due nor impaired			
- AA- rated (Fitch)	-	814,498	814,498
- A- rated (Fitch)	-	55,366	55,366
- BBB+ rated (Fitch)	-	1,348,822	1,348,822
Total neither past due nor impaired	**-**	**2,218,686**	**2,218,686**
Balances individually determined to be impaired (gross)			
- 181 to 360 days overdue	-	201,326	201,326
- over 360 days overdue	10,099,306	-	10,099,306
Total individually impaired (gross)	**10,099,306**	**201,326**	**10,300,632**
Less provision for impairment	**(7,916,758)**	**(201,326)**	**(8,118,084)**
Total due from banks	**2,182,548**	**2,218,686**	**4,401,234**

Analysis by credit quality of amounts due from banks outstanding at December 31, 2015 is as follows:

	Loans to banks and time deposits	Restricted deposits	Total
Neither past due nor impaired	-	717,304	717,304
- A+ rated (Fitch)	-	48,759	48,759
- A rated (Fitch)	-	1,187,865	1,187,865
- B- rated (Fitch and Moody's)	7,734	-	7,734
Total neither past due nor impaired	**7,734**	**1,953,928**	**1,961,662**
Balances individually determined to be impaired (gross)			
- over 360 days overdue	9,649,870	-	9,649,870
Total individually impaired (gross)	**9,649,870**	**-**	**9,649,870**
Less provision for impairment	**(6,225,831)**	**-**	**(6,225,831)**
Total due from banks	**3,431,773**	**1,953,928**	**5,385,701**

Movements in the allowance for impairment losses on balances due from banks for the years ended

December 31, 2016 and 2015 are as follows:

	2016		2015	
	Loans to banks and time deposits	**Restricted deposits**	**Loans to banks and time deposits**	**Restricted deposits**
Provision for impairment at 1 January	**6,225,831**	**-**	**3,314,183**	**-**
Provision for impairment during the year	1,892,253	201,326	2,911,648	-
Provision for impairment at 31 December	**8,118,084**	**201,326**	**6,225,831**	**-**

As at December 31, 2016, included in restricted deposits are collaterals amounting to AZN 1,348,822, AZN 814,498 and AZN 55,366 placed by the Bank in National Westminster Bank Plc as a member of VISA International, HSBC Bank Plc as a member of Master Card Inc and Deutsche Banks as a member of Western Union Holdings, Inc, respectively (December 31, 2015, included in restricted deposits are collaterals amounting to AZN 1,187,865, AZN 717,304 and AZN 48,759 placed by the Bank in National Westminster Bank Plc as a member of VISA International and HSBC Bank Plc as a member of Master Card Inc and Deutsche Bank as a member of Western Union Holdings, Inc respectively).

As at December 31, 2016 and 2015, accrued interest income included in due from banks amounted to AZN nil and AZN 796,516, respectively.

18. Loans to Customers

Loans to customers comprise:

	December 31, 2016	December 31, 2015
Loans to legal entities		
Construction	135,388,862	194,146,940
Trade	123,692,551	107,169,941
Agriculture	69,886,260	66,333,101
Manufacturing	13,606,612	21,061,764
Transportation	2,873,766	12,861,641
Others	125,890	118,122
Total loans to legal entities	**345,573,941**	**401,691,509**
Loans to individuals		
Consumer loans	16,274,037	18,741,843
Entrepreneurship loans	53,915,218	86,210,535
Car loans	16,000,106	19,649,899
Mortgage loans	22,129,429	22,627,132
Plastic cards	2,284,236	4,263,560
Total loans to individuals	**110,603,026**	**151,492,969**
Total loans to customers, gross	**456,176,967**	**553,184,478**
Less: allowance for impairment losses (Note 9)	(44,697,196)	(28,168,321)
Total loans to customers	**411,479,771**	**525,016,157**

As at December 31, 2016 and 2015, accrued interest income included in loans to customers amounted to AZN 49,643,955 and AZN 31,930,062, respectively.

Movements in the allowance for impairment losses on loans to customers for the year ended December 31, 2016 are as follows:

	Trade	Agriculture	Construction	Manufacturing	Transportation	Consumer loans	Car loans	Mortgage loans	Entrepreneur-ship loans	Plastic cards	Other	Total
Provision for loan impairment at 1 January 2016	**(3,524,007)**	**(2,602,277)**	**(486,423)**	**(2,454,752)**	**(44,755)**	**(5,679,458)**	**(5,954,633)**	**(147,557)**	**(5,953,739)**	**(1,292,014)**	**(28,706)**	**(28,168,321)**
(Provision)/recovery for impairment during the year	(3,653,970)	182,389	(536,580)	1,440,022	27,809	(2,606,807)	(2,150,669)	(286,887)	(9,769,375)	806,869	18,324	**(16,528,875)**
Provision for loan impairment at 31 December 2016	**(7,177,977)**	**(2,419,888)**	**(1,023,003)**	**(1,014,730)**	**(16,946)**	**(8,286,265)**	**(8,105,302)**	**(434,444)**	**(15,723,114)**	**(485,145)**	**(10,382)**	**(44,697,196)**

Movements in the allowance for impairment losses on loans to customers for the year ended December 31, 2015 are as follows:

	Trade	Agriculture	Construction	Manufacturing	Transportation	Consumer loans	Car loans	Mortgage loans	Entrepreneur-ship loans	Plastic cards	Other	Total
Provision for loan impairment at 1 January 2015	**(3,389,544)**	**(478,946)**	**(172,668)**	**(388,247)**	**-**	**(2,471,311)**	**(1,533,200)**	-	**(2,714,755)**	**(342,704)**	**(2,261)**	**(11,493,636)**
(Provision)/recovery for impairment during the year	(134,463)	(2,123,331)	(313,755)	(2,066,505)	(44,755)	(3,208,147)	(4,421,433)	(147,557)	(3,238,984)	(949,310)	(26,445)	**(16,674,685)**
Provision for loan impairment at 31 December 2015	**(3,524,007)**	**(2,602,277)**	**(486,423)**	**(2,454,752)**	**(44,755)**	**(5,679,458)**	**(5,954,633)**	**(147,557)**	**(5,953,739)**	**(1,292,014)**	**(28,706)**	**(28,168,321)**

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

	December 31, 2016	December 31, 2015
Unsecured loans	220,175,315	163,573,300
Loans collateralized by pledge of real estate	141,510,092	157,967,094
Loans collateralized by guarantees	65,883,094	42,929,809
Loans collateralized by vehicles	14,479,567	24,559,412
Loans collateralized by inventory and equipment	9,131,865	21,236,600
Loans collateralized by deposits	4,801,143	141,904,041
Loans collateralized by precious metals	195,891	1,014,222
	456,176,967	553,184,478
Less: allowance for impairment losses (Note 9)	(44,697,196)	(28,168,321)
Total loans to customers, net	**411,479,771**	**525,016,157**

During the years ended December 31, 2016 and 2015, the Bank received non-financial assets by taking possession of collateral it held as security. Balances of repossessed collateral as at December 31, 2016 and 2015 are disclosed within other financial and non-financial assets in Note 22.

As at December 31, 2016 and 2015, the Bank granted loans to 5 customers, totaling AZN 170,775,207 and AZN 197,934,446, respectively, which individually exceeded 10% of the Bank's equity. Allowance for impairment losses on these customers consisted AZN 617,697 and AZN 740,391 as at December 31, 2016 and 2015, respectively.

As at December 31, 2016 and 2015, all loans to customers are granted to companies operating in the Republic of Azerbaijan, which represents a significant geographical concentration in one region.

