UNIBANK COMMERCIAL BANK

Consolidated Financial Statements
For the Year Ended 31 December 2016

UNIBANK COMMERCIAL BANK

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Independent Auditors' Report

To the Shareholders and Executive Board of Open Joint Stock Company Unibank Commercial Bank

Opinion

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

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

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 Consolidated Financial Statements* section of our report. We are independent of the Group 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 the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 2 of the consolidated financial statements, which indicates that the Group incurred a net loss of AZN 117,132 thousand for the year ended 31 December 2016 and, as at that date, its liabilities exceeded its assets by AZN 87,287 thousand. The Group's total Basel I capital adequacy ratio was below the minimum requirement. As stated in Note 2, these events or conditions, along with the other matters as set forth in Note 2, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

"KPMG Audit Azerbaijan LLC", a company incorporated under the Laws of the Republic of Azerbaijan, a member firm of the KPMG network of independent firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss cooperative.

Emphasis of Matter - Comparative Information

We draw attention to Note 2 to the consolidated financial statements which indicates that the comparative information presented as at and for the year ended 31 December 2015 has been restated. Our opinion is not modified in respect of this matter.

Other Matter - Comparative Information

The consolidated financial statements of the Group as at and for the years ended 31 December 2015 and 31 December 2014 (from which the statement of financial position as at 1 January 2015 has been derived), excluding the adjustments described in Note 2 to the consolidated financial statements were audited by another auditor who expressed an unmodified opinion on those financial statements on 10 May 2016.

As part of our audit of the consolidated financial statements as at and for the year ended 31 December 2016, we audited the adjustments described in Note 2 that were applied to restate the comparative information presented as at and for the year ended 31 December 2015 and the statement of financial position as at 1 January 2015. We were not engaged to audit, review, or apply any procedures to the consolidated financial statements for the years ended 31 December 2015 or 31 December 2014 (not presented herein) or to the consolidated statement of financial position as at 1 January 2015, other than with respect to the adjustments described in Note 2 to the consolidated financial statements. Accordingly, we do not express an opinion or any other form of assurance on those respective financial statements taken as a whole. However, in our opinion, the adjustments described in Note 2 are appropriate and have been properly applied.

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

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

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

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an 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 consolidated financial statements.

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

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

We communicate with 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.

The engagement partner on the audit resulting in this independent auditors' report is:

Vugar Aliyev
KPMG Audit Azerbaijan LLC
Baku, Azerbaijan
15 June 2017

UNIBANK COMMERCIAL BANK

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2016
(in thousands of Azerbaijan Manats)

	Notes	31 December 2016	31 December 2015 (restated/ reclassified)
ASSETS			
Cash and cash equivalents	5	53,192	120,780
Mandatory cash balances with the Central Bank of the Republic of Azerbaijan		3,397	2,693
Due from other banks	6	141,214	154,255
Loans and advances to customers	7	350,146	648,245
Investment securities available-for-sale	8	498	495
Advances to the Ministry of Taxes of the Republic of Azerbaijan		4,713	9,578
Deferred income tax asset	24	6,412	7,805
Premises and equipment	9	44,922	48,658
Intangible assets	9	6,665	4,671
Other financial assets	10	8,849	8,607
Other assets	11	8,714	9,260
TOTAL ASSETS		**628,722**	**1,015,047**
LIABILITIES AND EQUITY			
LIABILITIES:			
Due to banks and other financial institutions	12	19,426	7,503
Customer accounts	13	373,334	571,693
Debt securities in issue	14	12,309	60,558
Term borrowings	15	258,431	294,244
Other financial liabilities	16	6,651	4,122
Other liabilities		216	1,426
Subordinated debt	17	31,642	29,322
Preference shares	18	14,000	16,334
TOTAL LIABILITIES		**716,009**	**985,202**
EQUITY:			
Equity attributable to owners of the Bank:			
Share capital	19	56,565	56,565
Share premium	19	484	484
Accumulated deficit		(121,823)	(14,894)
TOTAL EQUITY ATTRIBUTABLE TO OWNERS OF THE BANK		**(64,774)**	**42,155**
Non-controlling interest		(22,513)	(12,310)
TOTAL EQUITY		**(87,287)**	**29,845**
TOTAL LIABILITIES AND EQUITY		**628,722**	**1,015,047**

On behalf of the Executive Board:

Mr. Faig Huseynov

Chairman of the Board of Directors
Baku, the Republic of Azerbaijan

15 June 2017

Mr. Emin Rasulzade

Chief Financial Officer
Baku, the Republic of Azerbaijan

15 June 2017

The notes on pages 10-73 form an integral part of these consolidated financial statements.

UNIBANK COMMERCIAL BANK

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

(in thousands of Azerbaijan Manats, unless otherwise indicated)

	Notes	Year ended 31 December 2016	Year ended 31 December 2015
Interest income	20	125,459	171,209
Interest expense	20	(48,272)	(60,059)
Net interest income		**77,187**	**111,150**
Provision for impairment losses on interest bearing assets	21	(148,498)	(78,454)
Net interest (expense)/income after provision for impairment		**(71,311)**	**32,696**
Fee and commission income	22	9,915	15,328
Fee and commission expense	22	(5,815)	(5,659)
Gains less losses from trading in foreign currencies		10,675	7,552
Net foreign exchange translation loss		(11,602)	(65,450)
Impairment loss on other assets	21	(874)	(3,458)
Provision for credit related commitments	21	365	(365)
Other operating (loss)/income, net		(3,619)	158
Administrative and other operating expenses	23	(43,383)	(57,576)
Loss before income tax		**(115,649)**	**(76,774)**
Income tax (expense)/benefit	24	(1,483)	6,824
Loss and total comprehensive loss for the year		**(117,132)**	**(69,950)**
Total comprehensive loss attributable to:			
Owners of the Bank		(106,929)	(60,128)
Non-controlling interest		(10,203)	(9,822)
Total comprehensive loss for the year		**(117,132)**	**(69,950)**
Loss per share for loss attributable to the owners of the Bank, basic and diluted (AZN)	25	**(5.14)**	**(2.89)**

On behalf of the Executive Board:

Mr. Faig Huseynov

Chairman of the Board of Directors
Baku, the Republic of Azerbaijan

15 June 2017

Mr. Emin Rasulzade

Chief Financial Officer
Baku, the Republic of Azerbaijan

15 June 2017

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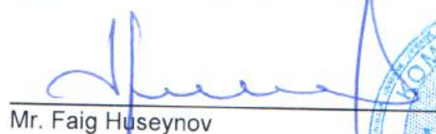
UNIBANK COMMERCIAL BANK

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2016

(in thousands of Azerbaijan Manats)

	Share capital	Share premium	Retained earnings/ (accumulated deficit)	Total equity attributable to owners of the Bank	Non-controlling interest	Total equity
1 January 2015	**56,565**	**484**	**50,434**	**107,483**	**(2,488)**	**104,995**
Loss and total comprehensive loss for the year	-	-	(60,128)	(60,128)	(9,822)	(69,950)
Dividends declared	-	-	(5,200)	(5,200)	-	(5,200)
31 December 2015	**56,565**	**484**	**(14,894)**	**42,155**	**(12,310)**	**29,845**
Loss and total comprehensive loss for the year	-	-	(106,929)	(106,929)	(10,203)	(117,132)
31 December 2016	**56,565**	**484**	**(121,823)**	**(64,774)**	**(22,513)**	**(87,287)**

On behalf of the Executive Board:



Mr. Faig Huseynov

Chairman of the Board of Directors
Baku, the Republic of Azerbaijan

15 June 2017

Mr. Emin Rasulzade

Chief Financial Officer
Baku, the Republic of Azerbaijan

15 June 2017

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UNIBANK COMMERCIAL BANK

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2016
(in thousands of Azerbaijan Manats)

	Notes	Year ended 31 December 2016	Year ended 31 December 2015 (reclassified)
CASH FLOWS FROM OPERATING ACTIVITIES:			
Interest received		92,015	156,860
Interest paid		(58,959)	(54,472)
Fees and commissions received		9,873	15,451
Fees and commissions paid		(5,815)	(5,659)
Income received from trading in foreign currencies		10,675	7,552
Other operating (expenses paid)/income received		(3,702)	168
Administrative and other operating expenses paid		(36,923)	(53,206)
Income tax paid		(89)	(16,085)
Cash flows from operating activities before changes in operating assets and liabilities		7,075	50,609
Change in operating assets and liabilities:			
Net (increase)/decrease in mandatory cash balances with the CBAR		(704)	8,915
Net decrease/(increase) in due from other banks		22,427	(91,482)
Net decrease in loans and advances to customers		213,938	159,746
Net decrease/(increase) in other financial assets		592	(1,428)
Net increase in other assets		(2,166)	(141)
Net increase/(decrease) in due to banks and other financial institutions		11,648	(18,924)
Net decrease in customer accounts		(230,106)	(165,848)
Net increase/(decrease) in other financial liabilities		2,007	(1,447)
Net (decrease)/increase in other liabilities		(599)	1,250
Net cash from/(used in) operating activities		**24,112**	**(58,750)**
CASH FLOWS FROM INVESTING ACTIVITIES:			
Acquisition of investment securities available-for-sale		-	(35)
Proceeds from sale of investment securities available-for-sale		-	6,999
Acquisition of premises, equipment and intangible assets		(2,828)	(4,669)
Proceeds from disposal of premises and equipment		201	47
Net cash (used in) from investing activities		**(2,627)**	**2,342**
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from term borrowings		57,005	142,277
Repayment of term borrowings		(96,078)	(88,953)
Repayment of subordinated debt		(121)	-
Proceeds from issue of debt securities		-	10,557
Redemption of debt securities in issue		(48,973)	-
Dividends paid		-	(5,200)
Net cash (used in)/from financing activities		**(88,167)**	**58,681**
Effect of exchange rate changes on cash and cash equivalents		(906)	56,867
Net (decrease)/increase in cash and cash equivalents		(67,588)	59,140
Cash and cash equivalents at the beginning of the year	5	120,780	61,640
Cash and cash equivalents at the end of the year	5	**53,192**	**120,780**

On behalf of the Executive Board:

Mr. Faig Huseynov

Chairman of the Board of Directors
Baku, the Republic of Azerbaijan

15 June 2017

Mr. Emin Rasulzade

Chief Financial Officer
Baku, the Republic of Azerbaijan

15 June 2017

The notes on pages 10-73 form an integral part of these consolidated financial statements.

1. ORGANIZATION

These consolidated financial statements for the year ended 31 December 2016 for the Unibank Commercial Bank OJSC (the "Bank") and its subsidiaries (together referred to as the "Group"), have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The Bank was incorporated and is domiciled in the Republic of Azerbaijan. The Bank is a joint stock company limited by shares and was set up in accordance with Azerbaijani regulations. As at 31 December 2016 the Bank is ultimately controlled by Mr. Eldar Garibov (31 December 2015: Mr. Eldar Garibov) (see Note 19).

On 17 June 2004, the Bank registered Closed Joint Stock Company Unileasing ("Unileasing") with the Ministry of Justice of the Republic of Azerbaijan. The company commenced its operations in August 2004 and 66.7% of share capital were owned by the Bank as at 31 December 2016. Subsequent to the end of reporting period, the Bank sold its ownership in the company to a third party individual. See Note 31.

On 23 January 2008, the Bank registered its fully owned subsidiary, Limited Liability Company Unicapital ("Unicapital"), with the Ministry of Justice of the Republic of Azerbaijan. The company commenced its operations in February 2008. Major activities of the company are trust management of stock portfolios and dealing in the stock market of the Republic of Azerbaijan.

Principal activity. The principal business activity of the Bank is commercial and retail banking operations within the Republic of Azerbaijan. The Bank has been operating under a full banking license issued by the Central Bank of the Republic of Azerbaijan (the "CBAR") since 1992.

The Bank participates in the state deposit insurance scheme, which was introduced by the "Law Deposit Insurance" dated 29 December 2006. The Azerbaijan Deposit Insurance Fund guarantees repayment of 100% of individual deposits meeting the following criteria:

- placed between 1 August 2013 and 19 May 2014 in local or foreign currency for an equivalent of up to AZN 30,000 and bearing annual interest rate not higher than 10%;
- placed between 19 May 2014 and 24 February 2015 in local or foreign currency for an equivalent of up to AZN 30,000 and bearing annual interest rate not higher than 9%;
- placed between 24 February 2015 and 1 March 2016 in local or foreign currency for an equivalent of up to AZN 30,000 and bearing annual interest rate not higher than 12%;
- placed after 2 March 2016 for any amount for up to 3 years at annual interest rate not higher than 15% for local currency and 3% for foreign currency deposits.

As at 31 December 2016 the Bank has 32 branches (31 December 2015: 34 branches) within the Republic of Azerbaijan.

The Bank's registered address is:
55 R. Behbudov Street
AZ1022, Baku, the Republic of Azerbaijan

Business environment

The Group's operations are primarily located in Azerbaijan. Consequently, the Group is exposed to the economic and financial markets of Azerbaijan, which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which, together with other legal and fiscal impediments contribute to the challenges faced by entities operating in Azerbaijan. In addition, the recent significant depreciation of the Azerbaijani Manat, and the reduction in the global price of oil, have increased the level of uncertainty in the business environment.

The financial statements reflect management's assessment of the impact of the Azerbaijani business environment on the operations and the financial position of the Group . The future business environment may differ from management's assessment.

2. BASIS OF PREPARATION

Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC").

Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except that available-for-sale financial assets are stated at fair value.

Functional currency

The functional currency of the Bank and its subsidiaries is the Azerbaijan Manat ("AZN"), as being the national currency of the Republic of Azerbaijan, it reflects the economic substance of the majority of underlying events and circumstances relevant to them. The AZN is also the presentation currency for the purposes of these consolidated financial statements. All values are rounded to the nearest thousand AZN's, except when otherwise indicated.

Going concern

During the year ended 31 December 2016, the Group incurred losses after tax in the amount of AZN 117,132 thousand (31 December 2015: AZN 69,950 thousand). The key factors of the negative financial results were an increase of the loan impairment provisions for both cash consumer and business loan portfolios, decrease of interest income due to the decrease of the loan portfolio as a result of temporary stoppage of lending operations during 2015 and 2016. The slowdown of the retail portfolio was caused by the tightening of lending conditions and decrease in the creditworthiness of individuals.

Therefore, the level of provision for the loans to customers notably grew in 2016 from 20.7% as at 31 December 2015 to 48.5% as at 31 December 2016. The Group's management believes that this increase in provisioning levels adequately reflects the impairments in the Group's loan portfolio taking into account current economic conditions.

The decline in most sectors of Azerbaijani economy and decline in oil prices in 2015 had a serious impact on the Azerbaijan banking sector. To ensure future operational profitability and maintain financial stability, the Group's management and shareholders intend to develop the Group's business in the retail sector focusing on operational income, lending to low-risk clientele and further improvement of cost efficiency.

The adequacy of the Group`s capital is monitored using, among other measures, the ratios established by the Basel Capital Accord 1988 and the ratios established by the Financial Market Supervisory Authority of the Republic Of Azerbaijan ("FIMSA") in supervising the Bank.

As set out in Note 4, as at 31 December 2016, the Bank`s capital adequacy ratio in accordance with the FIMSA requirements was 11.78%, when the minimum regulatory requirement for capital adequacy ratio was 10%. However, as at 31 December 2016, the capital adequacy of the Group in accordance with the Basel Capital Accord requirements was negative 17.03%, whereas the minimum total capital adequacy requirement is 8%. At 31 December 2016, this capital deficiency per the Basel Capital Accord resulted in a breach of covenants related primarily to the Group`s term borrowings for the outstanding amount of AZN 21,036 thousand. Non-compliance with such covenants may result in negative consequences for the Group including, growth in the cost of term borrowings and timing of repayment of existing facilities.

The management have discussed the capital deficiency outlined in these consolidated financial statements both with the Supervisory Board and IFI shareholders, EBRD and DEG. A decision was made by the shareholders to recapitalize the Group via increase of the share capital for the amount of AZN 50,000 thousand.

On 3 October 2016, as part of the capitalization plan the Supervisory Board of the Bank authorized for issue ordinary shares to increase the share capital for a minimum of AZN 50,000 thousand.