Analysis by credit quality of loans to customers outstanding as at December 31, 2016 was as follows:

As at December 31, 2016	Trade	Agriculture	Construction	Manufacturing	Transporta-tion	Consumer loans	Car loans	Mortgage loans	Entrepreneur-ship loans	Plastic cards	Other	Total
Unimpaired loans												
Not past due:												
- Large borrowers with credit history over two years	2,223,568	-	6,410,472	-	-	-	-	-	-	-	-	8,634,040
- Large new borrowers	70,029,209	10,843,749	115,566,798	-	-	-	-	-	-	-	-	196,439,756
- Loans to medium size entities	22,062,875	27,727,187	4,436,978	2,115,414	2,528,911	-	-	-	-	-	-	58,871,365
- Loans to small entities	1,837,982	2,136,190	370,324	460,526	300,242	-	-	-	-	-	111,615	5,216,879
- Loans to individuals	-	-	-	-	-	3,710,838	3,171,206	16,784,775	19,874,656	1,127,064	-	44,668,539
Less: allowance for impairment losses	-	-	-	-	-	-	-	-	-	-	-	-
Total unimpaired loans	**96,153,634**	**40,707,126**	**126,784,572**	**2,575,940**	**2,829,153**	**3,710,838**	**3,171,206**	**16,784,775**	**19,874,656**	**1,127,064**	**111,615**	**313,830,579**
Collectively assessed												
Overdue:												
up to 30 days	-	231,254	-	-	790	186,002	276,397	64,297	699,782	43,225	-	1,501,747
31 to 60 days	60,345	209,106	-	-	-	189,276	409,345	188,494	475,578	79,308	-	1,611,452
61 to 90 days	282,429	-	-	-	-	137,987	285,142	8,583	421,659	48,147	-	1,183,947
91 to 180 days	60,614	9,493	-	-	-	500,385	817,571	830,236	2,968,702	130,284	-	5,317,285
over 180 days	1,833,079	1,313,644	910,318	638,471	43,823	11,549,549	11,040,445	4,253,044	26,185,149	856,208	14,275	58,638,005
Less: allowance for impairment losses	(623,366)	(581,212)	(411,716)	(134,950)	(16,946)	(8,286,265)	(8,105,302)	(434,444)	(13,808,791)	(485,145)	(10,382)	(32,898,519)
Total collectively assessed loans	**1,613,101**	**1,182,285**	**498,602**	**503,521**	**27,667**	**4,276,934**	**4,723,598**	**4,910,210**	**16,942,079**	**672,027**	**3,893**	**35,353,917**
Individually impaired												
Overdue:												
31 to 60 days	591,882	-	669,317	-	-	-	-	-	-		-	1,261,199
over 180 days	24,710,568	27,415,637	7,024,655	10,392,201	-	-	-	-	3,289,692	-	-	72,832,753
Less: allowance for impairment losses	(6,554,611)	(1,838,676)	(611,287)	(879,780)	-	-	-	-	(1,914,323)	-	-	(11,798,677)
Total individually impaired loans	**18,747,839**	**25,576,961**	**7,082,685**	**9,512,421**	**-**	**-**	**-**	**-**	**1,375,369**	**-**	**-**	**62,295,275**
Total loans to customers	**116,514,574**	**67,466,372**	**134,365,859**	**12,591,882**	**2,856,820**	**7,987,772**	**7,894,804**	**21,694,985**	**38,192,104**	**1,799,091**	**115,508**	**411,479,771**

Analysis by credit quality of loans to customers outstanding as at December 31, 2015 was as follows:

As at December 31, 2015	Trade	Agriculture	Construction	Manufacturing	Transporta-tion	Consumer loans	Car loans	Mortgage loans	Entrepreneur-ship loans	Plastic cards	Other	Total
Unimpaired loans												
Not past due:												
- Large borrowers with credit history over two years	10,269,051	-	5,381,080	-	-	-	-	-	-	-	-	15,650,131
- Large new borrowers	39,191,533	10,317,562	178,430,919	-	7,810,612	-	-	-	-	-	-	235,750,626
- Loans to medium size entities	26,452,097	41,640,239	4,792,356	12,452,053	2,501,080	-	-	-	-	-	-	87,837,825
- Loans to small entities	4,386,492	2,652,114	432,426	303,359	448,822	-	-	-	-	-	16,998	8,240,211
- Loans to individuals	-	-	-	-	-	7,154,079	7,068,981	21,794,851	52,728,383	2,567,495	-	91,313,789
	80,299,173	54,609,915	189,036,781	12,755,412	10,760,514	7,154,079	7,068,981	21,794,851	52,728,383	2,567,495	16,998	438,792,582
Less: allowance for impairment losses	-	-	-	-	-	-	-	-	-	-	-	-
Total unimpaired loans	**80,299,173**	**54,609,915**	**189,036,781**	**12,755,412**	**10,760,514**	**7,154,079**	**7,068,981**	**21,794,851**	**52,728,383**	**2,567,495**	**16,998**	**438,792,582**
Collectively assessed												
Overdue:												
up to 30 days	3,014,905	49,481	2,075,915	3,251,287	2,101,127	1,671,584	4,177,644	82,241	6,817,675	339,245	-	23,581,104
31 to 60 days	2,128,871	99,808	-	-	-	832,274	1,361,645	425,383	3,497,778	189,187	-	8,534,946
61 to 90 days	111,739	79,644	-	-	-	498,536	1,072,172	240,109	5,926,512	115,076	-	8,043,788
91 to 180 days	2,199,958	214,151	155,255	58,581	-	1,309,489	1,578,550	84,548	3,572,246	281,686	-	9,454,464
over 180 days	780,223	270,575	98,409	149,991	-	7,275,881	4,390,907	-	6,123,214	770,871	101,124	19,961,195
	8,235,696	713,659	2,329,579	3,459,859	2,101,127	11,587,764	12,580,918	832,281	25,937,425	1,696,065	101,124	69,575,497
Less: allowance for impairment losses	(856,086)	(271,111)	(376,267)	(1,768,782)	(44,755)	(5,679,458)	(5,954,633)	(147,557)	(4,347,734)	(1,292,014)	(28,706)	(20,767,103)
Total collectively assessed loans	**7,379,610**	**442,548**	**1,953,312**	**1,691,077**	**2,056,372**	**5,908,306**	**6,626,285**	**684,724**	**21,589,691**	**404,051**	**72,418**	**48,808,394**
Individually impaired												
Overdue:												
up to 30 days	-	-	-	-	-	-	-	-	152,014	-	-	152,014
31 to 60 days	-	-	-	-	-	-	-	-	400,786	-	-	400,786
61 to 90 days	2,174,003	-	-	-	-	-	-	-	-	-	-	2,174,003
91 to 180 days	374,863	1,333,566	-	-	-	-	-	-	1,057,193	-	-	2,765,622
over 180 days	16,086,206	9,675,961	2,780,580	4,846,493	-	-	-	-	5,934,734	-	-	39,323,974
	18,635,072	11,009,527	2,780,580	4,846,493	-	-	-	-	7,544,727	-	-	44,816,399
Less: allowance for impairment losses	(2,667,921)	(2,331,166)	(110,156)	(685,970)	-	-	-	-	(1,606,005)	-	-	(7,401,218)
Total individually impaired loans	**15,967,151**	**8,678,361**	**2,670,424**	**4,160,523**	**-**	**-**	**-**	**-**	**5,938,722**	**-**	**-**	**37,415,181**
Total loans to customers	**103,645,934**	**63,730,824**	**193,660,517**	**18,607,012**	**12,816,886**	**13,062,385**	**13,695,266**	**22,479,575**	**80,256,796**	**2,971,546**	**89,416**	**525,016,157**

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

	December 31, 2016			**December 31, 2015**		
	Carrying value before allowance	**Allowance for impairment losses**	**Carrying value**	**Carrying value before allowance**	**Allowance for impairment losses**	**Carrying value**
Loans to customers individually determined to be impaired	74,093,952	(11,798,677)	62,295,275	44,816,399	(7,401,218)	37,415,181
Loans to customers collectively determined to be impaired	68,252,436	(32,898,519)	35,353,917	69,575,497	(20,767,103)	48,808,394
Unimpaired loans	313,830,579	-	313,830,579	438,792,582	-	438,792,582
Total	**456,176,967**	**(44,697,196)**	**411,479,771**	**553,184,478**	**(28,168,321)**	**525,016,157**

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 collateralized 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-collateralized assets”) and (ii) those assets where collateral and other credit enhancements are less than the carrying value of the asset (“under-collateralized assets”). The effect of collateral at December 31, 2016:

	Over-collateralized assets		**Under-collateralized assets**			
	Carrying value of the assets	**Fair value of collateral performed by Bank**	**Carrying value of the assets**	**Fair value of collateral performed by Bank**	**Total carrying value of assets**	**Total fair value of collateral**
Trade	31,363,342	100,083,581	92,329,209	2,419,100	**123,692,551**	**102,502,681**
Manufacturing	162,789	360,000	13,443,823	-	**13,606,612**	**360,000**
Agriculture	39,043,069	121,526,518	30,843,191	8,469,300	**69,886,260**	**129,995,818**
Construction	8,974,613	30,182,300	126,414,249	-	**135,388,862**	**30,182,300**
Transportation	344,854	3,575,056	2,528,912	2,500,000	**2,873,766**	**6,075,056**
Car loans	6,591,427	14,973,721	9,408,679	5,762,957	**16,000,106**	**20,736,678**
Mortgage loans	17,728,523	28,050,386	4,400,906	25,027	**22,129,429**	**28,075,413**
Consumer loans	6,709,970	15,784,956	9,564,067	5,718,948	**16,274,037**	**21,503,904**
Entrepreneurship loans	32,954,286	112,284,221	20,960,932	6,987,537	**53,915,218**	**119,271,758**
Plastic cards	374,924	1,643,801	1,909,312	344,863	**2,284,236**	**1,988,664**
Other	125,890	354,770	-	-	**125,890**	**354,770**

The effect of collateral at December 31, 2015:

	Over-collateralised assets		Under-collateralised assets			
	Carrying value of the assets	Fair value of collateral performed by Bank	Carrying value of the assets	Fair value of collateral performed by Bank	Total carrying value of assets	Total fair value of collateral
Trade	38,981,246	194,318,903	68,188,695	38,000	**107,169,941**	**194,356,903**
Manufacturing	9,830,175	47,664,480	11,231,589	-	**21,061,764**	**47,664,480**
Agriculture	38,992,617	145,153,418	27,340,484	8,464,300	**66,333,101**	**153,617,718**
Construction	10,873,563	15,716,600	183,273,377	63,214,031	**194,146,940**	**78,930,631**
Transportation	2,499,630	3,406,656	10,362,011	6,472,000	**12,861,641**	**9,878,656**
Car loans	14,790,050	17,284,288	4,859,849	1,745,435	**19,649,899**	**19,029,723**
Mortgage loans	22,231,642	36,324,162	395,490	-	**22,627,132**	**36,324,162**
Consumer loans	11,988,557	36,259,818	6,753,286	4,667,633	**18,741,843**	**40,927,451**
Entrepreneurship loans	46,424,132	176,473,314	39,786,403	6,997,172	**86,210,535**	**183,470,486**
Plastic cards	1,448,743	14,377,605	2,814,817	773,361	**4,263,560**	**15,150,966**
Other	116,847	361,770	1,275	-	**118,122**	**361,770**

The maximum exposure to credit risk and credit quality, geographical concentration, liquidity and currency analysis of loans to customers balances for the years ended December 31, 2016 and 2015 are disclosed in Note 32.

The fair value of loans to customers balances for the years ended December 31, 2016 and 2015 are disclosed in Note 30.

The loans to customers balances with related parties are disclosed in Note 29.

19. Available-for-sale Investments

Available-for-sale investments comprise:

	Ownership, %	Nominal annual interest rates	December 31, 2016	December 31, 2015
Corporate bonds of OJSC “Akkord Inshaat-Sanaye” - Unrated (large construction company)	-	11,5%	18,756,673	17,509,639
Equity securities in “Milli Kart” LLC	10%	-	280,000	280,000
Total available-for-sale investments			**19,036,673**	**17,789,639**

The debt securities are not collateralized. Subsequently, the maturity date of corporate bonds of OJSC “Akkord Inshaat-Sanaye” was prolonged until August 31, 2017. Management could not reliably estimate the fair value of the Bank’s investment in shares of “Milli Kart” LLC. This investment is carried at cost. This investee company has not published its recent financial information about its operations. Its shares are not quoted and recent trade prices are not publicly accessible as at December 31, 2016.

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

	Note	2016	2015
Carrying amount at January 1		**17,789,638**	**37,877,306**
Fair value gains less losses		(303,000)	(92,786)
Interest income accrued	7	1,550,035	2,304,338
Interest income received		-	(787,955)
Purchases		-	13,500,000
Disposals of investment securities available-for-sale		-	(35,011,264)
Carrying amount at December 31		**19,036,673**	**17,789,639**

The maximum exposure to credit risk and credit quality, geographical concentration, liquidity and currency analysis of available-for-sale investments balances for the years ended December 31, 2016 and 2015 are disclosed in Note 32.

20. Property and Equipment

Property and equipment comprise:

	Buildings	Furniture and equipment	Computers	Vehicles	Leasehold improve-ments	Other fixed assets	Total
At initial/revalued cost							
January 1, 2015	**10,204,843**	**3,418,106**	**10,570,163**	**1,580,137**	**325,734**	**282,278**	**26,381,261**
Additions	-	429,615	5,302,926	674,800	121,055	65,363	6,593,759
Transfers in/(out)	7,890	(30,267)	657	-	-	21,720	-
Disposals	(8,966)	(194,263)	(462,301)	(418,538)	(29,680)	(39,402)	(1,153,150)
Impairment of buildings	(2,555,554)	-	-	-	-	-	(2,555,554)
December 31, 2015	**7,648,213**	**3,623,191**	**15,411,445**	**1,836,399**	**417,109**	**329,959**	**29,266,316**
Additions	13,060	62,728	54,665	-	18,596	69,730	218,779
Disposals	-	(212,143)	(258,399)	(226,700)	-	(83,912)	(781,154)
December 31, 2016	**7,661,273**	**3,473,776**	**15,207,711**	**1,609,699**	**435,705**	**315,777**	**28,703,941**
Accumulated depreciation							
January 1, 2015	**(503,825)**	**(1,455,801)**	**(3,862,886)**	**(1,202,045)**	**(101,788)**	**(99,567)**	**(7,225,912)**
Depreciation charge	(247,756)	(426,677)	(3,539,476)	(199,980)	(77,121)	(64,512)	(4,555,522)
Eliminated on disposals	1,256	186,537	444,019	418,538	29,680	39,365	1,119,395
Transfers in/(out)	(4,858)	(92,135)	76,692	(8,446)	12,508	16,239	-
Accumulated depreciation of impairment	755,183	-	-	-	-	-	755,183
December 31, 2015	**-**	**(1,788,076)**	**(6,881,651)**	**(991,933)**	**(136,721)**	**(108,475)**	**(9,906,856)**
Depreciation charge	(214,252)	(395,510)	(3,152,252)	(327,625)	(84,351)	(58,520)	(4,232,510)
Eliminated on disposals	-	136,492	191,836	226,700	-	32,112	587,140
December 31, 2016	**(214,252)**	**(2,047,094)**	**(9,842,067)**	**(1,092,858)**	**(221,072)**	**(134,883)**	**(13,552,226)**
Net book value							
December 31, 2015	**7,648,213**	**1,835,115**	**8,529,794**	**844,466**	**280,388**	**221,484**	**19,359,460**
December 31, 2016	**7,447,021**	**1,426,682**	**5,365,644**	**516,841**	**214,633**	**180,894**	**15,151,715**

As at December 31, 2016 and 2015 included in property and equipment were fully depreciated assets of AZN 5,848,123 and AZN 913,530 respectively.

As at December 31, 2016 and 2015 the buildings owned by the Bank are carried at revalued amounts based on an independent appraiser's report conducted in December 2015, less any subsequent depreciation and impairment. The following methods were used for the estimation of their fair value: discounted cash flow method (income approach), integrated cost estimation method (cost based method), method of sales comparison (comparative approach). For the estimation of the final value certain weights were assigned to the results obtained using different approaches, depending on the degree to which the estimates met the following characteristics: reliability and completeness of the information, specifics of the estimated property and other criteria. The carrying value of these building as at December 31, 2016 totaled AZN 7,447,021 (December 31, 2015: AZN 7,648,213). As at December 31, 2016 included in property and equipment insured in the amount of AZN 6,970,000.