On 9 December 2016, a term sheet outlining the main terms of share capital increase for AZN 50 million and post-increase shareholding structure was signed among the Group's ultimate controlling party and representatives of EBRD and DEG. According to the term sheet, EBRD and DEG would subscribe for newly issued shares in the total amount of approximately AZN 39 million with the rest of the shares to be subscribed by the ultimate controlling party, who would continue to have majority ownership in the Group.

Subsequent to 31 December 2016, a formal period allocated for a completion of the share increase expired due to a delay in approval of new shareholders' structure by the government authorities. On 18 April 2017, the Supervisory Board re-authorised an emission of ordinary shares for the amount of AZN 50 million. On 25 April 2017, the government authorities approved the planned share subscription of EBRD and DEG. As at the date these consolidated financial statements were authorized for issue, the shares were not issued, subscribed for and paid in.

As disclosed in Note 31, on 9 June 2017, the Bank signed separate share subscription agreements, where EBRD and DEG agreed to subscribe for 5,391,384 and 8,988,971 new ordinary shares of the Bank for a total cash consideration of AZN 14,665 thousand and AZN 24,450 thousand, respectively. As at the date these consolidated financial statements were authorized for issue, the ultimate controlling party paid-in AZN 10,000 thousand into an escrow account in a depository for a purchase of 3,676,471 ordinary shares.

Based on management`s assessment and the actions being undertaken, management believes that the Group will be able to cover its liquidity needs for the twelve months after the balance sheet date as presented in undiscounted maturity table Note 27.

These consolidated financial statements have been prepared based on the assumption that the Group will continue as a going concern for the foreseeable future.

Management acknowledges that the regulator may use financial results of the Bank as set out in these consolidated financial statements to assess a sufficiency of the Bank's total capital for statutory compliance purposes. In this case, a material uncertainty exists about the Bank's compliance with the minimum total statutory capital requirement set by the regulator.

However, as described above, management has a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. As well as the Group's management believes that the going concern assumption is applicable to the Group, as it expects a sufficient level of further capital increase by existing shareholders if necessary, as well as historical experience proving that the Group's current liabilities have been refinanced in the ordinary course of its activities. Management is currently developing further plans and strategies to return the Group to profitability and to improve its internal capital generation capacity.

Use of estimates and judgments

In the application of the Group's accounting policies, which are described in Note 3, the directors are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

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 loans and receivables

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

The Group uses management's judgment to estimate the amount of any impairment loss in cases where a borrower has financial difficulties and there are few available sources of historical data relating to similar borrowers. Similarly, the Group estimates changes in future cash flows based on past performance, past customer behavior, observable data indicating an adverse change in the payment status of borrowers in a group, and national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans. The Group 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 consolidated financial statements have been determined on the basis of existing economic and political conditions. The Group is not in a position to predict what changes in conditions will take place in the Republic of Azerbaijan and what effect such changes might have on the adequacy of the allowances for impairment of financial assets in future periods.

As at 31 December 2016 and 2015, the gross loans and advances to customers totaled AZN 680,397 thousand and AZN 817,196 thousand, respectively, and provision for loan impairment amounted to AZN 330,251 thousand and AZN 168,951 thousand, respectively

Valuation of financial instruments

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

Tax legislation

Azerbaijani tax, currency and customs legislation is subject to varying interpretations. Refer to Note 28.

Recoverability of deferred tax assets

The management of the Group reviews deferred tax assets at the end of each reporting period and reduces it 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. The carrying value of deferred tax assets amounted to AZN 6,412 thousand and AZN 7,805 thousand as at 31 December 2016 and 2015, respectively.

The recoverability of the deferred tax asset has been determined using profitability forecasts used in the long-term business strategy of the Group, including the assumption of planned business changes within the Group. These assumptions were tested for sensitivity to confirm that the estimates used are not overestimated or aggressive. The time horizon of the forecasts used was limited to 5 years – the period when the tax loss carry forward can be utilized in accordance with Azerbaijan tax rules.

Initial recognition of related party transactions

In the normal course of business the Group enters into transactions with its related parties. IAS 39 requires initial recognition of financial instruments based on their fair values. Judgment 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 judgment is pricing for similar types of transactions with unrelated parties and effective interest rate analysis. The management concluded that interest rates for transactions with related parties do not significantly differ from those applied to transactions with third parties. Terms and conditions of related party balances are disclosed in Note 30.

Capital adequacy ratio

Capital adequacy ratio is calculated in accordance with the International Convergence of Capital Measurement and Capital Standards (July 1988, updated in November 2005) or Basel Capital Accord requirements. Such requirements are subject to interpretation and accordingly the appropriateness of the inclusion, exclusion, and/or classification of amounts included in the calculation of the capital adequacy ratio requires management judgment, for example, whether the off-balance sheet commitments covered by blocked customer accounts would carry 0% risk for the purposes of calculating total risk-weighted assets. Currently, management believes that such off-balance sheet commitments carry 0% risk for the capital adequacy calculation purposes.

Term borrowings

Management has considered whether gains or losses should arise on initial recognition of loans from governmental and international financial institutions and related lending. The Group obtains long term financing from government and international financial institutions at interest rates at which such institutions ordinarily lend in emerging markets and which may be lower than rates at which the Group could source the funds from local lenders. As the transactions are with unrelated parties, management's judgment is that these funds and the related lending are at the market interest rates and no initial recognition gains or losses should arise. In making this judgment management also considered that these instruments are a separate market segment.

Restatement of comparative information

Taxes payable on other than income amounting to AZN 1,871 thousand were netted-off with Advances to the Ministry of Taxes of the Republic of Azerbaijan since settlements with tax authorities are carried out on a net basis.

A balance in loans to customers amounting to AZN 7,180 thousand was netted-off with term borrowings and other assets, as the Bank acted as an agent and did not carry any credit risk for the financial asset nor was liable for the settlement of respective financial obligation.

	As previously reported	Restatement	As restated
Statement of financial position as at 31 December 2015			
Advances to the Ministry of Taxes of the Republic of Azerbaijan	11,449	(1,871)	9,578
Other liabilities	3,297	(1,871)	1,426
Loans and advances to customers	655,425	(7,180)	648,245
Term borrowings	301,297	(7,053)	294,244
Other assets	9,133	127	9,260

Change in presentation of comparative figures

Comparative information as at 31 December 2015 are reclassified to conform to changes in presentation in the current year as described below in order to give a clearer presentation of the business and its operations:

A balance amounting to AZN 4,462 thousand, previously presented in cash and cash equivalents was reclassified to due from other banks.

	As previously reported	Reclassified	As reclassified
Statement of financial position as at 31 December 2015			
Cash and cash equivalents	125,242	(4,462)	120,780
Due from other banks	149,793	4,462	154,255
Statement of cash flows for the year ended 31 December 2015			
Net decrease/(increase) in due from other banks	(87,020)	(4,462)	(91,482)
Net (decrease)/increase in cash and cash equivalents	63,602	(4,462)	59,140
Cash and cash equivalents at the end of the year	125,242	(4,462)	120,780

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below are applied consistently to all periods presented in these consolidated financial statements, and are applied consistently by Group entities.

Basis of consolidation

These consolidated financial statements incorporate the financial statements of the Bank and its subsidiaries. Control is achieved when the Bank:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Bank reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Bank has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Bank considers all relevant facts and circumstances in assessing whether or not the Bank's voting rights in an investee are sufficient to give it power, including:

- the size of the Bank's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Bank, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Bank has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Bank obtains control over the subsidiary and ceases when the Bank loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Bank gains control until the date when the Bank ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Bank and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Bank and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions and balances are eliminated in full on consolidation.

Non-controlling interests

Non-controlling interests represent the portion of profit or loss and net assets of subsidiaries not owned, directly or indirectly, by the Bank.

Non-controlling interests are presented separately in the consolidated statement of comprehensive income and within equity in the consolidated statement of financial position, separately from parent shareholders' equity.

Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of the Group entities at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value is determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments unless the difference is due to impairment in which case foreign currency differences that have been recognised in other comprehensive income are reclassified to profit or loss; a financial liability designated as a hedge of the net investment in a foreign operation to the extent that the hedge is effective; or qualifying cash flow hedges to the extent that the hedge is effective, which are recognised in other comprehensive income.

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

	31 December 2016	31 December 2015
AZN/1 USD	1.7707	1.5594
AZN/1 EUR	1.8644	1.7046

In January 2016, Standard & Poor's, international credit agency, has downgraded long-term and short-term foreign and national currency sovereign ratings. In December 2016, the Central Bank of the Republic of Azerbaijan announced floating exchange rate policy.

Recognition of interest income

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Group 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 receipts (including all fees on 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 debt instrument, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

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.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, unrestricted balances on correspondent accounts that are free from contractual encumbrances with the Central Bank of the Republic of Azerbaijan and other credit institutions.

Mandatory cash balance held with the CBAR

Mandatory cash balances with the CBAR are carried at amortised cost and represent non-interest bearing mandatory reserve deposits, which are not available to finance the Group's day to day operations and hence are not considered as part of cash and cash equivalents for the purposes of the consolidated statement of cash flows.

Financial instruments

The Group recognizes financial assets and liabilities in its consolidated 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.

i) Financial assets

Financial assets are classified into the following specified categories: 'held-to-maturity' investments, '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

Available-for-sale financial assets are non-derivatives that are either designated as available-for-sale or are not classified as (a) loans and receivables or (b) held-to-maturity investments or (c) FVTPL.

Listed shares and listed redeemable notes held by the Group that are traded in an active market are classified as AFS and are stated at fair value. The Group also has investments in unlisted shares that are not traded in an active market but that are also classified as AFS financial assets and stated

at fair value (because the Group management considers that fair value can be reliably measured). Fair value is determined in the manner described (see Note 29). Gains and losses arising from changes in fair value are recognised in other comprehensive income and accumulated in the investments revaluation reserve, with the exception of other-than-temporary impairment losses, interest calculated using the effective interest method, dividend income and foreign exchange gains and losses on monetary assets, which are recognised in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

The fair value of AFS monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of the reporting period. The foreign exchange gains and losses that are recognised in profit or loss are determined based on the amortised cost of the monetary asset. Other foreign exchange gains and losses are recognised in other comprehensive income.

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at the end of each reporting period.

Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as ‘loans and receivables’. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Impairment of financial assets

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

For listed and 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
- 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 Group’s past experience of collecting payments, an increase in the number of delayed payments in the portfolio, as well as observable changes in national or local economic conditions that correlate with default on receivables.

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

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

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

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

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

In respect of AFS equity securities, impairment losses previously recognized in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income and accumulated under the heading of investments 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 Group 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 provision for loan impairment when deemed uncollectible. Loans and advances are written off after management has exercised all possibilities available to collect amounts due to the Group and after the Group 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 consolidated statement of comprehensive income in the period of recovery.
In accordance with the statutory legislation, loans may only be written off with the approval of the Supervisory Board and, in certain cases, with the respective decision of the court.

Derecognition of financial assets

The Group 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 Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

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

ii) Financial liabilities and equity instruments issued

Classification as debt or equity

Debt and equity instruments 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 Group are recognised at the proceeds received, net of direct issue costs.

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

Other financial liabilities

Other financial liabilities, including depository instruments with the Central Bank of the Republic of Azerbaijan, due to other banks and customer accounts, debt securities in issue, term borrowings, subordinated debt and other liabilities are initially measured at fair value, net of transaction costs.

Preference shares represent shares that are non-redeemable and carry mandatory dividends, and are classified as financial liabilities.

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

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

Financial guarantee contracts

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

Financial guarantee contracts issued by the Group 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 Group derecognises financial liabilities when, and only when, the Group'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 or loss.

Offsetting

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

The principal accounting policies are set out below.

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 Group as lessor

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

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

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 its carrying amount and fair value less costs to sell in accordance with IFRS 5.

Premises and equipment

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

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

Depreciation

Land and construction in progress are not depreciated. Depreciation on other items of premises and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives:

	Residual values	Useful lives in years
Buildings	-	40 years
Office and computer equipment	10%	5 years
Furniture, fixtures and other equipment	10%	5 - 7 years
Leasehold improvements	-	over the term of the underlying lease

Construction in progress is carried at cost, less any recognised impairment loss. Cost includes professional fees. Such construction in progress is classified to the appropriate categories of property and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

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

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

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

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful lives of intangible assets are 10 years. 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.

Derecognition of intangible assets

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

Impairment of tangible and intangible assets

At the end of each reporting period, the Group 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 Group 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 group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

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

Non-current assets held for sale

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. Immediately before classification as held for sale, the assets, or components of a disposal group, are remeasured in accordance with the Group’s accounting policies. Thereafter generally, the assets, or disposal group, are measured at the lower of their carrying amount and fair value less cost to sell.

Taxation

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

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of 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 Group’s liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax

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

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

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

Current and deferred tax for the year

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

Operating taxes

Azerbaijan also has various other taxes, which are assessed on the Group’s activities. These taxes are included as a component of operating expenses in the consolidated statement of comprehensive income.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

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

Contingencies

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

Repossessed collateral

The Group 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 Group a claim on these assets for both existing and future customer liabilities.

In certain circumstances, assets are repossessed following the foreclosure on loans that are in default. Repossessed collateral is initially recognized at an amount equal to the carrying amount of a loan for which it was pledged. Repossessed assets are measured at the lower of its carrying amount and fair value less costs to sell.

Credit related commitments

The Group enters into credit related commitments, including letters of credit and financial guarantees. Financial guarantees represent irrevocable assurances to make payments in the event that a customer cannot meet its obligations to third parties and carry the same credit risk as loans. Financial guarantees and commitments to provide a loan are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the commitment, except for commitments to originate loans if it is probable that the Group will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination; such loan commitment fees are deferred and included in the carrying value of the loan on initial recognition. At the end of each reporting period, the commitments are measured at the higher of (i) the remaining unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the commitment at the end of each reporting period.

Equity reserves

The reserves recorded in equity (other comprehensive income) on the Group's consolidated statement of financial position include 'Available-for-sale' reserve which comprises changes in fair value of investment securities available-for-sale.

New standards and interpretations not yet adopted

The following new standards, amendments to standards, and interpretations are not yet effective as at 31 December 2016, and are not applied in preparing these consolidated financial statements. The Group plans to adopt these pronouncements when they become effective.

- IFRS 9 *Financial Instruments*, published in July 2014, replaces the existing guidance in IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018 and will be applied retrospectively with some exemptions. Early adoption of the standard is permitted. The Group does not intend to adopt this standard early. The Group has not yet analysed the likely impact of this new standard on its financial position or performance.

  Classification - Financial assets

  IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics.

  IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The standard eliminates the existing IAS 39 categories of fair value through profit or loss (FVTPL), held to maturity, loans and receivables and available for sale. Based on its preliminary assessment, the Group does not believe that the new classification requirements, if applied at 31 December 2016, would have had a material impact on its accounting for trade receivables, investments in debt securities and investments in equity securities that are managed on a fair value basis and held for long-term strategic purposes.

  Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the hybrid financial instrument as a whole is assessed for classification.

  Based on its preliminary assessment, the Group believes that the analysis of cash flow characteristics of loans to customers will result in that a part of loans to customers will be classified as financial assets measured at fair value through profit or loss.

Impairment - Financial assets and contract assets

IFRS 9 replaces the "incurred loss" model in IAS 39 with a forward-looking "expected credit loss" (ECL) model. This will require considerable judgement as to how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis.

The new impairment model will apply to financial assets measured at amortised cost or FVOCI, except for investments in equity instruments, and to contract assets.

Under IFRS 9, loss allowances will be measured on either of the following bases:

- 12-month ECLs. These are ECLs that result from possible default events within the 12 months after the reporting date; and
- Lifetime ECLs. These are ECLs that result from all possible default events over the expected life of a financial instrument

Lifetime ECL measurement applies if the credit risk of a financial asset at the reporting date has increased significantly since initial recognition and 12-month ECL measurement applies if it has not. An entity may determine that a financial asset's credit risk has not increased significantly if the asset has low credit risk at the reporting date. However, lifetime ECL measurement always applies for trade receivables and contract assets without a significant financing component; an entity may choose to apply this policy also for trade receivables and contract assets with a significant financing component.