If the buildings were accounted at historical cost less accumulated depreciation and impairment losses, its carrying value as at December 31, 2016 would be AZN 3,483,542 (December 31, 2015: AZN 3,729,646).

Details of the Bank's buildings and information about the fair value hierarchy as at December 31, 2016 and 2015 are as follows:

	December 31, 2016		December 31, 2015	
	Level 2	**Total**	**Level 2**	**Total**
Buildings	7,447,021	**7,447,021**	7,648,213	**7,648,213**

21. Intangible Assets

Intangible assets comprise:

	Software programs	**Licenses**	**Total**
At initial cost			
January 1, 2015	**2,420,366**	**159,356**	**2,579,722**
Additions	316,432	145,841	462,273
Disposal	(154,475)	-	(154,475)
December 31, 2015	**2,582,323**	**305,197**	**2,887,520**
Additions	-	5,769	5,769
Transfer in	-	358,612	358,612
Transfer out	(358,612)	-	(358,612)
Disposal	(129,343)	(145,841)	(275,184)
December 31, 2016	**2,094,368**	**523,737**	**2,618,105**
Accumulated amortization			
January 1, 2015	**(1,009,589)**	**(9,579)**	**(1,019,168)**
Amortization charge	(272,226)	(293,608)	(565,834)
Eliminated on disposals	154,473	-	154,473
December 31, 2015	**(1,127,342)**	**(303,187)**	**(1,430,529)**
Amortization charge	(357,941)	(86,640)	(444,581)
Transfer in	9,370	-	9,370
Transfer out	-	(9,370)	(9,370)
Eliminated on disposals	129,343	145,841	275,184
December 31, 2016	**(1,346,570)**	**(253,356)**	**(1,599,926)**
Net book value			
December 31, 2015	**1,454,981**	**2,010**	**1,456,991**
December 31, 2016	**747,798**	**270,381**	**1,018,179**

22. Other Financial and Non-Financial Assets

Other financial and non-financial assets comprise:

	December 31, 2016	December 31, 2015
Other financial assets:		
Receivables on plastic card operations	225,104	569,035
Settlements on money transfers	158,659	110,758
Accrued interest income on guarantees issued	74,389	28,404
Others	27,407	15,117
	485,559	**723,314**
Other non-financial assets:		
Repossessed collateral	3,362,056	3,461,171
Receivables from the Ministry of Taxes of the Republic of Azerbaijan	3,574	639,313
Deferred expenses	345,402	391,575
Prepayments for property and equipment	322,151	154,373
Others	93,277	29,132
Total financial and non-financial assets	**4,612,019**	**5,398,878**

The Bank recognized fair value loss on repossessed collateral in the amount of AZN 937,683 during the year ended December 31, 2016 (2015: fair value gain in the amount of AZN 452,188)

23. Due to Banks and Other Financial Institutions

Due to banks and other financial institutions comprise:

	December 31, 2016	December 31, 2015
Due to the CBAR	10,000,000	-
Due to other banks	16,965,560	-
Correspondent accounts of other banks	349,472	12,163,029
Total due to banks and other financial institutions	**27,315,032**	**12,163,029**

24. Deposits by Customers

Deposits by customers comprise:

	December 31, 2016	December 31, 2015
State and public organisations		
- Current/settlement accounts	3,041,282	13,860,612
- Term deposits	-	-
Other legal entities		
- Current/settlement accounts	37,335,922	47,051,865
- Term deposits	13,716,827	88,784,698
Individuals		
- Current/demand accounts	25,719,702	18,769,081
- Term deposits	211,185,436	268,117,940
Total deposits by customers	**290,999,169**	**436,584,196**

	December 31, 2016	December 31, 2015
Time deposits	224,902,263	356,902,638
Repayable on demand	66,096,906	79,681,558
Total deposits by customers	**290,999,169**	**436,584,196**

As at December 31, 2016 and 2015, deposits by customers totaling AZN 49,639,523 and AZN 164,079,203 (17% and 38% of total deposits by customers, respectively), were due to 14 customers, respectively.

As at December 31, 2016 and 2015 accrued interest payable, included in deposits by customers amounted to AZN 3,042,221 and AZN 7,375,801 respectively.

	December 31, 2016	December 31, 2015
Analysis by economic sector/customer type:		
Individuals	236,905,138	286,887,021
Trade and services	27,395,826	98,719,823
Insurance	13,368,195	19,374,700
Transport	6,675,403	14,205,085
Public organizations	3,035,698	7,160,556
Construction	1,491,491	3,585,654
Manufacturing	729,650	1,198,808
Agriculture	720,226	858,292
Energy	473,861	4,325,963
Mining	5,490	124,964
Other	198,191	143,330
Total deposits by customers	**290,999,169**	**436,584,196**

25. Loans Received from Government Agencies

Loans received from government agencies comprise:

	December 31, 2016	December 31, 2015
National Fund for Support of Entrepreneurship	68,422,462	69,551,150
Azerbaijan Mortgage Fund	21,034,824	22,294,596
Total loans from government agencies	**89,457,286**	**91,845,746**

As at December 31, 2016 and 2015, included in loans received from government agencies are loans borrowed from the National Fund for Support of Entrepreneurship amounting to AZN 68,422,462 and AZN 69,551,150, respectively. These loans have maturity periods of 1 to 7 years and bear an interest rate of 1% p.a. Management assess that the interest rates for these loans are equivalent to the interest rates at which the National Fund for Support of Entrepreneurship lends to local banks in the Republic of Azerbaijan. The Bank acts as an intermediary between the entrepreneurs wishing to obtain concessionary credits on account of resources of the National Fund for the Entrepreneurship Support. The loans are provided to entrepreneurs whose investment projects are assessed as positive by the Fund. These loans are provided at the rate from 5% to 7%.

As at December 31, 2016 and 2015, included in loans received from government agencies are loans from Azerbaijan Mortgage Fund amounting to AZN 21,034,824 and AZN 22,294,596, respectively. These loans have maturity periods of 8 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 the Azerbaijan Mortgage Fund lends to local banks in the Republic of Azerbaijan. The Bank further on lends these funds to eligible borrowers at rates not higher than 4% to 8.0% per annum.

As at December 31, 2016 accrued interest payable amounted AZN 349,371 included in loans from government agencies (December 31, 2015: AZN 174,886).

26. Other Financial and Non-Financial Liabilities

Other financial and non-financial liabilities comprise:

	December 31, 2016	December 31, 2015
Other financial liabilities:		
Payable to the Deposit Insurance Fund	315,135	512,944
Payables on plastic card operations from other banks	160,630	146,141
Settlements on money transfers and plastic card operations	275,406	68,935
Professional fees payable	54,143	52,811
Others	290,810	110,702
	1,096,124	**891,533**
Other non-financial liabilities:		
Taxes other than income tax payable	400,904	-
Payable to the employees	247,467	287,414
Provision for guarantees	116,041	-
Others	83,954	93,915
Total other financial and non-financial liabilities	**1,944,490**	**1,272,862**

All of the above liabilities balances are expected to be settled within twelve months after the year-end.

Movement in the provision for possible guarantee losses during 2016 is as follows:

	Guarantees	Total
Provision for possible guarantee losses at 31 December 2015	**-**	**-**
Provision for possible guarantee losses during the year	(116,041)	(116,041)
Provision for possible guarantee losses at 31 December 2016	**(116,041)**	**(116,041)**

27. Share Capital

As at December 31, 2016, the Bank's share capital amounted to AZN 50,000,000 (December 31, 2015 AZN 50,000,000) and comprised of 2,500,000 (December 31, 2015 AZN 2,500,000) ordinary shares with a par value of AZN 20 each. Each share entitles one vote to the shareholder.

During the year ended December 31, 2016 the Bank has not declared dividends on ordinary shares.

During the year ended December 31, 2015 the Bank declared dividends of AZN 2.41 per share on ordinary shares amounting to AZN 6,045,959.