The Group believes that impairment losses are likely to increase and become more volatile for assets in the scope of the IFRS 9 impairment model. The Group has not yet finalised the impairment methodologies that it will apply under IFRS 9.

Classification - Financial liabilities

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities.

However, under IAS 39 all fair value changes of liabilities designated as at FVTPL are recognised in profit or loss, whereas under IFRS 9 these fair value changes are generally presented as follows:

- The amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and
- The remaining amount of change in the fair value is presented in profit or loss.

The Group's preliminary assessment did not indicate any material impact if IFRS 9's requirements regarding the classification of financial liabilities were applied at 31 December 2016.

Hedge accounting

When initially applying IFRS 9, the Group may choose as its accounting policy to continue to apply the hedge accounting requirements of IAS 39 instead of the requirements in IFRS 9. The Group's current plan is that it will elect to apply the new requirements of IFRS 9.

IFRS 9 will require the Group to ensure that hedge accounting relationships are aligned with the Group's risk management objectives and strategy and to apply a more qualitative and forward-looking approach to assessing hedge effectiveness. IFRS 9 also introduces new requirements regarding rebalancing of hedge relationships and prohibiting voluntary discontinuation of hedge accounting. Under the new model, it is possible that more risk management strategies, particularly those involving hedging a risk component (other than foreign currency risk) of a non-financial item, will be likely to qualify for hedge accounting. The Group currently does not undertake hedges of such risk components.

Disclosures

IFRS 9 will require extensive new disclosures, in particular about credit risk, expected credit losses and hedge accounting. The Group's preliminary assessment included an analysis to identify data gaps against current processes and the Group plans to implement the system and controls changes that it believes will be necessary to capture the required data.

Transition

Changes in accounting policies resulting from the adoption of IFRS 9 will generally be applied retrospectively, except as described below:

- The Group plans to take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 generally will be recognised in retained earnings and reserves as at 1 January 2018.

New hedge accounting requirements should generally be applied prospectively. However, the Group may elect to apply the expected change in accounting for the forward element of forward contracts retrospectively. The Group has not made a decision in relation to this election.

The following assessments have to be made on the basis of the facts and circumstances that exist at the date of initial application:

- The determination of the business model within which a financial asset is held.
- The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.
- The designation of certain investments in equity instruments not held for trading as at FVOCI.

- IFRS 15 Revenue from Contracts with Customers establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes. The core principle of the new standard is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new standard results in enhanced disclosures about revenue, provides guidance for transactions that were not previously addressed comprehensively and improves guidance for multiple-element arrangements. IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The Group does not intend to adopt this standard early. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 15.

  The management of the Group anticipates that the application of IFRS 15 in the future may have a significant impact on amount and timing of revenue recognition. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 15 until a detailed review has been completed.

- IFRS 16 *Leases* replaces the existing lease accounting guidance in IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. It eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting. Lessor accounting remains similar to current practice – i.e. lessors continue to classify leases as finance and operating leases. IFRS 16 is effective for annual reporting periods beginning on or after 1 January 2019, early adoption is permitted if IFRS 15 Revenue from Contracts with Customers is also adopted. The Group does not intend to adopt this standard early. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 16.

The management of the Group anticipates that the application of these amendments to IFRS 16 in the future may have a significant impact on the Group's consolidated financial statements. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 16 until a detailed review has been completed.

The following new or amended standards are not expected to have a significant impact of the Group's consolidated financial statements.

- Disclosure Initiative (Amendments to IAS 7 *Statement of Cash Flows*)
- Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12 *Income Taxes*)

  Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2 *Share-Based Payment*)

4. MANAGEMENT OF CAPITAL

The objectives of management when managing the Bank's and Group's capital are (i) to comply with the capital requirements set by the FIMSA, (ii) to safeguard the Group's ability to continue as a going concern and (iii) to maintain a sufficient capital base to achieve a capital adequacy ratio based on Basel Capital Accord of at least 8%.

Under the current prudential capital requirements set by the FIMSA banks have to: (a) hold the minimum level of total statutory capital of AZN 50,000 thousand (31 December 2015: AZN 50,000 thousand); (b) maintain a ratio of regulatory capital to risk weighted assets ("statutory capital ratio") at or above a prescribed minimum of 10% (31 December 2015: 12%) and (c) maintain a ratio of Tier-1 capital to the risk-weighted assets (the 'Tier-1 capital ratio') at or above the prescribed minimum of 5% (31 December 2015: 6%).

Management considers that the Bank was in compliance with the statutory capital ratio as at 31 December 2016 (31 December 2015: in compliance). The calculation of capital adequacy based on the prudential reports prepared by the Bank in accordance with the prudential regulations set by the FIMSA was as follows:

	31 December 2016 (unaudited)	31 December 2015 (unaudited)
Total statutory capital	64,918	106,486
Risk-weighted assets	551,291	765,225
Capital adequacy ratio (%)	**11.78%**	**13.92%**

The regulatory guidelines on capital adequacy are mostly based on Basel Capital Accord requirements with some differences related to inclusion of additional components into total capital as well as to calculation of allowance for impairment losses on loans to customers, which is determined per the prudential rules on loan loss provisioning.

The Group is also subject to minimum capital requirements established by covenants stated in loan agreements, including capital adequacy levels calculated in accordance with the requirements of the Basel Capital Accord, as defined in the International Convergence of Capital Measurement and Capital Standards (updated April 1998) and Amendment to the Capital Accord to incorporate market risks (updated November 2005), commonly known as Basel I. The composition of the Group's capital calculated in accordance with Basel Capital Accord is as follows:

	31 December 2016	31 December 2015
Tier 1 capital		
Share capital	56,565	56,565
Share premium	484	484
Accumulated losses	(144,336)	(27,204)
Preference shares	14,000	14,000
Total Tier 1 capital	**(73,287)**	**43,845**
Tier 2 capital		
Subordinated debt (unamortized part)	-	21,713
Total Tier 2 capital	**-**	**21,713**
Less: Investments in equity shares	(498)	(495)
Total capital	**(73,785)**	**65,063**
Risk-weighted assets:		
On-balance sheet	399,059	688,837
Off-balance sheet	34,174	52,556
Total risk weighted assets	**433,233**	**741,393**
Total Tier 1 capital expressed as a percentage of risk-weighted assets (Tier 1 capital ratio)	**(16.92%)**	**5.91%**
Total capital expressed as a percentage of risk-weighted assets (total capital ratio)	**(17.03%)**	**8.78%**

The table below provides an overview of the differences in composition of the net assets as at 31 December 2016 presented in the Group`s consolidated financial statements prepared under IFRS and total statutory capital determined under the rules and regulations of the FIMSA.

	31 December 2016 (unaudited)	31 December 2015 (unaudited)
Total statutory capital	**64,918**	**106,486**
Differences between statutory capital and IFRS equity:		
- non-cumulative preference shares	(14,000)	(14,000)
- accumulated losses	(65,672)	(12,594)
- loan loss allowance	(39,023)	38,679
- income tax	1,864	3,102
- foreign exchange loss	(26,542)	(50,015)
- others	(1,971)	(4,360)
- difference on deductions	13,067	11,902
- intangible assets	6,581	4,577
- deferred tax assets	4,548	5,390
- investments	1,938	1,935
- general allowances	(5,731)	(7,933)
- other capital	(11,624)	(16,035)
IFRS (net liabilities)/equity of the Bank	**(19,042)**	**67,826**
IFRS net liabilities of subsidiaries	**(45,732)**	**(25,671)**
Total equity attributable to owners of the Bank	**(64,774)**	**42,155**

5. CASH AND CASH EQUIVALENTS

	31 December 2016	31 December 2015 (reclassified)
Cash on hand	**35,044**	**55,301**
Cash balances with the CBAR (other than mandatory cash balances)	**7,895**	**28,971**
Correspondent accounts with other banks:		
- rated AA- to AA+ (Fitch Ratings)	6,573	-
- rated A- to A+ (Fitch Ratings)	1,307	3,020
- rated BBB- to BBB+ (Fitch Ratings)	1,649	29,641
- rated below BBB- (Fitch Ratings)	482	783
- not rated	242	3,064
Total correspondent accounts with other banks	**10,253**	**36,508**
Total cash and cash equivalents	**53,192**	**120,780**

No past due or impaired balance existed in cash and cash equivalents as at 31 December 2016 and 31 December 2015.

As at 31 December 2016 the Group has two banks (31 December 2015: two banks), whose balances exceed 10% of total cash and cash equivalents. The gross value of these balances as at 31 December 2016 is AZN 14,318 thousand (31 December 2015: AZN 56,574 thousand).

The most recently published international rating for the Republic of Azerbaijan is BB+ (Fitch Ratings) (31 December 2015: BB+/Fitch Ratings).

Currency, interest rate, geographical and liquidity analysis of cash and cash equivalents are disclosed in Note 27. Refer to Note 29 for the estimated fair value of each class of amounts of cash and cash equivalents.

6. DUE FROM OTHER BANKS

	31 December 2016	31 December 2015 (reclassified)
Restricted balances with the CBAR	107,942	130,366
Term placements with resident banks	39,018	19,427
Term placements with non-resident banks	3,602	4,462
	150,562	**154,255**
Less: Provision for impairment	(9,348)	-
Net due from other banks	**141,214**	**154,255**

As at 31 December 2016 term placements with resident banks included term placements with seven local banks with principal balance amounting to the equivalent of AZN 29,649 thousand and bearing annual interest rates ranging between 4% and 7% (31 December 2015: placements with four local bank amounting to the equivalent of AZN 19,391 thousand and bearing annual interest rates ranging between 6.5% and 9%). AZN 29,649 thousand of this amount have subsequently been granted by these local banks to Unileasing CJSC under separate loan agreement bearing annual interest rates ranging between 5% and 11% (31 December 2015: AZN 19,391 thousand of this amount have subsequently been granted by these local banks to Unileasing CJSC under separate loan agreement bearing annual interest rates ranging between 9% and 11%). These term placements of the Bank and the loans obtained by Unileasing CJSC are not netted-off since based on the legal contract they represent separate assets placed with and liabilities due from third parties.

As at 31 December 2016 and 2015 the restricted balances with the CBAR represented funds blocked by the CBAR as collateral for the loans issued to the Bank.

Amounts due from other banks are not collateralized. An analysis by credit quality of amounts due from other banks is as follows:

	31 December 2016	**31 December 2015**
Current and not impaired		
- Central Bank of the Republic of Azerbaijan	107,942	130,366
A+ (Fitch Ratings)	3,602	-
<BBB (Fitch Ratings)	11,510	9,166
- not rated	18,160	14,723
Net due from other banks	**141,214**	**154,255**

Movements in provision for impairment during the year ended 31 December 2016 are as follows:

	Balance at 1 January 2016	**Increase in provision for impairment**	**Balance at 31 December 2016**
Due from other banks	-	9,348	9,348
Total	**-**	**9,348**	**9,348**

As at 31 December 2016 the Group had one bank (31 December 2015: one bank) with an outstanding balance exceeding 10% of total due from other banks. The gross value of these balances as at 31 December 2016 is AZN 107,942 thousand (31 December 2015: AZN 130,366 thousand).

Currency, interest rate, geographical and liquidity analysis of due from other banks are disclosed in Note 27. Refer to Note 29 for the estimated fair value of each class of amounts of due from other banks.

7. LOANS AND ADVANCES TO CUSTOMERS

	31 December 2016	**31 December 2015 (restated)**
Business loans	230,749	220,030
Cash consumer loans	218,916	293,047
Credit cards	130,515	184,027
Purchase of apartments and mortgages	47,138	51,560
Micro loans	45,667	57,327
Purchase of motor vehicles	7,412	11,205
Gross loans and advances to customers	**680,397**	**817,196**
Less: Provision for loan impairment	(330,251)	(168,951)
Net loans and advances to customers	**350,146**	**648,245**

Movements in the provision for loan impairment during the year ended 31 December 2016 are as follows:

	Balance at 1 January 2016	Loans written off during the year	Recovery of loans written off	Foreign currency revaluation effect	Increase in provision for impairment	Balance 31 December 2016
Business loans	46,847	(6,709)	733	10,617	56,937	108,425
Cash consumer loans	82,940	(492)	559	12,175	42,310	137,492
Credit cards	19,839	(228)	151	1,407	19,353	40,522
Purchase of apartments and mortgages	703	-	16	235	1,431	2,385
Micro loans	15,660	-	9	3,112	17,904	36,685
Purchase of motor vehicles	2,962	(52)	84	533	1,215	4,742
Total	**168,951**	**(7,481)**	**1,552**	**28,079**	**139,150**	**330,251**

Movements in the provision for loan impairment during the year ended 31 December 2015 are as follows:

	Balance at 1 January 2015	Loans written off during the year	Recovery of loans written off	Provision for loans acquired	Foreign currency revaluation effect	Increase/ (recovery) in provision for impairment	Balance at 31 December 2015
Business loans	16,578	(3,103)	700	-	17,660	15,012	46,847
Cash consumer loans	17,659	(5,197)	1,148	1,718	26,032	41,580	82,940
Credit cards	6,377	(1,310)	288	-	1,201	13,283	19,839
Purchase of apartments and mortgages	98	-	130	-	179	296	703
Micro loans	1,919	(28)	25	-	5,204	8,540	15,660
Purchase of motor vehicles	2,701	(1,050)	300	-	1,268	(257)	2,962
Total	**45,332**	**(10,688)**	**2,591**	**1,718**	**51,544**	**78,454**	**168,951**

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

	31 December 2016		31 December 2015	
	Amount	**%**	**Amount**	**%**
Retail loans				
Cash consumer loans	218,916	32.2	293,047	35.9
Credit cards	130,515	19.2	184,027	22.5
Purchase of apartments and mortgages	47,138	6.9	51,560	6.2
Micro loans	45,667	6.7	57,327	7.0
Purchase of motor vehicles	7,412	1.1	11,205	1.4
Total retail loans	**449,648**	**66.1**	**597,166**	**73.0**
Business loans				
Trade and services	131,109	19.3	126,490	15.5
Construction	59,997	8.8	58,574	7.2
Agriculture	16,625	2.4	14,498	1.8
Manufacturing	14,821	2.2	11,478	1.4
Transportation	2,066	0.3	3,200	0.4
Other	6,131	0.9	5,790	0.7
Total business loans	**230,749**	**33.9**	**220,030**	**27.0**
Gross loans and advances to customers	**680,397**	**100.0**	**817,196**	**100.0**

As at 31 December 2016 the Group has 42 borrowers (31 December 2015: 43 borrowers) with the outstanding loan amount above AZN 1,000 thousand. The aggregate balance of these borrowers was AZN 128,863 thousand (31 December 2015: AZN 140,982 thousand) or 19% (31 December 2015: 17%) of the gross loan portfolio.

As at 31 December 2016 mortgage loans included AZN 38,449 thousand (31 December 2015: AZN 39,503 thousand) under the programme covered by the borrowing agreement with the Azerbaijan Mortgage Fund. In addition, a further AZN 3,782 thousand (31 December 2015: AZN 1,032 thousand) of these loans are awaiting the approval of the Azerbaijan Mortgage Fund to be included as part of this programme and therefore for further funding under the borrowing agreement to be provided to the Group.

As at 31 December 2016 loans and advances to customers included finance lease receivables of the Group's leasing subsidiary in the amount of AZN 6,220 thousand recorded net of provision for uncollectible finance lease receivables of AZN 13,878 thousand (31 December 2015: finance lease receivables of the Group's leasing subsidiary in the amount of AZN 23,397 thousand recorded net of provision for uncollectible finance lease receivables of AZN 3,965 thousand). As at 31 December 2016 finance lease receivables are represented by 292 lease contracts primarily related to the lease of various types of vehicles, construction and medical equipment (31 December 2015: 484 lease contracts primarily related to the lease of various types of vehicles, construction and medical equipment). These finance lease contracts usually expire over three to five years. Lease payments are made on a monthly basis. The leasing subsidiary holds title to property subject to the lease during the lease term.

Risks related to the leased property such as damage caused by various reasons, theft and other are generally insured in the finance lease agreements. This insurance arrangement is entered into by the lessee and an insurance company to insure the leased property against damages caused by the reasons listed above. The management of the leasing subsidiary periodically assesses the financial performance of the lessees by monitoring debts outstanding and analysing their financial reports.

Management have assessed whether finance leases represent a separate class and therefore should be separately shown within the analysis within this note. However, management have determined that as their approach to the assessment of risk is based on the classes as set out within this note and not based on a consideration of finance leases as a separate class, no separate class for such leases is required.

Finance lease payments receivable (gross investment in the leases) and their present values are as follows:

	Due in 1 year	Due between 1 and 5 years	Due after 5 years	Total
Finance lease payments receivable at 31 December 2016	4,632	3,106	102	7,840
Unearned finance income	(327)	(1,232)	(61)	(1,620)
Present value of lease payments receivable at 31 December 2016	**4,305**	**1,874**	**41**	**6,220**
Finance lease payments receivable at 31 December 2015	10,970	16,111	406	27,487
Unearned finance income	(783)	(3,162)	(145)	(4,090)
Present value of lease payments receivable at 31 December 2015	**10,187**	**12,949**	**261**	**23,397**

Analysis by credit quality of loans outstanding as at 31 December 2016 is as follows:

	Business loans	Cash consumer loans	Credit cards	Purchase of apartments and mortgages	Micro loans	Purchase of motor vehicles	Total
Current and not impaired							
Unsecured loans	20,669	31,180	79,819	77	2,121	17	133,883
Loans collateralised by:							
- real estate	50,774	263	-	43,457	242	-	94,736
- personal transport	378	152	-	-	-	1,079	1,609
- bank deposits	4,764	2,628	613	-	-	-	8,005
- moveable property	4,877	4	-	-	3,051	-	7,932
- other assets	552	-	-	-	2	-	554
Loans renegotiated	27,072	32,326	1,983	58	2,142	92	63,673
Total current and not impaired	**109,086**	**66,553**	**82,415**	**43,592**	**7,558**	**1,188**	**310,392**
Less: Provision for impairment	(8,510)	(4,471)	(1,942)	(244)	(491)	(230)	(15,888)
Past due but not impaired							
- 30 to 90 days overdue	11,434	6,919	3,245	578	1,073	251	23,500
Total past due but not impaired	**11,434**	**6,919**	**3,245**	**578**	**1,073**	**251**	**23,500**
Less: Provision for impairment	(3,803)	(4,599)	(1,724)	(172)	(824)	(155)	(11,277)
Loans determined to be impaired							
- 90 to 180 days overdue	9,638	10,850	4,537	246	2,078	300	27,649
- 180 to 360 days overdue	33,565	53,895	17,799	591	14,538	900	121,288
- over 360 days overdue	67,026	80,699	22,519	2,131	20,420	4,773	197,568
Total impaired loans	**110,229**	**145,444**	**44,855**	**2,968**	**37,036**	**5,973**	**346,505**
Less: Provision for impairment	(96,112)	(128,422)	(36,856)	(1,969)	(35,370)	(4,357)	(303,086)
Net loans and advances to customers	**122,324**	**81,424**	**89,993**	**44,753**	**8,982**	**2,670**	**350,146**

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

	Business loans	Cash consumer loans	Credit cards	Purchase of apartments and mortgages	Micro loans	Purchase of motor vehicles	Total
Current and not impaired	27,243	123,931	147,545	284	5,373	12	304,388
Unsecured loans							
Loans collateralised by:							
- real estate	72,301	1,150	49	49,047	757	-	123,304
- personal transport	275	240	-	-	-	5,242	5,757
- bank deposits	162	24,620	7,388	-	-	-	32,170
- moveable property	10,007	10	-	-	23,697	-	33,714
- other assets	4,813	-	-	-	9	-	4,822
Loans renegotiated	40,629	57,249	5,879	58	11,828	320	115,963
Total current and not impaired	**155,430**	**207,200**	**160,861**	**49,389**	**41,664**	**5,574**	**620,118**
Less: Provision for impairment	(8,227)	(9,283)	(3,022)	(164)	(2,031)	(193)	(22,920)
Past due but not impaired							
- 30 to 90 days overdue	8,318	19,224	5,445	595	4,410	1,019	39,011
- 90 to 180 days overdue	-	40	-	-	-	-	40
Total past due but not impaired	**8,318**	**19,264**	**5,445**	**595**	**4,410**	**1,019**	**39,051**
Less: Provision for impairment	(1,836)	(12,875)	(2,389)	(48)	(3,247)	(104)	(20,499)
Loans determined to be impaired							
- 90 to 180 days overdue	7,912	22,642	5,194	226	4,933	783	41,690
- 180 to 360 days overdue	30,835	24,500	7,290	514	3,629	827	67,595
- over 360 days overdue	17,535	19,441	5,237	836	2,691	3,002	48,742
Total impaired loans	**56,282**	**66,583**	**17,721**	**1,576**	**11,253**	**4,612**	**158,027**
Less: Provision for impairment	(36,784)	(60,782)	(14,428)	(491)	(10,382)	(2,665)	(125,532)
Net loans and advances to customers	**173,183**	**210,107**	**164,188**	**50,857**	**41,667**	**8,243**	**648,245**

The Group 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 Group's policy is to classify each loan as 'current and not impaired' until a 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 Group considers in determining whether a loan is impaired are its overdue status and realisability of related collateral, if any. As a result, the Group presents above an ageing analysis of loans that are past due but not impaired and that are individually determined to be impaired.

Past due, but not impaired loans presented in above table represent 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 installments that are past due.

The fair value of collateral in respect of loans past due but not impaired and in respect of loans individually determined to be impaired at 31 December 2016 was as follows:

	Business loans	Cash consumer loans	Purchase of apartments and mortgages	Micro loans	Purchase of motor vehicles	Total
Fair value of collateral – loans past due but not impaired						
- real estate	7,542	83	578	30	-	8,233
- personal transport	-	-	-	-	238	238
- bank deposits	-	177	-	-	-	177
- moveable property	242	-	-	670	-	912
Fair value of collateral loans individually determined to be impaired						
- real estate	38,962	598	2,353	621	-	42,534
- personal transport	254	13	-	7	4,338	4,612
- moveable property	5,622	408	-	24,402	-	30,432
- other assets	3,591	-	-	29	-	3,620
Total	**56,213**	**1,279**	**2,931**	**25,759**	**4,576**	**90,758**

The Group considers fair value of realized collaterals for loss given default rate determination during collective impairment assessment of loan portfolio.

Fair value of collateral in respect of loans past due but not impaired and in respect of loans individually determined to be impaired at 31 December 2015 was as follows:

	Cash consumer loans	Credit cards	Business loans	Micro loans	Purchase of apartments and mortgages	Purchase of motor vehicles	Total
Fair value of collateral – loans past due but not impaired							
- real estate	86	-	4,408	66	595	-	5,155
- personal transport	-	-	39	-	-	1,000	1,039
- bank deposits	161	5	-	-	-	-	166
- moveable property	1	-	832	3,176	-	-	4,009
Fair value of collateral loans individually determined to be impaired							
- real estate	465	-	17,220	199	1,479	-	19,363
- personal transport	3	-	130	7	-	3,625	3,765
- moveable property	432	-	7,678	8,197	-	-	16,307
- other assets	-	-	1,163	25	-	-	1,188
Total	**1,148**	**5**	**31,470**	**11,670**	**2,074**	**4,625**	**50,992**

Currency, interest rate, geographical and liquidity analysis of loans and advances to customers are disclosed in Note 27. Refer to Note 29 for the estimated fair value of each class of amounts of loans and advances to customers. Information on related party balances is disclosed in Note 30.

8. INVESTMENT SECURITIES AVAILABLE-FOR-SALE

	31 December 2016	31 December 2015
Corporate shares – unquoted	498	495
Total investment securities available-for-sale	**498**	**495**

As disclosed in Note 29, information about fair value of corporate unquoted shares was not disclosed because their fair value cannot be measured reliably.

Details of corporate unquoted shares available for sale are:

Name	Nature of business	Country of registration	% of ownership	31 December 2016	31 December 2015
Milli Kart LLC	Card processing	The Republic of Azerbaijan	8.0	400	400
Baku Stock Exchange	Stock exchange	The Republic of Azerbaijan	6.0	60	60
S.W.I.F.T SCRL	Financial Telecommunication	The Republic of Azerbaijan	0.5	38	35
Total investment securities available-for-sale				**498**	**495**

Currency, interest rate, geographical and liquidity analysis of investment securities available-for-sale are disclosed in Note 27. Refer to Note 29 for the estimated fair value of each class of amounts of investment securities available-for-sale. Information on related party balances is disclosed in Note 30.

9. PREMISES, EQUIPMENT AND INTANGIBLE ASSETS

	Leasehold improvements	Land and buildings	Office and computer equipment	Furniture, fixtures and other equipment	Construction in progress	Total premises and equipment	Intangible assets	Total
Net book value as at 1 January 2015	**4,753**	**32,882**	**2,933**	**7,144**	**2,242**	**49,954**	**3,880**	**53,834**
Additions	392	2	479	1,042	1,057	2,972	1,375	4,347
Transfers	-	2,162	-	-	(2,162)	-	-	-
Disposals	(271)	(2)	-	(126)	-	(399)	-	(399)
Accumulated depreciation of disposals	261	-	-	84	-	345	-	345
Depreciation and amortization charge	(1,224)	(968)	(717)	(1,305)	-	(4,214)	(584)	(4,798)
Cost as at 31 December 2015	7,811	39,168	8,614	15,351	1,137	72,081	6,847	78,928
Accumulated depreciation/amortization as at 31 December 2015	(3,900)	(5,092)	(5,919)	(8,512)	-	(23,423)	(2,176)	(25,599)
Net book value as at 31 December 2015	**3,911**	**34,076**	**2,695**	**6,839**	**1,137**	**48,658**	**4,671**	**53,329**
Additions	197	-	31	123	104	455	2,792	3,247
Transfers	-	725	-	-	(725)	-	-	-
Disposals	(1,101)	(3)	(133)	(381)	(25)	(1,643)	-	(1,643)
Accumulated depreciation of disposals	1,101	-	122	303	-	1,526	-	1,526
Depreciation and amortization charge	(1,063)	(1,007)	(710)	(1,294)	-	(4,074)	(798)	(4,872)
Cost as at 31 December 2016	6,907	39,890	8,512	15,093	491	70,893	9,639	80,532
Accumulated depreciation/amortization as at 31 December 2016	(3,862)	(6,099)	(6,507)	(9,503)	-	(25,971)	(2,974)	(28,945)
Net book value as at 31 December 2016	**3,045**	**33,791**	**2,005**	**5,590**	**491**	**44,922**	**6,665**	**51,587**

Construction in progress consists of construction and refurbishment of branch premises. Upon completion, assets are transferred to land and buildings.

Intangible assets include software and licenses. Additions to intangible assets in 2016 include mobile banking software in the amount of AZN 487 thousand, license for card processing system in the amount of AZN 1,462 thousand and other licenses.

As at 31 December 2016 included in the closing balance of premises and equipment were fully depreciated assets still in use with the total initial cost of AZN 1,487 thousand (31 December 2015: AZN 1,282 thousand).

10. OTHER FINANCIAL ASSETS

	31 December 2016	31 December 2015
Brokerage operations	5,366	4,045
Receivables from online payments	1,006	2,627
Settlements on money transfer operations	383	123
Receivables for credit and debit card transactions	331	838
Other financial assets	1,763	974
	8,849	**8,607**

Receivables for credit and debit card transactions represent net funds receivable from other local banks for cash withdrawn from the Bank's ATMs by customers of other banks.

There were neither past due nor impaired other financial assets as at 31 December 2016 and 2015.

Currency, interest rate, geographical and liquidity analysis of other financial assets are disclosed in Note 27. Refer to Note 29 for the estimated fair value of each class of amounts other financial assets.

11. OTHER ASSETS

	31 December 2016	31 December 2015 (restated)
Repossessed collateral	8,327	10,223
Equipment purchased for transfer to finance lease	1,404	1,404
Prepaid expenses	418	506
Prepayment for equipment	194	617
Other	493	626
	10,836	**13,376**
Less: Provision for impairment	(2,122)	(4,116)
Total current other assets	**8,714**	**9,260**

Movements in provision for impairment of other assets during the years ended 31 December 2016 and 2015 are as follows:

	2016	2015
Balance at 1 January	4,116	1,568
Recognized through subsequent lease	(2,868)	(910)
Increase in provision for impairment	874	3,458
Balance at 31 December	**2,122**	**4,116**

As at 31 December 2016 and 2015 repossessed collateral mainly represents equipment confiscated by the Group for loans and lease receivables individually determined to be impaired. As at 31 December 2016 and 2015 provision for impairment represents impairment on repossessed collateral. The management believes that as at 31 December 2016 and 2015 the net realisable value of these collaterals did not significantly differ from their carrying value disclosed in these consolidated financial statements.

Equipment purchased for transfer to finance lease represents equipment held in stock by Unileasing CJSC for subsequent finance lease purposes.

12. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	31 December 2016	31 December 2015
Correspondent accounts and overnight placement of other banks	135	2,788
Short-term placements of other banks and financial institutions	19,291	4,715
Total due to banks and other financial institutions	**19,426**	**7,503**

As at 31 December 2016 short-term placements of other banks and financial institutions included several placements of resident banks, bearing interest rates of 4-18% per annum with maturities from February to December 2017 (31 December 2015: a resident bank, bearing an interest rate of 4.5% per annum with maturities in January and April 2016).

As at 31 December 2016 the Group has three banks and one financial institution (31 December 2015: two banks) with outstanding balances exceeding 10% of total due to banks and other financial institutions. The gross value of these balances as at 31 December 2016 is AZN 18,887 thousand (31 December 2015: AZN 6,810 thousand).

Currency, interest rate, geographical and liquidity analysis of due to banks and other financial institutions are disclosed in Note 27. Refer to Note 29 for the estimated fair value of each class of amounts of due to banks and other financial institutions.

13. CUSTOMER ACCOUNTS

	31 December 2016	31 December 2015
State and public organizations		
- Current/settlement accounts	1,837	1,623
- Term deposits	-	514
Other legal entities		
- Current/settlement accounts	34,217	60,068
- Term deposits	9,857	37,165
Individuals		
- Current/demand accounts	34,107	35,131
- Term deposits	293,316	437,192
Total customer accounts	**373,334**	**571,693**

Economic sector concentrations within customer accounts are as follows:

	31 December 2016		31 December 2015	
	Amount	**%**	**Amount**	**%**
Individuals	327,423	87.7	472,323	82.6
Trade and services	22,035	5.9	51,637	9.0
Finance	11,110	3.0	37,679	6.6
Manufacturing	6,478	1.7	881	0.2
Energy and mining	4,379	1.2	4,686	0.8
Construction	705	0.2	2,070	0.4
Communication and transport	236	0.1	317	0.1
Agriculture	14	0.0	401	0.1
Other	954	0.2	1,699	0.2
Total customer accounts	**373,334**	**100.0**	**571,693**	**100.0**

As at 31 December 2016 the Group had 37 customers (31 December 2015: 50 customers) with balances above AZN 1,000 thousand. The aggregate balance of these customers was AZN 114,696 thousand (31 December 2015: AZN 147,461 thousand) or 31% (31 December 2015: 26%) of total customer accounts.

Currency, interest rate, geographical and liquidity analysis of customer accounts are disclosed in Note 27. Refer to Note 29 for the estimated fair value of each class of amounts of customer accounts. Information on related party balances is disclosed in Note 30.

14. DEBT SECURITIES IN ISSUE

	31 December 2016	31 December 2015
Corporate bonds denominated in foreign currency	12,309	39,687
Corporate bonds denominated in local currency	-	20,871
Total debt securities in issue	**12,309**	**60,558**

Currency, interest rate, geographical and liquidity analysis of debt securities in issue are disclosed in Note 27. Refer to Note 29 for the estimated fair value of each class of amounts of debt securities in issue. Information on related party balances is disclosed in Note 30.

15. TERM BORROWINGS

	31 December 2016	31 December 2015 (restated)
Funds borrowed from resident banks and government organizations	213,166	153,948
Funds borrowed from non-resident banks and organizations	45,265	140,296
Total term borrowings	**258,431**	**294,244**

As at 31 December 2016 term borrowings included borrowings of Unileasing CJSC from seven local banks in the total amount of AZN 29,649 thousand at annual interest rates ranging between 5% and 11% (31 December 2015: four local banks in the total amount of AZN 19,391 thousand at annual interest rates ranging between 9% and 11%). These placements have been granted by the Bank to these banks under separate loan agreements bearing annual interest rates ranging between 4 and 8.5% (31 December 2015: annual interest rates ranging between 6.5% and 9%) with maturities from March to December 2017.