28. Commitments and Contingencies

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

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

As at December 31, 2016 and 2015, contingent liabilities comprise:

	December 31, 2016	December 31, 2015
Contingent liabilities and credit commitments		
Commitments on loans and unused credit lines	11,529,726	19,702,852
Guarantees issued and similar commitments	22,092,989	21,971,198
Total contingent liabilities and credit commitments	**33,622,715**	**41,674,050**

Extension of loans to customers within credit line limits is approved by the Bank on a case-by-case basis and depends on borrowers' financial performance, debt service and other conditions. As at December 31, 2016 and 2015, such unused credit lines amounted to AZN 11,529,726 and AZN 19,702,852 respectively.

Compliance with covenants – As at December 31, 2016 and at certain times during the period then ended the Bank was in breach of the ratios stipulated by the Financial Markets Supervisory Authority ("FMSA").

- Actual ratio of the loans issued to the group of borrowers where fair value of collateral is more than 150% of loaned amount (if real estate) and 100% of loaned amount (if other collateral) was 80% of Tier 1 capital, while it should not exceed 20%.
- Actual ratio of the loans issued to the group of borrowers where fair value of collateral is less than 150% of loaned amount (if real estate) and 100% of loaned amount (if other collateral) was 18% of Tier 1 capital, while it should not exceed 7%.

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

Capital commitments – As at December 31, 2016 and 2015, the Bank had no material commitments for capital expenditure outstanding.

Operating lease commitments – As at December 31, 2016 and 2015, the Bank does not have material commitments under non-cancelable operating leases where the Bank is the lessee.

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

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

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

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

29. Transactions with related parties

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

	December 31, 2016		December 31, 2015	
	Related party balances	**Total category as per the financial statements caption**	**Related party balances**	**Total category as per the financial statements caption**
Loans to customers, before allowance for impairment losses (contractual interest rate: 0-36%; loans are collateralized by deposits, guarantees, pledge of real estate, vehicles, precious metals)		**456,176,967**		**553,184,478**
- shareholders and entities in which a substantial interest is owned by shareholders of the Bank	101,721,998		141,327,010	
- associate	-		-	
- key management personnel of the Bank or its parent and other individuals	264,181		985,160	
Allowance for impairment losses on loans to customers		**(44,697,196)**		**(28,168,321)**
- shareholders and entities in which a substantial interest is owned by shareholders of the Bank	(619,625)		(94,605)	
- key management personnel of the Bank or its parent and other individuals	(3,358)		(10,644)	
Due from banks (contractual interest rate: 9%)		**4,401,234**		**5,385,701**
- shareholders and entities in which a substantial interest is owned by shareholders of the Bank	-		19	
Available-for-sale investments (contractual interest rate: 11.5%)		**19,036,673**		**17,789,639**
- shareholders and entities in which a substantial interest is owned by shareholders of the Bank	18,756,673		17,509,638	
Investments in associate		**42,664**		**69,515**
- associate	42,664		69,515	
Other financial and non-financial assets		**4,612,019**		**5,398,878**
- shareholders and entities in which a substantial interest is owned by shareholders of the Bank	31,110		29,590	
Deposits by customers (contractual interest rate: 1-18%)		**290,999,169**		**436,584,196**
- shareholders and entities in which a substantial interest is owned by shareholders of the Bank	15,832,360		14,771,762	
- key management personnel of the Bank or its parent and other individuals	470,321		1,785,732	

	December 31, 2016		December 31, 2015	
	Related party balances	**Total category as per the financial statements caption**	**Related party balances**	**Total category as per the financial statements caption**
- shareholders and entities in which a substantial interest is owned by shareholders of the Bank	1,730,132		356,135	
- key management personnel of the Bank or its parent and other individuals	20,044		453,160	
Guarantees issued and similar commitments (financial guarantees with contractual interest rate: 1-6%)		**22,092,989**		**21,971,198**
- shareholders and entities in which a substantial interest is owned by shareholders of the Bank	1,240,858		10,201,486	

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

	Year ended December 31, 2016		Year ended December 31, 2015	
	Related party transactions	**Total category as per the financial statements caption**	**Related party transactions**	**Total category as per the financial statements caption**
Key management personnel compensation:				
- short-term employee benefits	1,325,298	9,024,576	1,715,223	9,587,711
Total	**1,325,298**	**9,024,576**	**1,715,223**	**9,587,711**

Included in the income statement for the years ended December 31, 2016 and 2015 are the following amounts which were recognized in transactions with related parties.

	Year ended December 31, 2016		Year ended December 31, 2015	
	Related party transaction	**Total category as per the financial statements caption**	**Related party transactions**	**Total category as per the financial statements caption**
Interest income		**49,953,608**		**58,981,914**
- shareholders and entities in which a substantial interest is owned by shareholders of the Bank	7,589,927		10,606,647	
-associate	-		-	
- key management personnel of the Bank or its parent and other individuals	1,028		171,945	
Interest expense		**(22,724,652)**		**(31,995,423)**
- shareholders and entities in which a substantial interest is owned by shareholders of the Bank	1,973,022		(793,443)	
- key management personnel of the Bank or its parent and other individuals	13,175		(1,265,062)	
Provision for impairment losses on interest bearing assets		**(18,232,214)**		**(19,586,333)**
- shareholders and entities in which a substantial interest is owned by shareholders of the Bank	(111,980)		(507,645)	

	Year ended December 31, 2016		Year ended December 31, 2015	
	Related party transaction	Total category as per the financial statements caption	Related party transactions	Total category as per the financial statements caption
- key management personnel of the Bank or its parent and other individuals	61,286		(64,644)	
Fee and commission income		**6,817,863**		**5,258,426**
- shareholders and entities in which a substantial interest is owned by shareholders of the Bank	1,746,624		234,883	
- key management personnel of the Bank or its parent and other individuals	4,363		5,752	
Gains less losses from dealing in foreign currency		**2,656,824**		**2,305,445**
- shareholders and entities in which a substantial interest is owned by shareholders of the Bank	666,842		86,885	
- key management personnel of the Bank or its parent and other individuals	18,032		-	
Share of loss of associate		**(26,851)**		**-**
- associate	26,851		-	

	Year ended December 31, 2016		Year ended December 31, 2015	
	Related party transaction	Total category as per the financial statements caption	Related party transactions	Total category as per the financial statements caption
Operating expense		**(18,651,534)**		**(20,865,663)**
- shareholders and entities in which a substantial interest is owned by shareholders of the Bank	(40,665)		(136,925)	
- key management personnel of the Bank or its parent and other individuals	(909)		(1,623,219)	

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

30. Fair Value of Financial Instruments

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

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

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

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities.

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

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

Financial assets/financial liabilities	Fair value as at		Fair value hierarchy	Valuation technique(s) and key input(s)
	December 31, 2016	December 31, 2015		
Available-for-sale investments:				
Debt securities	18,756,673	17,509,638	Level 1	Quoted bid prices in an active market.
Debt securities	-	-	Level 2	Discounted cash flows based on contractual terms of debt securities and yield of similar instruments of counterparties with credit risk adjustment using internal model.

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

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

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

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

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

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

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

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

	December 31, 2016			December 31, 2015		
	Level 1	Level 3	Total	Level 1	Level 3	Total
ASSETS AT FAIR VALUE						
Cash and cash equivalents						
Correspondent accounts and time deposits with original maturities up to 90 day	292,191	-	292,191	5,241,554	-	5,241,554
Cash on hand and commemorative coins	1,972,940	-	1,972,940	15,172,149	-	15,172,149
Cash balances with the CBAR (including mandatory reserve deposits)	6,775,074	-	6,775,074	2,743,189	-	2,743,189
Due from banks						
Loans to banks and time deposits	-	2,182,548	2,182,548	-	3,431,773	3,431,773
Restricted deposits	-	2,218,686	2,218,686	-	1,953,928	1,953,928
Loans to customers						
- Corporate loans – construction	-	134,365,859	134,365,859	-	193,660,517	193,660,517
- Corporate loans – trade	-	116,514,574	116,514,574	-	103,645,934	103,645,934
- Corporate loans – agriculture	-	67,466,372	67,466,372	-	63,730,824	63,730,824
- Corporate loans – manufacturing	-	12,591,882	12,591,882	-	18,607,012	18,607,012
- Corporate loans – transportation	-	2,856,820	2,856,820	-	12,816,886	12,816,886
- Corporate loans – other	-	115,508	115,508	-	89,416	89,416
- Loans to individuals – consumer loans	-	7,987,772	7,987,772	-	13,062,385	13,062,385
- Loans to individuals – entrepreneurs	-	38,192,104	38,192,104	-	80,256,796	80,256,796
- Loans to individuals – car loans	-	7,894,804	7,894,804	-	13,695,266	13,695,266
- Loans to individuals – mortgage loans	-	21,694,985	21,694,985	-	22,479,575	22,479,575
- Loans to individuals – plastic cards	-	1,799,091	1,799,091	-	2,971,546	2,971,546
- Loans to individuals – other	-	-	-	-	-	-
Other financial assets						
- Receivables on plastic card operations	-	225,104	225,104	-	569,035	569,035
- Settlements on money transfers	-	158,659	158,659	-	110,758	110,758
- Accrued interest income on guarantees issued	-	74,389	74,389	-	28,404	28,404
- Others	-	27,407	27,407	-	15,117	15,117
TOTAL	**9,040,205**	**416,366,564**	**425,406,769**	**23,156,892**	**531,125,171**	**554,282,063**