The term placements of the Bank and the loans obtained by Unileasing CJSC are not netted off since based on the legal contracts they represent separate assets placed at and liabilities due from third parties. Refer to Note 6.

During the year ended 31 December 2016, the Bank received funds from the CBAR under three contracts for the total amount of AZN 45,000 thousand at the CBAR refinancing rates between 3% and 7% per annum with maturities in January, February and May 2017. Subsequent to the end of reporting period, the CBAR extended due dates of the borrowings for a total amount of AZN 30,000 thousand till August and November 2017. These prolongations of the borrowing contracts were made as part of the CBAR’s liquidity support to the Bank.

During the year ended 31 December 2016, the Bank fully repaid the term borrowings from ING Bank for the amount of USD 50,000 thousand.

The Group is obliged to comply with certain financial covenants stipulated in its term borrowing agreements. The Group’s non-compliance with certain financial covenants is described in Note 28.

Currency, interest rate, geographical and liquidity analysis of term borrowings are disclosed in Note 27. Refer to Note 29 for the estimated fair value of each class of amounts of term borrowings. Information on related party balances is disclosed in Note 30.

16. OTHER FINANCIAL LIABILITIES

	31 December 2016	31 December 2015
Items in course of settlement	6,229	3,588
Provision for credit related commitments	-	365
Other	422	169
Total other financial liabilities	**6,651**	**4,122**

Currency, interest rate, geographical and liquidity analysis of other financial liabilities are disclosed in Note 27. Refer to Note 29 for the estimated fair value of each class of amounts of other financial liabilities.

17. SUBORDINATED DEBT

	31 December 2016	31 December 2015
Subordinated debt from Deutsche Investitions-und Entwiklungsgesellschaft mbH	26,560	24,244
Subordinated debt securities issued	5,082	5,078
Total subordinated debt	**31,642**	**29,322**

On 10 April 2008 the Bank signed subordinated debt agreement with Deutsche Investitions-und Entwicklungsgesellschaft ("DEG") in the amount of USD 15,000 thousand that matures on 30 September 2019. The debt bears an annual interest rate of 10.5%.

On 29 May 2013 the Bank issued subordinated debt securities in the amount of AZN 5,000 thousand. The debt bears an annual interest rate of 14% and matures on 3 May 2018.

The repayment of subordinated debt ranks after all other creditors in case of liquidation of the Bank.

Currency, interest rate, geographical and liquidity analysis of subordinated debt are disclosed in Note 27. Refer to Note 29 for the estimated fair value of each class of amounts of subordinated debt. Information on related party balances is disclosed in Note 30.

18. PREFERENCE SHARES

	31 December 2016	31 December 2015
Preference shares	14,000	16,334
Total preference shares	**14,000**	**16,334**

On 27 February 2013 as per decision of the Extraordinary General Meeting of Shareholders the Bank issued 3,308,850 irredeemable preference shares in the total amount of AZN 9,000 thousand. The preference shares bear an annual yield of 16.67%.

On 29 December 2012 as per decision of the General Meeting of Shareholders the Bank issued 1,838,250 irredeemable preference shares in the total amount of AZN 5,000 thousand. The preference shares bear an annual yield of 16.67%.

According to the legislation of the Azerbaijan Republic banks are not allowed to pay dividends if net assets are less than share capital. Therefore, no dividends were declared by the Bank on preference shares during the year ended 31 December 2016 (2015: AZN 2,334 thousand). As set out in Basel Capital Accord Standards, perpetual preference shares carrying a non-cumulative charge are considered a constituent of Tier-1 capital. The Group holds preference shares of same nature and included the amount of these shares in calculating Tier-1 capital ratio. Refer to Note 4.

Currency, interest rate, geographical and liquidity analysis of preference shares are disclosed in Note 27. Refer to Note 29 for the estimated fair value of each class of amounts of preference shares. Information on related party balances is disclosed in Note 30.

19. SHARE CAPITAL

	Number of outstanding ordinary shares	Ordinary shares	Share premium	Total
As at 31 December 2015	**20,796,000**	**56,565**	**484**	**57,049**
As at 31 December 2016	**20,796,000**	**56,565**	**484**	**57,049**

The nominal value of the registered amount of the Bank's issued share capital as at 31 December 2016 is AZN 56,565 thousand (31 December 2015: AZN 56,565 thousand).

The shareholders of the Bank as at 31 December 2016 and 2015 were as follows:

Shareholders	31 December 2016, %	31 December 2015, %
Mr.Eldar Garibov	68.34	68.34
European Bank for Reconstruction and Development	15.15	15.15
Deutsche Investitions-und Entwiklungsgesellschaft mbH	8.33	8.33
Mrs. Zemfira Jafarova	5.50	5.50
Mrs. Ivashenko Inna	1.50	1.50
Other individuals	1.18	1.18
Total	**100**	**100**

Share premium represents the excess of contributions received over the nominal value of shares issued.

As at 31 December 2016 all ordinary shares have a nominal value of AZN 2.72 per share (31 December 2015: AZN 2.72 per share) and rank equally. Each share carries one vote.

During the year ended 31 December 2016, no dividends were declared and paid (31 December 2015: dividends of AZN 0.25 per ordinary share and in total amount of AZN 5,200 thousand were declared and paid).

20. INTEREST INCOME AND EXPENSE

	Year ended 31 December 2016	Year ended 31 December 2015
Interest income comprises:		
Interest income on financial assets recorded at amortized cost:		
- interest income on unimpaired financial assets	92,204	164,660
- interest income on impaired financial assets	33,255	6,549
Total interest income	125,459	171,209
Interest income on financial assets recorded at amortized cost comprises:		
- Loans and advances to customers	121,498	166,044
- Finance leases	2,441	3,981
- Due from other banks and correspondent accounts	1,490	1,181
- Investment securities available-for-sale	30	3
Total interest income	**125,459**	**171,209**
Interest expense on financial liabilities recorded at amortized cost comprises:		
- Term deposits of individuals	21,134	32,500
- Term borrowings, due to banks and other financial institutions	15,150	14,177
- Debt securities in issue	7,904	4,149
- Subordinated debt	2,789	2,587
- Term deposits of legal entities	1,295	4,323
- Preference shares	-	2,323
Total interest expense	**48,272**	**60,059**
Net interest income	**77,187**	**111,150**

Information on related party transactions is disclosed in Note 30.

21. IMPAIRMENT LOSSES

	Note	Year ended 31 December 2016	Year ended 31 December 2015
Interest bearing assets			
- Due from other banks	6	9,348	-
- Loans and advances to customers	7	139,150	78,454
		148,498	**78,454**
Non-interest bearing assets			
- Other assets	11	874	3,458
- Credit related commitments	16	(365)	365
		509	**3,823**
Total impairment losses		**149,007**	**82,277**

22. FEE AND COMMISSION INCOME AND EXPENSE

	Year ended 31 December 2016	Year ended 31 December 2015
Fee and commission income:		
Plastic cards operations	4,590	9,678
Settlement transactions	1,840	1,030
Cash transactions	1,076	2,209
Brokerage operations	1,021	396
Guarantees and letters of credit issued	423	477
Leasing operations	68	594
Other	897	944
Total fee and commission income	**9,915**	**15,328**
Fee and commission expense:		
Plastic cards operations	3,660	3,412
Brokerage fee	673	185
Cash transactions	497	783
Settlement transactions	330	295
Guarantees and letters of credit	185	232
Centralized credit registry	40	471
Other	430	281
Total fee and commission expense	**5,815**	**5,659**
Net fee and commission income	**4,100**	**9,669**

Information on related party transactions is disclosed in Note 30.

23. ADMINISTRATIVE AND OTHER OPERATING EXPENSES

	Year ended 31 December 2016	Year ended 31 December 2015
Staff cost	23,016	35,814
Depreciation	4,074	4,214
Professional fees	3,008	1,800
Rent	2,462	3,207
Insurance of customer deposits	1,601	1,528
Communication	1,591	1,974
Repair and maintenance	1,064	1,086
Security	880	1,096
Representation	802	698
Amortization	798	584
Computer software	687	320
Utility	678	794
Advertising	648	2,105
Insurance	505	236
Taxes other than on income	499	529
Penalties for unpaid taxes for prior years	361	450
Publishing and stationary	282	413
Other expenses	427	728
Total administrative and other operating expenses	**43,383**	**57,576**

Included in staff costs for the year ended 31 December 2016 are obligatory payments to the State Social Protection Fund of the Republic of Azerbaijan of AZN 3,624 thousand (2015: AZN 5,636 thousand).

In addition, for the year ended 31 December 2016 AZN 494 thousand were collected by the Group as a deduction to employee salaries and paid to the State Social Protection Fund of the Republic of Azerbaijan on their behalf (2015: AZN 885 thousand).

Rental expenses are related to the lease of the Group's branch buildings in Baku and in the regions of the Republic of Azerbaijan, exchange offices and costs associated with ATMs installed in department stores and in other areas.

Information on related party transactions is disclosed in Note 30.

24. INCOME TAXES

(a) Components of income tax benefit

Income tax expense comprises the following:

	Year ended 31 December 2016	Year ended 31 December 2015
Current income tax	90	36
Deferred income tax	1,393	(6,860)
Income tax expense/(benefit) for the year	**1,483**	**(6,824)**

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

The income tax rate applicable to the majority of the Group's income is 20%. A reconciliation between the expected and the actual taxation charge is provided below.

	Year ended 31 December 2016	Year ended 31 December 2015
Loss before income tax	**(115,649)**	**(76,774)**
Theoretical tax benefit at statutory rate (20%)	(23,130)	(15,354)
Non-deductible expenses	511	922
Change in unrecognised deferred tax asset	24,102	7,608
Income tax expense/(benefit) for the year	**1,483**	**(6,824)**

(c) Deferred taxes analysed by type of temporary difference

Differences between IFRS and Azerbaijan statutory taxation regulations 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 and is recorded at the rate of 20%.

	1 January 2016	Charged to profit or loss	31 December 2016
Tax effect of deductible/(taxable) temporary differences			
Loan loss provision	3,060	14,853	17,913
Depreciation and amortization	(498)	(210)	(708)
Accrual of payables to employees	251	(251)	-
Other assets	2,317	110	2,427
Tax loss carry-forwards	9,998	8,141	18,139
Interest accrued on impaired loans	134	-	134
Other temporary differences	801	66	867
Recognised deferred tax asset	16,063	22,709	38,772
Deferred tax asset not recognized	(8,258)	(24,102)	(32,360)
Net deferred tax asset	**7,805**	**(1,393)**	**6,412**

In the context of the Group's current structure and Azerbaijan tax legislation, tax losses and current tax assets of different group companies may not be offset against current tax liabilities and taxable profits of other group companies and, accordingly, taxes may accrue even where there is a tax loss. Therefore, deferred tax assets and liabilities are offset only when they relate to the same taxable entity and the same taxation authority.

	1 January 2015	Charged to profit or loss	31 December 2015
Tax effect of deductible/(taxable) temporary differences			
Loan loss provision	(716)	3,776	3,060
Depreciation and amortization	(190)	(308)	(498)
Accrual of payables to employees	353	(102)	251
Other assets	1,693	624	2,317
Tax loss carry-forwards	4	9,994	9,998
Interest accrued on impaired loans	134	-	134
Other temporary differences	317	484	801
Recognised deferred tax asset	1,595	14,468	16,063
Deferred tax asset not recognized	(650)	(7,608)	(8,258)
Net deferred tax asset	**945**	**6,860**	**7,805**

The composition of the total net deferred tax asset of the Group after offsetting within the individual entities comprising the Group is, as follows:

	31 December 2016	31 December 2015
Deferred income tax asset	6,412	7,805
Total net deferred tax asset	**6,412**	**7,805**

25. LOSS PER SHARE

Basic earnings per share are calculated by dividing the profit attributable to equity holders of the Group by the weighted average number of ordinary shares in issue during the period, excluding treasury shares.

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

	Note	Year ended 31 December 2016	Year ended 31 December 2015
Loss for the year attributable to ordinary shareholders		(106,929)	(60,128)
Weighted average number of ordinary shares in issue (thousands)	19	20,796	20,796
Basic and diluted loss per ordinary share (expressed in AZN per share)		**(5.14)**	**(2.89)**

26. SEGMENT ANALYSIS

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

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

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

- Retail banking – representing private banking services, private customer current accounts, savings, deposits, investment savings products, custody, credit and debit cards, consumer loans and mortgages.
- Corporate banking – representing direct debit facilities, current accounts, deposits, overdrafts, loan and other credit facilities, foreign currency and derivative products.
- Leasing – representing finance leasing performed by Unileasing.

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

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

Segment financial information reviewed by the CODM includes the results and the statement of financial position of the Group's subsidiaries. Ongoing review of these subsidiary entities is delegated to the local management teams, but the CODM performs regular review on a consolidated basis. The CODM obtains financial statements of the Group's subsidiaries. Such financial information overlaps with segment analysis provided internally to the CODM.

Management therefore applied the core principle of IFRS 8, *Operating Segments*, in determining which of the overlapping financial information sets should form the basis of operating segments. Management considered that information on subsidiary entities is available when required in concluding that segments include details of the subsidiaries.

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

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

(i) funds are not reallocated between segments;
(ii) income taxes are not allocated to segments;

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

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

Segment information for the main reportable business segments of the Group for the years ended 31 December 2016 and 2015 is set out below:

	Retail banking	Corporate banking	Leasing	Eliminations	Total Group
Year ended 31 December 2016					
Interest income	100,184	24,016	2,427	(1,168)	125,459
Fee and commission income	5,147	3,707	68	993	9,915
Total revenues	105,331	27,723	2,495	(175)	135,374
Interest expense	(28,452)	(14,848)	(6,140)	1,168	(48,272)
Fee and commission expense	(3,237)	(1,394)	(191)	(993)	(5,815)
Impairment loss on repossessed collateral	-	-	(874)	-	(874)
Provision for impairment losses on interest bearing assets	(64,250)	(66,523)	(17,725)	-	(148,498)
Foreign exchange translation gains less losses	(2,614)	(1,378)	(7,610)	-	(11,602)
Administrative and other operating expenses	(31,502)	(6,148)	(500)	-	(38,150)
Segment results	**(24,724)**	**(62,568)**	**(30,545)**	**-**	**(117,837)**
Year ended 31 December 2015					
Interest income	146,380	21,795	3,944	(910)	171,209
Fee and commission income	11,542	2,836	594	356	15,328
Total revenues	**157,922**	**24,631**	**4,538**	**(554)**	**186,537**
Interest expense	(40,277)	(15,310)	(5,382)	910	(60,059)
Fee and commission expense	(4,372)	(641)	(290)	(356)	(5,659)
Impairment loss on repossessed collateral	-	-	(3,458)	-	(3,458)
Provision for impairment of loans to customers	(54,903)	(23,192)	(359)	-	(78,454)
Foreign exchange translation gains less losses	(31,506)	(11,987)	(21,957)	-	(65,450)
Administrative and other operating expenses	(45,906)	(6,105)	(317)	-	(52,328)
Segment results	**(19,042)**	**(32,604)**	**(27,225)**	-	**(78,871)**

Total reportable segment assets and liabilities as at 31 December 2016 and 2015 are presented in the following table:

	Retail banking	**Corporate banking**	**Leasing**	**Eliminations**	**Total Group as at 31 December 2016**
Total reportable segment assets	368,338	189,028	6,455	(15,374)	548,447
Total reportable segment liabilities	(428,303)	(219,801)	(76,835)	15,797	(709,142)
Capital expenditure	1,869	959	-	-	2,828

	Retail banking	**Corporate banking**	**Leasing**	**Eliminations**	**Total Group as at 31 December 2015**
Total reportable segment assets	666,670	246,473	23,958	(10,633)	926,468
Total reportable segment liabilities	(674,014)	(249,396)	(65,789)	9,545	(979,654)
Capital expenditure	3,379	1,286	4	-	4,669

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

A reconciliation of adjusted profit before tax to total profit before income tax is provided as follows:

	2016	**2015**
Adjusted loss before income tax for reportable segments	**(117,837)**	**(78,871)**
Gains less losses from trading in foreign currencies	10,675	7,552
Provision for credit related commitments	365	(365)
Other operating income, net	(3,619)	158
Depreciation of premises and equipment	(4,074)	(4,214)
Amortization of intangible assets	(798)	(584)
Penalties for unpaid taxes for prior years	(361)	(450)
Loss before income tax	**(115,649)**	**(76,774)**

The adjustments are attributable to the following:

- Gains/(losses) arising from trading in foreign currencies are not allocated to the segments.
- The Group does not allocate depreciation and amortization to the segments.
- The Group does not allocate other operating loss and other non-operating income to segments.
- The Group does not allocate penalties for unpaid taxes for prior years.

Reportable segments' assets are reconciled to total assets as follows:

	31 December 2016	31 December 2015
Total reportable segment assets	**548,447**	**926,468**
Advances to the Ministry of Taxes of the Republic of Azerbaijan	4,713	9,578
Deferred income tax asset	6,412	7,805
Premises, equipment and intangible assets	51,587	53,329
Other financial assets	8,849	8,607
Other assets	8,714	9,260
Total consolidated assets	**628,722**	**1,015,047**

The adjustments are attributable to the following:

- Advances to the Ministry of Taxes of the Republic of Azerbaijan, income taxes, other assets and other financial assets are not allocated between the reporting segments for internal management reporting.
- Premises, equipment and intangible assets are not allocated between the reporting segments for internal management reporting.

Reportable segments' liabilities are reconciled to total liabilities as follows:

	31 December 2016	31 December 2015
Total reportable segment liabilities	**709,142**	**979,654**
Other financial liabilities	6,651	4,122
Other liabilities	216	1,426
Total consolidated liabilities	**716,009**	**985,202**

The adjustments are attributable to the following:

- Current income tax liability, other financial liabilities and other liabilities are not allocated between the reportable segments for internal management reporting.
- Deferred income tax liability is not calculated for the purpose of internal management reporting.

The Group does not report the geographical segment based on the fact that the substantially all of its operating are carries out in the Republic of Azerbaijan.

(f) Analysis of revenues by products and services

The Group's revenues are analysed by products and services in Note 20 (interest income) and Note 22 (fee and commission income).

27. FINANCIAL RISK MANAGEMENT

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

The Group has exposure to financial risks which include credit, liquidity, market and operational risks. The taking of risk is integral to the Group's business.

The Group's risk management function's aim is to achieve an appropriate balance between risk and return and to minimise potential adverse effects on the Group's financial performance.

Risk management framework

The risk management function is an integral part of the Group's internal control system and is centralised. The Group's risk management policies and approaches aim to identify, analyse, mitigate and manage the risks faced by the Group. This is accomplished through setting appropriate risk limits and controls, continuously monitoring risk levels and the adherence to limits and procedures and ensuring that business processes are correctly formulated and maintained.

Risk Management policies and procedures are reviewed regularly to reflect changes in market conditions, products and services offered and to ensure that "best practices" are implemented. The Group, as part of its risk culture, emphasizes integrity, management and employee standards in order to maintain and continuously improve upon a conservative control environment.

Risk management bodies and governance

Risk management policy, assessment, approval, monitoring and controls are conducted by a number of specialised bodies within the Group. These bodies also oversee the risk management policies and controls at the Bank's leasing subsidiary. The Group has established executive bodies, committees and departments which conform to Azerbaijani law, the Central Bank of the Republic of Azerbaijan regulations and the best industry practices.

The Supervisory Board of the Group has overall responsibility for the oversight of the risk management framework, overseeing the management of key risks and reviewing and approving risk management policies as well as several key risk limit approval authorities, including significantly large exposures, economic and product sector limits. It also delegates certain authority levels to the Executive Board and the Credit Committee.

Established by, appointed by and reporting directly to the Supervisory Board are the Executive Board, the Executive Committee, the Risk Management Committee, the Audit Committee ("AC"), the Internal Audit Department, the Credit Committee and the Asset and Liability Committee ("ALCO").

The Executive Board is responsible for the implementation and monitoring of risk mitigation measures and ensuring that the Group operates within the established risk parameters. The Member of the Executive Board responsible for risk management along with the Risk Management Department which reports to him are responsible for the overall risk management functions, ensuring the implementation of common principles and methods for identifying, measuring, mitigating, managing and reporting both financial and non-financial risks.

The Risk Management Committee is chaired by the Member of the Executive Board responsible for risk management. This Committee is responsible for establishing risk management methodologies and ensuring that the risk appetite of the Group is correctly reflected in the strategic and business plans of the Group. It is the main forum for discussing and recommending changes in all risk approaches and procedures to the Executive and Supervisory Boards. It ensures that the Risk Management Department, the Credit Committee and ALCO, as well as the Executive Board, address all potential risks facing the Group and report on these issues to the Supervisory Board.

The Audit Committee is responsible for overseeing and monitoring the internal control framework of the Group and for assessing the adequacy of risk management policies and procedures, as an integral part of the internal control system of the Group. The Chairman of the AC, an independent professional auditor, and the other two Committee members are representatives of two of the shareholders. The AC members cannot be employees or part of the management structure of the Group. They provide recommendations to the Executive Board, the Risk Management Committee and the Supervisory Board on development of the framework, as well as their views on, the quality of risk management and compliance with established policies, procedures and limits. The AC supervises the work of the Internal Audit, which reports directly to the AC. The Internal Audit's working plans, schedule of audits and its reports, including non-planned audits, are closely reviewed and approved by the AC.

Implementation plans based on Internal Audit's and the AC's recommendations, including status reports, are approved by the Executive Board and reported to the Executive Board, the Supervisory Board and the General Meeting of the Shareholders.

The Credit Committee consists of five members. They are nominated by the Risk Management Committee and the Executive Board and elected by the Supervisory Board. The Credit Committee manages and approves, or recommends for approval counterparty credit risk exposures within its credit approval authority for corporate, retail and financial sector entities. It also continuously reviews and makes recommendations as to analysis methodology and portfolio quality, including overall structure, diversification and pricing. The Credit Committee is one of the bodies which ensures adherence to all approval and authority limits and high standards for risk analysis and assessments.

ALCO is responsible for the management and optimization of the Group's asset and liability structure. It is an integral part of the risk management process that focuses on various market risks, including liquidity, foreign currency and interest rate risks. ALCO's functions include making recommendations for approval of strategies, policies and limits associated with the aforementioned risks. It is responsible for providing timely and reliable information and reports regarding these risk areas. ALCO assists in setting pricing policies and funding strategies. It is also responsible, along with other risk management and controlling units of the Group, for ensuring that Treasury and other relevant units work with the parameters set by ALCO, the Risk Management Committee, the Executive Board and the Supervisory Board.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty fails to meet its contractual obligations when due. The major portion of credit risk arises from the Group's loans and advances to customers and banks and other on and off balance sheet credit exposures. For risk reporting purposes, the
Group considers and consolidates all elements of credit risk exposures such as individual customer and counterparty default risk and industry risk. Normally, the only credit risk arising from market operations is Azerbaijani government bonds and the notes issued by the Central Bank of the Republic of Azerbaijan. These securities are used exclusively to help manage the liquidity position of the Group.

The general credit risk approval structure, for corporate legal entities, private individuals and financial organisations, is as follows:

For secured business loans:

- The Supervisory Board reviews and approves limits above 10% of the total statutory equity up to a maximum limit of 20% of the total statutory equity and meets on a regular basis;
- The Chairman of the Supervisory Board reviews and approves limits above AZN 1,000 thousand up to a maximum limit of 10% of the total statutory equity and meets on a regular basis;
- The Credit Committee reviews and approves limits above AZN 400 thousand up to a maximum limit of AZN 1,000 thousand and meets on a regular basis;
- The Junior Credit Committee reviews and approves limits above AZN 150 thousand up to a maximum limit of AZN 400 thousand and meets on a regular basis;
- The Risk Management and Director of the Corporate Banking Services Department reviews and approves limits up to a maximum limit of AZN 150 thousand.

For secured retail loans:

- The Supervisory Board reviews and approves limits above 10% of the total statutory equity up to a maximum limit of 20% of the total statutory equity and meets on a regular basis;
- The Chairman of the Supervisory Board reviews and approves limits above AZN 1,000 thousand up to a maximum limit of 10% of the total statutory equity and meets on a regular basis;

- The Credit Committee reviews and approves limits above AZN 400 thousand up to a maximum limit of AZN 1,000 thousand and meets on a regular basis;
- The Junior Credit Committee reviews and approves limits above AZN 250 thousand up to a maximum limit of AZN 400 thousand and meets on a regular basis;
- The Supervisory Director reviews and approves limits up to a maximum limit of AZN 250 thousand;
- The loans below the limits stipulated above are reviewed and approved by the Head of the branch.

For unsecured business loans:

- The Supervisory Board reviews and approves limits above 6% of the total statutory equity up to a maximum limit of 7% of the total statutory equity and meets on a regular basis;
- The Chairman of the Supervisory Board reviews and approves limits above AZN 100 thousand up to a maximum limit of 6% of the total statutory equity and meets on a regular basis;
- The Credit Committee reviews and approves limits above AZN 50 thousand up to a maximum limit of AZN 100 thousand and meets on a regular basis;
- The Junior Credit Committee reviews and approves limits above AZN 10 thousand up to a maximum limit of AZN 50 thousand and meets on a regular basis;
- The Risk Management and Director of the Corporate Banking Services Department reviews and approves limits up to a maximum limit of AZN 10 thousand.

For unsecured retail loans:

- The Supervisory Board reviews and approves limits above AZN 250 thousand up to a maximum limit of 7% of the total statutory equity and meets on a regular basis;
- The Chairman of the Supervisory Board reviews and approves limits above AZN 100 thousand up to a maximum limit of AZN 250 thousand and meets on a regular basis;
- The Credit Committee reviews and approves limits above AZN 50 thousand up to a maximum limit of AZN 100 thousand;
- The Junior Credit Committee reviews and approves limits above AZN 10 thousand up to a maximum limit of AZN 50 thousand;
- The Supervisory Director reviews and approves limits up to a maximum limit of AZN 10 thousand;
- The loans below the limits stipulated above are reviewed and approved by the Head of the branch.

The Supervisory Board also approves general limits so as to control and manage risk diversification:

- Portfolio limits: corporate loans, retail loans and interbank exposures as percentages of the total portfolio;
- Portfolio limits: secured facilities and unsecured facilities as percentages of the total portfolios and as a percentage of the retail portfolio; and
- Economic sector and product exposures: as a percentage of the corporate and retail portfolios.

The Executive Board also approves limits and authority levels for exposures, as follows:

- By branch;
- By collateral type and loan to value ratios;
- By individual authority.

As at 31 December 2016 and 2015 the breakdown of the loan portfolio by economic and product sectors is provided in Note 7.

Credit risk management

Credit risk policy is developed by the Risk Management Committee and Executive Board in line with the risk profile and strategic plans of the Group. It is approved by the Supervisory Board.

This policy establishes:

- Procedures for generating, analysing, reviewing and approving counterparty risk exposures;
- The methodology for the credit assessment of counterparties;
- The methodology for the credit rating of counterparties;
- The methodology for the evaluation and control of collateral;
- Credit documentation requirements;
- Loan administration procedures;
- Procedures for the ongoing monitoring of credit exposures;
- Environmental policy; and
- Loan loss provisioning policy.

Loan/credit requests are originated and generated by client managers and credit inspectors. Credit applications within approved authority limits are approved by the branches or relevant business generating units. The copies of the approved requests are submitted to the Risk Management Department for prior -control, including being assigned a rating and input into a monitoring schedule. Risk exposure requests above these limits are sent to the Credit Group of the Risk Management Department. The Credit Group performs a secondary analysis and issues a report, rating and opinion. If the credit request is below a certain authorized limit and receives a positive opinion from Risk Management, and is signed off by the appropriate individuals, then the request is considered approved. If the opinion of risk management is negative then the request is sent to the Credit Committee for adjudication. If approved and the transaction is in an amount higher than the competence of the Credit Committee then it is sent to the Executive Board for approval. Large transactions, as defined above, have to be submitted to the Supervisory Board for approval.

The Group uses a rating system for SME loans based on a 100-point scale. For large corporate loans the Group uses a rating system based on a 100-point scale. A customer rating is generated based on an analysis of four basic criteria: creditworthiness, financial performance, credit history and other risks.

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

For certain retail loan products, a credit history rating system based on 8 grades (STOP, NEGATIVE, STANDARD, STANDARD+, POSITIVE, POSITIVE+, SUPER and SUPER+) and 100 point scale is used, plus the Group uses its internally developed database and that of the Central Bank of the Republic of Azerbaijan to identify potentially risky customers.

Credit assessments are done on a portfolio basis concentrating on amount and term limits, approval procedures, target groups, types of product, default statistics, loan/value ratios (if applicable), and pricing.

Collateral and other credit enhancements.

Exposure to credit risk is also assessed and managed, in part, by obtaining, controlling and monitoring collateral in the form of mortgage interests over property, pledge of assets and securities and other collateral including deposits, corporate and personal guarantees.

While collateral is an important mitigating factor in assessing the credit risk, it is the Group's policy to establish that loans are within the customer's capacity to repay rather to rely solely on security. Collateral is considered as a secondary source of repayment. In limited cases, depending on the customer's standing or on the type of product or amounts, the facilities may be unsecured. The Group has in place various limits on the unsecured portions of its risk portfolio.

The principal types of collateral accepted by the Group are as follows:

- Commercial real estate
- Residential real estate
- Corporate capital assets
- Corporate liquid assets
- Transport vehicles
- Term deposits
- Other, including precious metals

Strict appraisal, documentation and, where applicable, registration procedures are in place for all forms of collaterals. Loan to values ratios are approved by the Executive Board and controlled by the Risk Management Department. The loan to value limits as of 31 December 2016 and 31 December 2015 are as follows:

Type of collateral	Ratio of loan amount to liquid value of collateral
Real estate	up to 70%
Precious metals	up to 80%
Machinery, equipment	up to 50%
Inventory	up to 60%
Vehicles, transport	up to 70%
Term deposit	up to 90%

As supplement collateral the Bank may accept personal guarantees.

An exclusion from the collateral guidelines requires high level authorization of the Executive Board.

The Monitoring Group is responsible for establishing a schedule of monitoring events, fulfilling this plan and notifying the appropriate parties if the monitoring results are unsatisfactory and recommending a plan of action. The Monitoring Group physically monitors all transactions above an established amount plus does selected checks of transactions below this amount. All transactions above a certain amount are first monitored either before or at least within one month of disbursement. Following this, risk exposures are monitored according to a schedule.

The Statistical Group of the Risk Management Department is charged with compiling and reporting on all counterparty credit risk issues, including compliance with all limits, risk concentrations, portfolio trends, past due and default statistics, loan loss reserves and collateral statistics. Besides regular monthly reporting, they also compile reports on adherence to selected credit procedures.

Related party lending

The Central Bank of the Republic of Azerbaijan has strict definitions regarding the category of "related parties". Mainly, these are corporate entities owned/controlled by the shareholders or the private individuals themselves or immediate family members. Also included are individuals with senior management/authority positions in the Group. The largest loan per related party private individual may not be more than 3% of the consolidated capital of the Group. Per related corporate entity, the limit is 10%. The overall limit for related party risk exposure is 20%. Pricing and other terms and conditions must be done on an arms-length basis.

Past due, non-performing loans

The Group has in place procedures for reporting and dealing with past-due and non-performing loans from the first day past-due. Unsecured retail loans over 10 days past-due are automatically transferred to the Problematic Loans Department. The department classifies loans under following categories based on their characteristics:

SOFT10 status – Represents loans with, depending on the loan type, 10-20 days overdue and which have never had 60 days overdue during the loan period.

HARD status - Represents loans with, depending on the loan type, 21-59 days overdue and which have never had 60 days overdue during the loan period.

PROBLEM status - Represents loans which at least one time have had overdue days 60 days at once and more than 1 day overdue loans during the loan period.