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

	December 31, 2016		December 31, 2015	
	Level 3	**Total**	**Level 2**	**Total**
FINANCIAL LIABILITIES				
Due to banks and other financial institutions				
- Due to the CBAR	10,000,000	10,000,000	-	-
- Due to other banks	16,965,560	16,965,560	-	-
- Correspondent accounts of other banks	349,472	349,472	12,163,029	12,163,029
Deposits by customers				
- Current/settlement accounts of state and public organizations	3,041,282	3,041,282	13,860,612	13,860,612
- Current/settlement accounts of other legal entities	37,335,922	37,335,922	47,051,865	47,051,865
- Term deposits of other legal entities	13,716,827	13,716,827	88,784,698	88,784,698
- Current/demand accounts of individuals	25,719,702	25,719,702	18,769,081	18,769,081
- Term deposits of individuals	211,185,436	211,185,436	268,117,940	268,117,940
Term borrowings				
- Loans received from government agencies	89,457,286	89,457,286	91,845,746	91,845,746
Other financial liabilities				
- Payable to the Deposit Insurance Fund	315,135	315,135	512,944	512,944
- Professional fees payable	54,143	54,143	146,141	146,141
- Payables on plastic card operations from other banks	160,630	160,630	68,935	68,935
- Settlements on money transfers and plastic card operations	275,406	275,406	52,811	52,811
- Others	290,810	290,810	110,702	110,702
TOTAL	**408,867,611**	**408,867,611**	**541,484,504**	**541,484,504**

31. Capital Risk Management

The Bank's objectives when managing capital is to comply with the capital requirements set by the Central Bank of the Republic of Azerbaijan, to safeguard the Bank's ability to continue as a going concern and to maintain a sufficient capital base to achieve a capital adequacy ratio of at least 10%. Compliance with capital adequacy ratios set by the Central Bank of the Republic of Azerbaijan is monitored monthly with reports outlining their calculation reviewed and signed by the Bank's Financial Director, Chief Accountant, Chief of Audit Department, Head of Audit Committee and the Head of Supervisory Board. Other objectives of capital management are evaluated annually.

Under the current capital requirements set by the CBAR in January 1, 2015, existing banks have to hold the minimum level of aggregate capital of AZN 50,000,000, however, paid-in capital for newly established banks and local branches of foreign banks shall be AZN 50,000,000. Furthermore the banks have to maintain a ratio of regulatory capital to risk weighted assets ("statutory capital ratio") at or above a prescribed minimum of 10% (December 31, 2015: 10%) and 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% (December 31, 2015: 5%).

The capital structure of the Bank as at December 31, 2016 and 2015, calculated in accordance with requirements of the Central Bank of the Republic of Azerbaijan is presented in following table:

	December 31, 2016	December 31, 2015
Tier-1 capital	49,932,500	48,543,060
Total capital	54,979,109	53,657,275
Tier-1 capital ratio	10.80%	10.50%
Statutory capital ratio	11.81%	11.60%

32. Risk Management Policies

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

- Credit exposures;
- Liquidity risk;
- Market risk.

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

Credit risk

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

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

The Bank structures the level of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or Banks of borrowers, and to industry segments. Limits on the level of credit risk by a borrower and a product (by industry sector) are approved quarterly by the Management Board.

The exposure to any one borrower including banks and brokers is further restricted by sub-limits covering on and off-balance sheet exposures which are set by the Credit Committee. Actual exposures against limits are monitored daily.

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

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

Maximum exposure of credit risk

The Bank’s maximum exposure to credit risk varies significantly and is dependant on both individual risks and general market economy risks.

The following table presents the maximum exposure to credit risk of balance sheet and off balance sheet financial assets and also financial liabilities, which are subject to offsetting, enforceable master netting arrangements and similar agreements. For financial assets in the statement of financial position, the maximum exposure is equal to the carrying amount of those assets prior to any offset or collateral. The Bank's maximum exposure to credit risk under contingent liabilities and commitments to extend credit, in the event of non-performance by the other party where all counterclaims, collateral or security prove valueless, is represented by the contractual amounts of those instruments. The Bank has no financial assets or liabilities which were set-off in accordance with the requirements of IFRS and presented net in the statement of financial position.

	Net amount after offsetting in the statement of financial position	Amounts subject to master netting and similar arrangements not set off in the statement of financial position		Net amount
		Financial instruments	Cash collateral received	
December 31, 2016				
Balances with the CBAR (including restricted deposits)	6,775,074	-	-	6,775,074
Correspondent accounts and short term deposits in other banks	292,191	-	-	292,191
Due from banks	4,401,234	-	-	4,401,234
Available-for-sale investments	19,036,673	-	-	19,036,673
Loans to customers	411,479,771	-	(4,997,034)	406,482,737
Other financial assets	485,559	-	-	485,559
Commitments on loans and unused credit lines	11,529,726	-	-	11,529,726
Guarantees issued and similar commitments	22,092,989	-	-	22,092,989
December 31, 2015				
Balances with the CBAR (including restricted deposits)	17,915,338	-	-	17,915,338
Correspondent accounts and short term deposits in other banks	5,241,554	-	-	5,241,554
Due from banks	5,385,701	-	-	5,385,701
Available-for-sale investments	17,789,639	-	-	17,789,639
Loans to customers	525,016,157		(142,918,263)	382,097,894
Other financial assets	723,314	-	-	723,314
Commitments on loans and unused credit lines	19,702,852	-	-	19,702,852
Guarantees issued and similar commitments	21,971,197	-	-	21,971,197

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

	Net amount after offsetting in the statement of financial position	Amounts subject to master netting and similar arrangements not set off in the statement of financial position		Net amount
		Financial instruments	Cash collateral pledged	
December 31, 2016				
Due to banks and other financial institutions	27,315,032	-	-	27,315,032
Deposits by customers	290,999,169	(4,801,143)	-	286,198,026
Loans received from government agencies	89,457,286	-	-	89,457,286
Other financial liabilities	1,096,124	-	-	1,096,124
December 31, 2015				
Due to banks and other financial institutions	12,163,029	-	-	12,163,029
Deposits by customers	436,584,196	(141,904,041)	-	294,680,155
Loans received from government agencies	91,845,746	-	-	91,845,746
Other financial liabilities	891,533	-	-	891,533

Off – balance sheet risk

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

Geographical concentration

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

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

	The Republic of Azerbaijan	OECD countries	Other non-OECD countries	December 31, 2016 Total
NON-DERIVATIVE FINANCIAL ASSETS				
Cash and balances with the CBAR	8,764,223	231,986	43,996	9,040,205
Due from banks	2,182,548	2,218,686	-	4,401,234
Available-for-sale investments	19,036,673	-	-	19,036,673
Loans to customers	411,479,771	-	-	411,479,771
Other financial assets	485,559	-	-	485,559
Total non-derivative financial assets	**441,948,774**	**2,450,672**	**43,996**	**444,443,442**
NON-DERIVATIVE FINANCIAL LIABILITIES				
Due to banks and other financial institutions	27,315,032	-	-	27,315,032
Deposits by customers	279,796,482	3,375,994	7,826,693	290,999,169
Loans received from government agencies	89,457,286	-	-	89,457,286
Other financial liabilities	1,096,124	-	-	1,096,124
Total non-derivative financial liabilities	**397,664,924**	**3,375,994**	**7,826,693**	**408,867,611**
NET POSITION ON NON-DERIVATIVE FINANCIAL INSTRUMENTS	**44,283,850**	**(925,322)**	**(7,782,697)**	