Corporate loans over 60-days past-due are also transferred to this department. If the Problematic Loans Department is unsuccessful in collecting on these obligations, then legal proceedings are initiated. When a loan is deemed uncollectible, recommendations to write-off these amounts are presented to the Credit

Committee and the Executive Board. Final decisions regarding write-offs are taken by the Supervisory Board.

All past-dues statistics are reported to the Credit Committee on at least a monthly basis. All corporate loan past-due issues are individually reported to the Credit Committee.

Allowance for loan losses – provisioning policy

The Group establishes an allowance for loan losses that represents its estimate of losses incurred in its risk exposures.

The Central Bank of the Republic of Azerbaijan also has a provisioning policy which is a minimum standard for banks. The categories with reserve requirements are as follows:

Satisfactory	1%
Watch	1%
Controllable assets	2%
Unsatisfactory assets	25%
Assets-at-risk	50%
Hopeless assets	100%

For loans issued after 5 May 2016:

Category	AZN		FCCY	
	Retail	**Business**	**Retail**	**Business**
Satisfactory	1%	1%	2%	2%
Watch	5%	1%	10%	5%

These categories are strictly defined.

In its IFRS reporting, the Group utilises the methodology complied with IAS 39.

Maximum exposure to credit risk

The Group's maximum exposure to on balance sheet credit risk is generally reflected in the carrying amounts of financial assets on the consolidated statement of financial position. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

The maximum credit risk for off-balance items, mainly letters of credit and guarantees, represents the gross amount of the commitment. The Group's maximum exposure to off-balance credit risk is disclosed in Note 28.

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

Maximum exposure of credit risk

The Groups maximum exposure to credit risk varies significantly and is dependent on both individual risks and general market economy risks.

For financial assets in the balance sheet, the maximum exposure is equal to the carrying amount of those assets prior to any offset or collateral. The Group'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.

Currency risk

The Group is exposed to effects of fluctuation in the prevailing local/foreign currency exchange rates on its financial position. Currency risk is the risk that movements in foreign exchange rates will affect the Group's income or the value of its portfolios of financial instruments.

The main element in the Group's risk policy regarding foreign currency risk is that there is no conscious effort to take a trading position in any currency. Limited open positions occur as a natural consequence of business operations only. The Group uses every effort to match its assets and liabilities by currency.

Exposure to foreign exchange risk faced by the Bank is also limited by the Central Bank of the Republic of Azerbaijan normative requirements.

The foreign exchange exposures are managed by the Risk Management Department, who issue daily reports, reviewed and controlled by ALCO and the Treasury Department. The table below summarizes the Group's exposure to foreign currency exchange rate risk at the end of the reporting period:

	31 December 2016			31 December 2015 (restated/reclassified)			
	Monetary financial assets	Monetary financial liabilities	Net position	Monetary financial assets	Monetary financial liabilities	Forward contracts	Net position
AZN	232,443	308,519	(76,076)	357,621	258,898	-	98,723
USD	310,289	392,132	(81,843)	526,958	673,488	(860)	(147,390)
EUR	13,130	13,974	(844)	46,880	50,616	2,588	(1,148)
Other	1,434	1,168	266	3,616	774	(1,728)	1,114
Total	**557,296**	**715,793**	**(158,497)**	**935,075**	**983,776**	**-**	**(48,701)**

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

The Group has extended loans and advances denominated in foreign currencies. Depending on the revenue stream and cost structure of the borrower, the possible appreciation of the currencies in

which loans and advances have been extended against the Azerbaijani Manat may adversely affect the borrower's repayment ability and therefore increase the potential of future loan losses.

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

	31 December 2016	31 December 2015
USD strengthening by 50% (2015: 50%)	(40,922)	(73,695)
USD weakening by 50% (2015: 50%)	40,922	73,695
EUR strengthening by 50% (2015: 50%)	(422)	(574)
EUR weakening by 50% (2015: 50%)	422	574
Other currency strengthening by 50% (2015: 50%)	133	557
Other currency weakening by 50% (2015: 50%)	(133)	(557)

Other than as a result of any impact on the Group's profit or loss, there is no other impact on the Group's equity as a result of such changes in exchange rates.

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

The Group's exposure to currency risk at the end of the reporting period is not representative of the typical exposure during the year. The following table presents sensitivities of profit and loss and equity to reasonably possible changes in exchange rates applied to average exposure to currency risk during the year, with all other variables held constant:

	Average exposure during 2016	Average exposure during 2015
USD strengthening by 50% (2015: 50%)	(44,926)	(45,557)
USD weakening by 50% (2015: 50%)	44,926	45,557
EUR strengthening by 50% (2015: 50%)	(287)	(435)
EUR weakening by 50% (2015: 50%)	287	435
Other currency strengthening by 50% (2015: 50%)	(18)	375
Other currency weakening by 50% (2015: 50%)	18	(375)

Other than as a result of any impact on the Group's profit or loss, there is no other impact on the Group's equity as a result of such changes in exchange rates.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes, but may also reduce or create losses in the event that unexpected movements occur.

Interest rate gap analysis

Interest rate risk is managed principally through monitoring interest rate gaps. A summary of the interest gap position for major financial instruments is as follows:

	Less than 1 month	1-6 months	6-12 months	Over 1 year	Non-interest bearing	Carrying amount
31 December 2016						
ASSETS						
Cash and cash equivalents	-	-	-	-	53,192	53,192
Mandatory cash balances with the CBAR	-	-	-	-	3,397	3,397
Due from other banks	-	2,656	26,993	-	111,565	141,214
Loans and advances to customers	6,751	50,769	41,493	238,604	12,529	350,146
Investment securities available-for-sale	-	-	-	-	498	498
Other financial assets	-	-	-	-	8,849	8,849
	6,751	**53,425**	**68,486**	**238,604**	**190,030**	**557,296**
LIABILITIES						
Due to banks and other financial institutions	2,000	8,000	9,269	-	157	19,426
Customer accounts	22,269	139,032	106,349	30,914	74,770	373,334
Term borrowings	9 670	45 382	48 393	115,968	39,018	258,431
Debt securities in issue	-	-	-	90	12,219	12,309
Other financial liabilities	-	-	-	-	6,651	6,651
Subordinated debt	-	-	-	5,000	26,642	31,642
Preference shares	-	-	-	-	14,000	14,000
	33,939	**192,414**	**164,011**	**151,972**	**173,457**	**715,793**
	(27,188)	**(138,989)**	**(95,525)**	**86,632**	**16,573**	**(158,497)**

	Less than 1 month	1-6 months	6-12 months	Over 1 year	Non-interest bearing	Carrying amount
31 December 2015						
ASSETS						
Cash and cash equivalents	-	-	-	-	120,780	120,780
Mandatory cash balances with the CBAR	-	-	-	-	2,693	2,693
Due from other banks	-	-	11,306	8,085	134,864	154,255
Loans and advances to customers	9,362	79,332	100,189	448,154	11,208	648,245
Investment securities available-for -sale	-	-	-	-	495	495
Other financial assets	-	-	-	-	8,607	8,607
	9,362	**79,332**	**111,495**	**456,239**	**278,647**	**935,075**
LIABILITIES						
Due to banks and other financial institutions	5,128	2,339	-	-	36	7,503
Customer accounts	40,924	198,720	161,177	61,156	109,716	571,693
Term borrowings	109,236	15,929	24,426	141,469	3,184	294,244
Debt securities in issue	38,985	-	20,000	826	747	60,558
Other financial liabilities	-	-	-	-	4,122	4,122
Subordinated debt	-	-	-	28,391	931	29,322
Preference shares	-	-	-	14,000	2,334	16,334
	194,273	**216,988**	**205,603**	**245,842**	**121,070**	**983,776**
	(184,911)	**(137,656)**	**(94,108)**	**210,397**	**157,577**	**(48,701)**

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

At present, the Group manages its interest rate risk by matching, where possible, its maturity and/or repricing positions. In addition, the Group's monthly interest margins are continually reviewed in order to reprice its assets when deemed appropriate. Operational procedures set the acceptable interest rate margin at a minimum of 10%. ALCO and the Risk Management Department constantly monitor the maintenance of this margin. ALCO is also responsible for presenting interest rate movement reports and forecasts. At present, through the Group's matching policies and high interest rate margins, potential interest rate risk is not considered to be significant.

ALCO and Treasury are responsible for managing interest rate risk, the Risk Management Department for controlling and the Executive Board must approve all guidelines and asset/liability repricing.

As at 31 December 2016 if interest rates at that date had been 100 basis points lower with all other variables held constant, profit for the year would have been AZN 1,423 thousand (31 December 2015: AZN 2,608 thousand) higher, mainly as a result of lower interest expense on variable interest liabilities. If interest rates had been 100 basis points higher, with all other variables held constant, profit would have been AZN 1,423 thousand (31 December 2015: AZN 2,608 thousand) lower, mainly as a result of higher interest expense on variable interest liabilities. The Group's profit is not exposed to AZN market interest rate changes because the bank does not have variable interest assets or liabilities denominated in AZN. The impact of a reasonably possible shift in market interest rates on other components of equity, including as a result of an increase in the fair value of fixed rate financial assets classified as available for sale, would not be significant.

The Group monitors interest rates for its financial instruments. The table below summarises interest rates based on reports reviewed by key management personnel:

	31 December 2016				**31 December2015**			
	USD	**AZN**	**EUR**	**Other**	**USD**	**AZN**	**EUR**	**Other**
Assets								
Due from other banks	4.9	7.0	-	-	7.1	-	-	-
Loans and advances to customers	17.3	20.6	10.9	21.6	19.2	21.7	11.6	25.0
Investment securities available-for-sale	-	-	-	-	-	-	-	-
Liabilities								
Due to other banks and financial institutions	5.1	14.2	-	-	4.5	-	-	-
Customer accounts	5.6	13.1	3.3	-	8.8	11.7	5.4	-
Debt securities in issue	0.1	-	-	-	8.6	9.8	-	-
Term borrowings	8.2	3.5	-	-	9.4	3.4	-	-
Subordinated debt	12.5	14.0	-	-	12.5	14.0	-	-
Preference shares	-	16.7	-	-	-	16.7	-	-

The sign "-" in the table above means that the Group does not have the respective assets or liabilities in corresponding currency.

Geographical risk concentrations

The geographical concentration of the Group's financial assets and liabilities at 31 December 2016 is set out below:

	The Republic of Azerbaijan	OECD countries	Other non-OECD countries	Total
FINANCIAL ASSETS:				
Cash and cash equivalents	43,376	9,311	505	53,192
Mandatory cash balances with the CBAR	3,397	-	-	3,397
Due from other banks	137,612	3,602	-	141,214
Loans and advances to customers	350,146	-	-	350,146
Investment securities available-for-sale	498	-	-	498
Other financial assets	8,849	-	-	8,849
TOTAL FINANCIAL ASSETS	**543,878**	**12,913**	**505**	**557,296**
FINANCIAL LIABILITIES:				
Due to banks and other financial institutions	19,426	-	-	19,426
Customer accounts	347,787	5,075	20,472	373,334
Debt securities in issue	91	12,218	-	12,309
Term borrowings	213,283	25,721	19,427	258,431
Other financial liabilities	6,651	-	-	6,651
Subordinated debt	5,082	26,560	-	31,642
Preference shares	1,700	12,300	-	14,000
TOTAL FINANCIAL LIABILITIES	**594,020**	**81,874**	**39,899**	**715,793**
NET POSITION	**(50,142)**	**(68,961)**	**(39,394)**	**(158,497)**
CREDIT RELATED COMMITMENTS	**65,610**	**-**	**-**	**65,610**

Assets, liabilities and credit related commitments have generally been based on the country in which the counterparty is located. Balances with the Republic of Azerbaijan counterparties actually outstanding to/from off-shore companies of these the Republic of Azerbaijan counterparties are allocated to the caption "the Republic of Azerbaijan". Cash on hand and premises and equipment have been allocated based on the country in which they are physically held.

The geographical concentration of the Group's financial assets and liabilities at 31 December 2015 is set out below:

	The Republic of Azerbaijan	OECD countries	Other non-OECD countries	Total
FINANCIAL ASSETS:				
Cash and cash equivalents	84,536	34,404	1,840	120,780
Mandatory cash balances with the CBAR	2,693	-	-	2,693
Due from other banks	149,793	4,148	314	154,255
Loans and advances to customers	648,245	-	-	648,245
Investment securities available-for-sale	495	-	-	495
Other financial assets	8,607	-	-	8,607
TOTAL FINANCIAL ASSETS	**894,369**	**38,552**	**2,154**	**935,075**
FINANCIAL LIABILITIES:				
Due to banks and other financial institutions	7,503	-	-	7,503
Customer accounts	531,485	12,911	27,297	571,693
Debt securities in issue	20,871	39,687	-	60,558
Term borrowings	153,948	112,273	28,023	294,244
Other financial liabilities	4,122	-	-	4,122
Subordinated debt	5,078	24,244	-	29,322
Preference shares	1,984	14,350	-	16,334
TOTAL FINANCIAL LIABILITIES	**724,991**	**203,465**	**55,320**	**983,776**
NET POSITION	**169,378**	**(164,913)**	**(53,166)**	**(48,701)**
CREDIT RELATED COMMITMENTS	**95,295**	**-**	**-**	**95,295**

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations arising from its financial obligations. It refers to the availability of sufficient funds to meet deposit withdrawals and other financial commitments associated with financial instruments as they actually fall due. Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of financial institutions.

In order to manage liquidity risk, the Group performs daily monitoring of future expected cash flows on clients' and banking operations, which is part of the assets/liabilities management process. The Executive Board and Supervisory Board set limits on the minimum proportion of maturing funds available to meet deposit withdrawals and on the minimum level of interbank and other borrowing facilities that should be in place to cover withdrawals under both normal and stressed conditions. They also set parameters for the risk diversification of the liability base.

The Central Bank of the Republic of Azerbaijan has in place minimum levels of liquidity required. The loan agreements with international financial institutions also have minimum liquidity covenants in their agreements with the Group. As at 31 December 2016 the Bank was in compliance with all these covenants.

The Group's liquidity policy is comprised of the following:

- Projecting cash flows and maintaining the level of liquid assets necessary to ensure liquidity in various time-bands;

- Maintaining a funding plan commensurate with the Group's strategic goals;
- Maintaining a diverse range of funding sources thereby increasing the Group's borrowing capacity, domestically as well as from foreign sources;
- Maintaining highly liquid and high-quality assets;
- Adjusting its product base by time bands against available funding sources;
- Daily monitoring of liquidity ratios against regulatory requirements; and
- Constant monitoring of asset and liability structures by time-bands.

The treasury function within the Group is charged with the following responsibilities:

- Compliance with the liquidity requirements of the Central Bank of the Republic of Azerbaijan as well as with the liquidity requirement covenants contained in the agreements with foreign lending sources;
- Daily reports to management, including reporting to management on the forecast levels of cash flows in the main currencies (AZN, USD, EUR), cash positions, changes in the consolidated statement of financial position;
- Constantly controlling/monitoring the level of liquid assets;
- Monitoring of deposit and other liability concentrations; and
- Maintaining a plan for the instant increase of cash to provide liquidity under stressed conditions.

ALCO is responsible for ensuring that Treasury properly manages the Group's liquidity position. The Risk Management Department is responsible for controlling these activities. Decisions on liquidity positions and management are made by the Executive Board. Funding plans are approved by the Supervisory Board.

The table below shows liabilities at 31 December 2016 by their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows, including gross loan commitments and financial guarantees. Such undiscounted cash flows differ from the amount included in the statement of financial position because the amount in the statement of financial position is based on discounted cash flows.

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

The undiscounted maturity analysis of financial assets and liabilities by contractual maturities at 31 December 2016 is as follows:

	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 12 months to 5 years	Over 5 years	No maturity	Total
Assets							
Cash and cash equivalents	53,192	-	-	-	-	-	53,192
Mandatory cash balances with the CBAR	-	-	-	-	-	3,397	3,397
Due from other banks	127	31,572	38,909	71,778	-	-	142,386
Loans and advances to customers	25,485	89,335	78,971	283,675	96,242	-	573,708
Investment securities available-for sale	-	-	-	-	-	498	498
Other financial assets	8,849	-	-	-	-	-	8,849
Total financial assets	**87,653**	**120,907**	**117,880**	**355,453**	**96,242**	**3,895**	**782,030**
Liabilities							
Due to banks and other financial institutions	(2,346)	(8,502)	(9,508)	-	-	-	(20,356)
Customer accounts	(94,855)	(149,917)	(112,046)	(33,294)	-	-	(390,112)
Term borrowings	(49,970)	(50,023)	(51,329)	(84,745)	(53,953)	-	(290,020)
Debt securities in issue	(2)	(12,413)	(5)	(94)	-	-	(12,514)
Other financial liabilities	(6,651)	-	-	-	-	-	(6,651)
Subordinated debt	-	(432)	(1,318)	(31,932)	-	-	(33,682)
Preference shares	-	-	-	-	-	(14,000)	(14,000)
Total financial liabilities	**(153,824)**	**(221,287)**	**(174,206)**	**(150,065)**	**(53,953)**	**(14,000)**	**(767,335)**
Net liquidity gap on recognised financial assets and liabilities	**(66,171)**	**(100,380)**	**(56,326)**	**205,388**	**42,289**	**(10,105)**	**14,695**
Cumulative liquidity gap on recognised financial assets and liabilities	**(66,171)**	**(166,551)**	**(222,877)**	**(17,489)**	**24,800**	**14,695**	
Credit related commitments	**(65,610)**						**(65,610)**

The undiscounted maturity analysis of financial assets and liabilities by contractual maturities at 31 December 2015 is as follows:

	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 12 months to 5 years	Over 5 years	No maturity	Total
Assets							
Cash and cash equivalents	120,780	-	-	-	-	-	120,780
Mandatory cash balances with the CBAR	-	-	-	-	-	2,693	2,693
Due from other banks	49	16,604	27,895	105,947	-	4,462	154,957
Loans and advances to customers	31,992	140,634	160,124	468,095	231,880	-	1,032,725
Investment securities available-for sale	-	-	-	-	-	495	495
Other financial assets	8,607	-	-	-	-	-	8,607
Total financial assets	161,428	157,238	188,019	574,042	231,880	7,650	1,320,257
Liabilities							
Due to banks and other financial institutions	(5,154)	(2,429)	-	-	-	-	(7,583)
Customer accounts	(153,998)	(215,790)	(171,874)	(69,020)	-	-	(610,682)
Term borrowings	(116,167)	(21,955)	(30,172)	(107,532)	(59,516)	-	(335,342)
Debt securities in issue	(39,716)	(1,765)	(20,956)	(976)	-	-	(63,413)
Other financial liabilities	(4,122)	-	-	-	-	-	(4,122)
Subordinated debt	-	(1,792)	(2,762)	(37,532)	-	-	(42,086)
Preference shares	-	(2,334)	-	-		(14,000)	(16,334)
Total financial liabilities	**(319,157)**	**(246,065)**	**(225,764)**	**(215,060)**	**(59,516)**	**(14,000)**	**(1,079,562)**
Net liquidity gap on recognised financial assets and liabilities	**(157,729)**	**(88,827)**	**(37,745)**	**358,982**	**172,364**	**(6,350)**	**240,695**
Cumulative liquidity gap on recognised financial assets and liabilities	**(157,729)**	**(246,556)**	**(284,301)**	**74,681**	**247,045**	**240,695**	
Credit related commitments	**(91,006)**						**(91,006)**

Customer accounts are classified in the above analysis based on contractual maturities. However, in accordance with Azerbaijan Civil Code, individuals have a right to withdraw their deposits prior to maturity if they forfeit their right to accrued interest.

The table presents an analysis of liquidity position of the Group's financial assets and liabilities by expected maturities as at 31 December 2016:

	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	Over 1 year	No maturity	Total
Assets						
Cash and cash equivalents	53,192	-	-	-	-	53,192
Mandatory cash balances with the CBAR	-	-	-	-	3,397	3,397
Due from other banks	21	31,063	38,353	71,777	-	141,214
Loans and advances to customers	17,096	50,769	41,493	240,788	-	350,146
Investment securities available-for-sale	-	-	-	-	498	498
Other financial assets	8,849	-	-	-	-	8,849
Total financial assets	**79,158**	**81,832**	**79,846**	**312,565**	**3,895**	**557,296**
Liabilities						
Due to banks and other financial institutions	2,157	8,000	9,269	-	-	19,426
Customer accounts	3,115	65,174	6,324	289,373	9,348	373,334
Term borrowings	47,196	45,382	46,917	111,542	7,394	258,431
Debt securities in issue	-	-	-	3,757	8,552	12,309
Other financial liabilities	6,651	-	-	-	-	6,651
Subordinated debt	82	-	-	5,000	26,560	31,642
Preference shares	-	-	-	-	14,000	14,000
Total financial liabilities	**59,201**	**118,556**	**62,510**	**409,672**	**65,854**	**715,793**
Net liquidity gap 31 December 2016	**19,957**	**(36,724)**	**17,336**	**(97,107)**	**(61,959)**	**(158,497)**
Cumulative liquidity gap 31 December 2016	**19,957**	**(16,767)**	**569**	**(96,538)**	**(158,497)**	

The table presents an analysis of liquidity position of the Group's financial assets and liabilities by expected maturities as at 31 December 2015:

	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	Over 1 year	No maturity	Total
Assets						
Cash and cash equivalents	120,780	-	-	-	-	120,780
Mandatory cash balances with the CBAR	-	-	-	-	2,693	2,693
Due from other banks	361	16,296	30,158	107,440	-	154,255
Loans and advances to customers	19,898	79,563	100,466	448,318	-	648,245
Investment securities available-for-sale	-	-	-	-	495	495
Other financial assets	8,607	-	-	-	-	8,607
Total financial assets	**149,646**	**95,859**	**130,624**	**555,758**	**3,188**	**935,075**
Liabilities						
Due to banks and other financial institutions	5,164	2,339	-	-	-	7,503
Customer accounts	136,493	28,436	33,471	373,293	-	571,693
Term borrowings	112,423	15,928	24,426	141,467	-	294,244
Debt securities in issue	39,731	-	20,000	827	-	60,558
Other financial liabilities	4,122	-	-	-	-	4,122
Subordinated debt	931	-	-	28,391	-	29,322
Preference shares	-	2,334	-	-	14,000	16,334
Total financial liabilities	**298,864**	**49,037**	**77,897**	**543,978**	**14,000**	**983,776**
Net liquidity gap 31 December 2015	**(149,218)**	**46,822**	**52,727**	**11,780**	**(10,812)**	**(48,701)**
Cumulative liquidity gap 31 December 2015	**(149,218)**	**(102,396)**	**(49,669)**	**(37,889)**	**(48,701)**	

The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Group. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Group and its exposure to changes in interest and exchange rates.

Management believes that in spite of a substantial portion of customer accounts being on demand, diversification of these deposits by number and type of depositors, and the past experience of the Group would indicate that these customer accounts provide a long-term and stable source of funding for the Group.

Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Group does not generally expect delays in payments by the client under the agreement with the third party. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded. Refer to Note 2 for liquidity mismatch of the Group.

Operational risk

The Group is exposed to operational risk. Operational risk is defined as the risk of loss, whether direct or indirect, resulting from inadequate or failed internal processes, people or systems or due to external factors other than credit, market and liquidity risks. Inadequate or inappropriately designed business process systems, management failures, technology failures, faulty control structures,

human error, fraud and non-conformance to generally accepted standards of corporate behavior can cause losses for an organisation.

The Group's objective in managing operational risk is to balance the avoidance of financial losses and damage to the Group's reputation with overall operational efficiencies and cost effectiveness.

Operational risk arises in the unit that generates an operation, and so the primary responsibility for addressing operational risk lies within each business unit. This responsibility is supported by the development of overall standards within the general internal control system of the Group. The approach of the Group's internal control system covers the following areas:

- requirements for the appropriate segregation of duties, including avoidance of conflicts of interest, independent authorisation of transactions and strict delineations of system access rights;
- requirements for the reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements;
- documentation of controls, procedures and instructions and their approval across business and risk management lines;
- constant control and monitoring of adherence to controls, procedures and instructions, including a strong internal audit function;
- continuous evaluation of present and potential operational risks;
- continuous evaluation of the adequacy of controls and procedures in addressing the risks identified;
- development of contingency plans;
- continual evaluation of IT security issues;
- requirements for the reporting of operational errors and losses and proposed remedial actions;
- appropriate recruitment, training and professional development;
- ensuring adherence to the Group's out-sourcing policy;
- ethical and code of conduct standards; and
- implementation of risk mitigation measures, including insurance.

The Operational Risk Group of the Risk Management Department and Internal Audit have primary responsibility for monitoring, reporting and making recommendations to improve the Group's operational risk management.

28. CONTINGENCIES AND COMMITMENTS

Legal proceedings – From time to time and in the normal course of business, claims against the Group are received from customers and counterparties. Management is of the opinion that no material unaccrued losses will be incurred and accordingly no provision has been made in this consolidated 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 Group's business activities, was to be challenged by the tax authorities, the Group 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 Group believes that it has accrued all tax amounts due and therefore no allowance has been made in the consolidated 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 may be extended up to seven years based on the court decision.

Compliance with covenants – The Bank is subject to certain covenants related primarily to its term borrowings and subordinated debts. Non-compliance with such covenants may result in negative consequences for the Group including, growth in the cost of borrowings and timing of repayment of existing facilities.

As at 31 December 2016 the Bank was in breach of certain covenants with three financing arrangements with outstanding balances amounting to AZN 21,036 thousand. The Bank has classified these agreements as on demand liabilities.

Credit related commitments – The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Group on behalf of a customer authorizing a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralized by the underlying shipments of goods, to which they relate, or cash deposits and, therefore, carry less risk than a direct borrowing.

Commitments to extend credit represent unused portions of authorizations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group monitors the term to maturity of credit related commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

Outstanding amount of credit related commitments are, as follows:

	31 December 2016	**31 December 2015**
Undrawn credit lines	62,074	75,279
Letters of guarantee	3,536	14,893
Forward contracts	-	4,289
Import letters of credit	-	834
Total credit related commitments	**65,610**	**95,295**

The total outstanding contractual amount of undrawn credit lines, letters of credit, and guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded. Credit related commitments are denominated in currencies as follows:

	31 December 2016	**31 December 2015**
Azerbaijani Manats	32,920	40,919
US Dollars	28,469	45,931
Euro	4,092	6,384
Other	129	2,061
Total	**65,610**	**95,295**

Liquidity and currency analysis of contingencies and commitments are disclosed in Note 27. Information on related party balances is disclosed in Note 30.

29. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

Fair value hierarchy

The Group measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements:

- **Level 1**: quoted market price (unadjusted) in an active market for an identical instrument.
- **Level 2**: inputs other than quotes prices included within Level 1 that are observable either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- **Level 3**: inputs that are unobservable. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The table below analyses financial instruments measured at fair value at 31 December 2016 and 2015, by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognised in the statement of financial position:

	31 December 2016	31 December 2015
	Level 3	Level 3
Available-for-sale financial assets	498	495
	498	**495**

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).

Except as detailed in the following table, the directors consider that the carrying amounts of financial assets and financial liabilities recognised in the consolidated financial statements approximate their fair values.

	31 December 2016		31 December 2015	
	Carrying value	Fair value Level 2	Carrying value	Fair value Level 2
Cash and cash equivalents	53,192	53,192	120,780	120,780
Mandatory cash balances with the CBAR	3,397	3,397	2,693	2,693
Due from other banks	141,214	141,214	154,255	153,827
Loans and advances to customers	350,146	350,146	648,245	648,245
Other financial assets	8,849	8,849	8,607	8,607
Due to other banks and financial institutions	19,426	19,426	7,503	7,229
Customer accounts	373,334	374,667	571,693	561,785
Debt securities in issue	12,309	12,309	60,558	56,875
Term borrowings	258,431	258,431	294,244	289,545
Other financial liabilities	6,651	6,651	4,122	4,122
Subordinated debt	31,642	31,642	29,322	29,359
Preference shares	14,000	14,000	16,334	16,334

The fair values of the financial assets and financial liabilities included in the Level 2 and Level 3 categories above have been determined in accordance with generally accepted pricing models based on a discounted cash flow analysis, with the most significant inputs being the discount rate that reflects the credit risk of counterparties.

30. RELATED PARTY TRANSACTIONS

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

As at 31 December 2016 and 2015, the outstanding balances with related parties were as follows:

	31 December 2016				31 December 2015			
	Key management personnel	Ultimate controlling party	Other shareholders	Other related parties	Key management personnel	Ultimate controlling party	Other shareholders	Other related parties
Gross amount of loans and advances to customers (contractual interest rate: 2016: 14% - 26% p.a.; 2015: 13.5% - 26% p.a.)	433	1,596	-	7	4,206	1,514	-	13
Impairment provisions for loans and advances to customers	(7)	(31)	-	-	(66)	(14)	-	-
Investment securities available-for-sale				400	-	-	-	400
Current/settlements accounts	190	278	-	330	218	111	-	-
Term deposits (contractual interest rate: 2016: 2.4% - 15.5% p.a.; 2015: 9% - 12.8% p.a.)	1,508	9,425	-	3,847	3,219	3,908	-	4,563
Debt securities in issue (contractual interest rate: 2016: 0% p.a.; 2015: 8.5% p.a.)	-	-	12,218	-	-	-	39,687	-
Term borrowings (contractual interest rate: 2016: 6.7% - 7.3% p.a.; 2015: 3.5% - 11.3% p.a.)	-	-	13,346	-	-	-	15,103	-
Subordinated debt (contractual interest rate: 2016: 12.5% p.a.; 2015: 12.5% p.a.)	-	-	27,529	-	-	-	24,244	-
Preference shares	-	1,500	200	-	-	1,500	200	-

As at 31 December 2016 and 2015 fair value of collaterals pledged in respect to loans issued to key management personnel amounted to AZN 726 thousand and AZN 5,137 thousand, respectively.

The income and expense items with related parties for the years ended 31 December 2016 and 2015 were as follows:

	Year ended 31 December 2016				Year ended 31 December 2015			
	Key management personnel	Ultimate controlling party	Other shareholders	Other related parties	Key management personnel	Ultimate controlling party	Other shareholders	Other related parties
Interest income	53	106	-	1	398	42	-	6
Interest expense	(56)	(83)	(2,393)	(112)	(184)	(529)	(5,082)	(416)
Provision for loan impairment/(Recovery of provision for loan impairment)	59	(17)	-	-	3	-	-	52
Fee and commission income	5	7	1	16	10	10	4	54
Other income	-	-	2	5	25	-	15	20
Administrative and other operating expense	1,771	223	-	1,216	2,389	292	71	1,095

During the year ended 31 December 2016, the remuneration of key management personnel comprised salaries and bonuses totaling to AZN 1,994 thousand (31 December 2015: AZN 2,389 thousand).

Other rights and obligations with related parties were as follows:

	31 December 2016				31 December 2015			
	Key management personnel	Ultimate controlling party	Other shareholders	Other related parties	Key management personnel	Ultimate controlling party	Other shareholders	Other related parties
Letters of guarantee	-	-	-	561	136	-	-	1,057

The management believes that despite the fact EBRD and DEG own less than 20 per cent of the Bank's nominal shares, they meet the definition of related parties as per "IAS 24, Related party disclosures" by having significant influence through a presence in the Supervisory Board with a voting power allowing participation in the financial and operating policy decisions of the Group. Therefore, balances and transactions with EBRD and DEG were disclosed accordingly in these consolidated financial statements.

31. EVENTS AFTER THE REPORTING PERIOD

On 17 March 2017, the Bank fully disposed of its 66.67% ownership in Unileasing through a sale of 600,000 ordinary shares with nominal value of AZN 2 per share for AZN 600 thousand to a third party resident individual.

On 9 June 2017, the Bank signed share subscription agreements with EBRD and DEG for 5,391,384 and 8,988,971 ordinary shares at a nominal value of AZN 2.72 per share for the total amount of AZN 14,665 thousand and AZN 24,450 thousand, respectively. As at the date these consolidated financial statements were authorized for issue, the ultimate controlling party paid-in AZN 10,000 thousand into an escrow account in a depository for a purchase of 3,676,471 ordinary shares.