	The Republic of Azerbaijan	OECD countries	Other non-OECD countries	December 31, 2015 Total
NON-DERIVATIVE FINANCIAL ASSETS				
Cash and balances with the CBAR	19,552,458	3,264,397	340,037	23,156,892
Due from banks	3,431,773	1,953,928	-	5,385,701
Available-for-sale investments	17,789,639	-	-	17,789,639
Loans to customers	525,016,156	-	-	525,016,156
Other financial assets	723,314	-	-	723,314
Total non-derivative financial assets	**566,513,340**	**5,218,325**	**340,037**	**572,071,702**
NON-DERIVATIVE FINANCIAL LIABILITIES				
Due to banks and other financial institutions	12,070,487	-	92,542	12,163,029
Deposits by customers	425,528,982	6,816,143	4,239,071	436,584,196
Loans received from government agencies	91,845,746	-	-	91,845,746
Other financial liabilities	891,533	-	-	891,533
Total non-derivative financial liabilities	**530,336,748**	**6,816,143**	**4,331,613**	**541,484,504**
NET POSITION ON NON-DERIVATIVE FINANCIAL INSTRUMENTS	**36,176,592**	**(1,597,818)**	**(3,991,576)**	

Collateral

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

The main types of collateral obtained are as follows:

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

At December 31, 2016 and 2015, the fair value of collateral that the bank holds related to loans individually determined to be impaired amounts to AZN 138,876,619 and AZN 57,926,960. The collaterals consist of real estate, equipment and inventories (December 31, 2015: real estate, equipment, and inventories).

During the year ended December 31, 2016 and 2015, the Bank took possession of property with a carrying value of AZN 838,568 and AZN 172,125, respectively, at the reporting date, which the Bank is in the process of selling.

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

Credit quality of financial assets

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

December 31, 2016	BBB and bellow	BB+ and bellow	CCC+ and bellow	Unrated	Total
Balances with the CBAR (including restricted deposits)	-	6,775,074	-	-	6,775,074
Correspondent accounts and short term deposits in other banks	261,352	19,703	-	2,282	283,337
Due from banks	4,401,234		-	-	4,401,234
Available-for-sale investments	-	-	-	19,036,673	19,036,673
Loans to customers	-	-	-	411,479,771	411,479,771
Other financial assets	-	-	-	485,559	485,559

December 31, 2015	BBB and bellow	BB+ and bellow	CCC+ and bellow	Unrated	Total
Balances with the CBAR (including restricted deposits)	-	2,743,189	-	-	2,743,189
Correspondent accounts and short term deposits in other banks	3,264,873	229,852	168,102	1,570,930	5,233,757
Due from banks	1,921,279	5,368	-	3,459,054	5,385,701
Available-for-sale investments	-	-	-	17,789,639	17,789,639
Loans to customers	-	-	-	525,016,157	525,016,157
Other financial assets	-	-	-	723,314	723,314

Financial assets other than loans to customers are graded according to the current credit rating they have been issued by an internationally regarded agency such as Fitch, Standard & Poor's and Moody's. The highest possible rating is AAA. Investment grade financial assets have ratings from AAA to BBB. Financial assets which have ratings lower than BBB are classed as speculative grade.

As at December 31, 2016 and 2015, the balances with the Central Bank of the Republic of Azerbaijan amounted to 6,775,074 AZN and AZN 2,743,189, respectively. The credit rating of the Republic of Azerbaijan according to the international rating agencies in 2016 corresponded to BB+ (2015: BB+).

Unrated banks in which the Bank has correspondent accounts and short term deposit balances are among top 8 banks in the Republic of Azerbaijan based on their total assets.

Liquidity risk

Liquidity risk refers to the availability of sufficient funds to meet deposit withdrawals and other financial commitments associated with financial instruments as they actually fall due.

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

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

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

	Weighted average effective interest rate	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	December 31, 2016 Total
NON-DERIVATIVE FINANCIAL ASSETS								
Time deposits in other banks with original maturity less than or equal to 90 days	0.00%	8,854	-	-	-	-	-	8,854
Due from banks		-	-	-	-	-	4,401,234	4,401,234
Available-for-sale investments	11.75%	-	-	-	-	-	18,756,673	18,756,673
Loans to customers	9.64%	62,662,186	2,935,800	118,314,604	179,632,702	47,934,479	-	411,479,771
Cash and balances with the CBAR		8,739,160	-	-	-	-	-	8,739,160
Correspondent accounts		292,191	-	-	-	-	-	292,191
Available-for-sale investments		-	-	-	-	-	280,000	280,000
Other financial assets		485,559	-	-	-	-	-	485,559
Total non-derivative financial assets		**72,187,950**	**2,935,800**	**118,314,604**	**179,632,702**	**47,934,479**	**23,437,907**	**444,443,442**
NON-DERIVATIVE FINANCIAL LIABILITIES AND COMMITMENTS								
Deposits by customers	6.80%	18,129,388	26,129,767	149,164,783	31,478,325	-	-	224,902,263
Loans received from government agencies	4.28%	429,200	1,092,587	195,732	42,248,218	45,491,549	-	89,457,286
Due to banks and other financial institutions	6,33%	1,007,325	-	25,958,235	-	-	-	26,965,560
Due to banks and other financial institutions	0.00%	349,472	-	-	-	-	-	349,472
Deposits by customers	0.00%	66,096,906	-	-	-	-	-	66,096,906
Other financial liabilities	0.00%	1,096,124	-	-	-	-	-	1,096,124
Commitments on loans and unused credit lines	0.00%	207,517	634,235	10,088,028	599,946	-	-	11,529,726
Guarantees issued and similar commitments	1.70%	6,990,732	506,631	11,419,104	3,176,522	-	-	22,092,989
Total non-derivative financial liabilities and commitments		**94,306,664**	**28,363,220**	**196,825,882**	**77,503,011**	**45,491,549**	**-**	**442,490,326**
Liquidity gap		(22,118,714)	(25,427,420)	(78,511,278)	102,129,691	2,442,930		
Cumulative liquidity gap		**(22,118,714)**	**(47,546,134)**	**(126,057,412)**	**(23,927,721)**	**(21,484,791)**		

	Weighted average effective interest rate	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	December 31, 2015 Total
NON-DERIVATIVE FINANCIAL ASSETS								
Time deposits in other banks with original maturity less than or equal to 90 days	0.00%	7,797	-	-	-	-	-	7,797
Due from banks	16.00%	-	-	-	-	-	3,431,773	3,431,773
Available-for-sale investments	11.75%	-	-	17,509,639	-	-	-	17,509,639
Loans to customers	11.49%	39,540,281	162,560,289	108,136,783	147,463,224	67,315,580	-	525,016,157
Cash and balances with the CBAR	0.00%	17,915,338	-	-	-	-	-	17,915,338
Correspondent accounts	0.00%	5,233,757	-	-	-	-	-	5,233,757
Due from banks	0.00%	-	-	-	-	-	1,953,928	1,953,928
Available-for-sale investments	0.00%	-	-	-	-	-	280,000	280,000
Other financial assets	0.00%	723,314	-	-	-	-	-	723,314
Total non-derivative financial assets		**63,420,487**	**162,560,289**	**125,646,422**	**147,463,224**	**67,315,580**	**5,665,701**	**572,071,703**
NON-DERIVATIVE FINANCIAL LIABILITIES AND COMMITMENTS								
Deposits by customers	12.00%	109,137,900	68,383,980	111,356,981	68,023,777	-	-	356,902,638
Loans received from government agencies	2.14%	1,364,689	2,506,573	10,828,564	53,356,390	23,789,530	-	91,845,746
Due to banks and other financial institutions	0.00%	12,163,029	-	-	-	-	-	12,163,029
Deposits by customers	0.00%	79,681,558	-	-	-	-	-	79,681,558
Other financial liabilities	0.00%	891,533	-	-	-	-	-	891,533
Commitments on loans and unused credit lines	0.00%	5,015,602	1,315,602	11,548,902	1,809,223	-	13,523	19,702,852
Guarantees issued and similar commitments	1.88%	145,287	5,406,057	16,419,854	-	-	-	21,971,198
Total non-derivative financial liabilities and commitments		**208,399,598**	**77,612,212**	**150,154,301**	**123,189,390**	**23,789,530**	**13,523**	**583,158,554**
Liquidity gap		(144,979,111)	84,948,077	(24,507,879)	24,273,834	43,526,050		
Cumulative liquidity gap		**(144,979,111)**	**(60,031,034)**	**(84,538,913)**	**(60,265,079)**	**(16,739,029)**		

The short-term liquidity gap of the Bank at December 31, 2016 has been negatively impacted by the increase in demand and less than 1 month and 3 months to 1 year category of deposits by customers amounting to AZN 215,261,689. This increase has been driven by customers demand to place funds in either foreign exchange denominated deposit or demand accounts as a result of the devaluations of the Azerbaijani Manat in February and December 2015 and during 2016. Management is in the process of negotiating new maturities of borrowings and amounts due to banks with an extension of maturities in a three to five year window. In addition they are looking to attract finance from the existing shareholders. The Management believes that the shareholders will continue to support the Bank in case of any liquidity mismatch.

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

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

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

	Weighted average effective interest rate	**Up to 1 month**	**1 month to 3 months**	**3 months to 1 year**	**1 year to 5 years**	**Over 5 years**	**December 31, 2016 Total**
Deposits by customers	7.00%	19,306,149	28,363,186	155,661,493	37,149,936	-	240,480,764
Due to banks and other financial institutions	6.00%	1,144,565	274,481	26,655,271	-	-	28,074,317
Loans received from government agencies	2.14%	622,175	1,318,879	1,232,413	47,190,210	49,724,689	100,088,366
Guarantees issued and similar commitments	1.70%	7,254,578	961,803	12,289,836	3,819,679	-	24,325,896
Due to banks and other financial institutions	0.00%	349,472	-	-	-	-	349,472
Deposits by customers	0.00%	66,096,906	-	-	-	-	66,096,906
Other financial liabilities	0.00%	1,096,124	-	-	-	-	1,096,124
Commitments on loans and unused credit lines	0.00%	223,658	661,427	10,137,951	627,387	-	11,650,423
Total financial liabilities and commitments		**96,093,627**	**31,579,776**	**205,976,964**	**88,787,212**	**49,724,689**	**472,162,268**

	Weighted average effective interest rate	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	December 31, 2015 Total
Deposits by customers	12.00%	137,968,215	73,878,537	121,737,583	83,383,506	-	416,967,841
Due to banks and other financial institutions	0.00%	12,163,029	-	-	-	-	12,163,029
Loans received from government agencies	1.51%	1,369,388	2,734,416	11,829,941	58,948,659	34,630,256	109,512,660
Guarantees issued and similar commitments	1.88%	147,871	5,418,466	16,719,994	-	-	22,286,331
Due to banks and other financial institutions	0.00%	12,163,029	-	-	-	-	12,163,029
Deposits by customers	0.00%	79,681,558	-	-	-	-	79,681,558
Other financial liabilities	0.00%	891,534	-	-	-	-	891,534
Commitments on loans and unused credit lines	0.00%	5,015,601	1,315,602	11,548,902	1,809,223	-	19,689,328
Total financial liabilities and commitments		**249,400,225**	**83,347,021**	**161,836,420**	**144,141,388**	**34,630,256**	**673,355,310**

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

The maximum amount the Bank could be forced to settle under the financial guarantee contracts if the fully guaranteed amount is claimed by the counterparty to the guarantee is AZN 24,325,896 as at December 31, 2016 (2015: AZN 22,286,331).

Market Risk

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

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

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

Interest rate sensitivity

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

At December 31, 2016, the Bank did not have financial instruments at variable interest rates.

Currency risk

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

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

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

	AZN	**USD**	**EUR**	**Other currency**	**December 31, 2016 Total**
NON-DERIVATIVE FINANCIAL ASSETS					
Cash and balances with the CBAR	7,936,286	746,229	231,200	126,490	9,040,205
Due from banks	2,182,548	2,218,686	-	-	4,401,234
Available-for-sale investments	19,036,673	-	-	-	19,036,673
Loans to customers	188,167,217	205,415,960	17,896,594	-	411,479,771
Other financial assets	296,278	84,309	93,449	11,523	485,559
Total non-derivative financial assets	**217,619,002**	**208,465,184**	**18,221,243**	**138,013**	**444,443,442**
NON-DERIVATIVE FINANCIAL LIABILITIES					
Due to banks and other financial institutions	16,084,506	11,159,960	70,566	-	27,315,032
Deposits by customers	73,778,770	204,971,791	11,895,287	353,321	290,999,169
Loans received from government agencies	89,457,286	-	-	-	89,457,286
Other financial liabilities	860,931	21,553	213,468	172	1,096,124
Total non-derivative financial liabilities	**180,181,493**	**216,153,304**	**12,179,321**	**353,493**	**408,867,611**
OPEN POSITION	**37,437,509**	**(7,688,120)**	**6,041,922**	**(215,480)**	

	AZN	USD	EUR	Other currency	December 31, 2015 Total
NON-DERIVATIVE FINANCIAL ASSETS					
Cash and balances with the CBAR	12,102,530	9,669,026	719,734	665,602	23,156,892
Due from banks	304,757	1,924,916	3,156,028	-	5,385,701
Available-for-sale investments	17,789,639	-	-	-	17,789,639
Loans to customers	251,093,558	267,674,824	6,247,775	-	525,016,157
Other financial assets	495,955	199,277	17,096	10,986	723,314
Total non-derivative financial assets	**281,786,439**	**279,468,043**	**10,140,633**	**676,588**	**572,071,703**
NON-DERIVATIVE FINANCIAL LIABILITIES					
Due to banks and other financial institutions	-	12,059,310	103,719	-	12,163,029
Deposits by customers	144,641,696	276,194,848	15,663,766	83,886	436,584,196
Loans received from government agencies	91,845,746	-	-	-	91,845,746
Other financial liabilities	550,281	289,878	48,422	2,952	891,533
Total non-derivative financial liabilities	**237,037,723**	**288,544,036**	**15,815,907**	**86,838**	**541,484,504**
OPEN POSITION	**44,748,716**	**(9,075,993)**	**(5,675,274)**	**589,750**	

Currency risk sensitivity

The following table details the Bank's sensitivity to a 10% increase and decrease (2015: 10% increase and decrease) in the AZN against the relevant foreign currencies. 10% (2015: 10%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% (2015: 10%) change in foreign currency rates. A positive number below indicates an increase in profit and other equity where the AZN strengthens 10% (2015: 10%) against the relevant currency. For a 10% (2015: 10%) weakening of the AZN against the relevant currency, there would be a comparable impact on the profit and other equity, and the balances below would be negative.

	USD impact			EUR impact	
	2016	**2015**		**2016**	**2015**
Profit before tax	(768,812)	(907,599)	(i)	604,192	(567,527)
Equity	(615,050)	(726,079)	(i)	483,354	(454,022)

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

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

Limitations of sensitivity analysis

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

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

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

Operational risk

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

33. Events after the Reporting Period

On March 6, 2017, following the decision of the General Shareholders' Meeting of the Bank the Board of Directors has approved an issue of 1,000,000 ordinary shares with the par value of AZN 20 each. The holders of ordinary shares are entitled to receive dividends and are entitled to one vote per share at annual and other General Shareholders' Meetings of the Bank.

Subsequent to the reporting period, taking into account the necessity of enhancing banks' capital position, increase of efficiency and depth of financial intermediation and creation of new bank with higher liquidity and larger share capital, shareholders of "Atabank" OJSC and another local commercial bank "Caspian Development Bank" OJSC have made a decision to merge. As a result of this merger, the Bank's authorized share capital was increased to AZN 120,020,000.