OPEN JOINT STOCK COMPANY BANK OF BAKU

Consolidated Financial Statements
For the Year Ended December 31, 2014

OPEN JOINT STOCK COMPANY BANK OF BAKU

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OPEN JOINT STOCK COMPANY BANK OF BAKU

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

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

In preparing the consolidated financial statements, management is responsible for:

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

Management is also responsible for:

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

The consolidated financial statements of the Group for the year ended December 31, 2014 were approved by management on April 28, 2015:

On behalf of the Management Board:

Chairman	Chief Accountant
Mr. Farid Huseynov	Mrs. Rena Efendiyeva
April 28, 2015	*April 28, 2015*
Baku, the Republic of Azerbaijan	*Baku, the Republic of Azerbaijan*

Bank of Baku ASC
Bank of Baku OJSC

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Management Board of Open Joint Stock Company Bank of Baku:

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements of the Group present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2014, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Deloitte & Touche

April 28, 2015
Baku, the Republic of Azerbaijan

OPEN JOINT STOCK COMPANY BANK OF BAKU

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED DECEMBER 31, 2014
(in thousands of Azerbaijan Manats, except for earnings per share which are in Manats)

	Notes	Year ended December 31, 2014	Year ended December 31, 2013
Interest income			
Interest income on financial assets recorded at amortised cost comprise:			
Loans to customers		181,113	142,038
Other debt securities		245	154
Amounts due from banks and other credit institutions		242	121
Interest income on financial assets at fair value comprise:			
Investment securities available-for-sale		53	126
	24	181,653	142,439
Interest expense			
Interest expense on financial liabilities recorded at amortised cost comprise:			
Amounts due to customers		(44,236)	(38,882)
Amounts due to banks and other financial institutions		(6,572)	(6,055)
Debt securities issued		(2,869)	(1,923)
Subordinated debt		(361)	(406)
	24	(54,038)	(47,266)
NET INTEREST INCOME BEFORE PROVISION FOR IMPAIRMENT LOSSES ON INTEREST BEARING ASSETS		127,615	95,173
Provision for loan impairment losses	5,24	(37,043)	(8,104)
NET INTEREST INCOME		90,572	87,069
Net fee and commission income	6,24	7,992	9,953
Net gains/(losses) from foreign currencies:			
- dealing		701	640
- translation differences		(287)	(1)
Provision on other operations		(598)	64
Other income		82	14
NET NON-INTEREST INCOME		7,890	10,670
Personnel expenses	7,24	(31,681)	(26,562)
Depreciation and amortization	7	(3,097)	(2,203)
Other operating expenses	7,24	(11,241)	(10,127)
NON-INTEREST EXPENSES		(46,019)	(38,892)
PROFIT BEFORE INCOME TAX		52,443	58,847
Income tax expense	8	(11,782)	(12,456)
NET PROFIT FOR THE YEAR		**40,661**	**46,391**
EARNINGS PER SHARE (AZN)	22	11.96	13.64

On behalf of the Management Board:

Chairman
Mr. Farid Huseynov

April 28, 2015
Baku, the Republic of Azerbaijan

Chief Accountant
Mrs. Rena Efendiyeva

April 28, 2015
Baku, the Republic of Azerbaijan

The notes on pages 9-52 form an integral part of these consolidated financial statements.

OPEN JOINT STOCK COMPANY BANK OF BAKU

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2014
(in thousands of Azerbaijan Manats)

	Year ended December 31, 2014	Year ended December 31, 2013
NET PROFIT FOR THE PERIOD	40,661	46,391
Other comprehensive income	-	-
TOTAL COMPREHENSIVE INCOME	**40,661**	**46,391**

On behalf of the Management Board:

Chairman
Mr. Farid Huseynov

April 28, 2015
Baku, the Republic of Azerbaijan

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April 28, 2015
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OPEN JOINT STOCK COMPANY BANK OF BAKU

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

	Notes	December 31, 2014	December 31, 2013
ASSETS			
Cash and cash equivalents	9	45,372	40,824
Amounts due from banks and other credit institutions	10	9,954	15,685
Loans to customers	11,24	613,794	546,626
Investment securities available-for-sale	12,24	26,144	9,071
Other debt securities	13	4,998	5,017
Property and equipment	14	21,111	18,946
Intangible assets	15	1,498	1,517
Other assets	16	5,088	5,191
TOTAL ASSETS		**727,959**	**642,877**
LIABILITIES AND EQUITY			
LIABILITIES:			
Amounts due to banks and other financial institutions	17	111,021	75,893
Amounts due to customers	18,24	435,950	411,931
Debt securities issued	19	29,469	16,332
Current income tax liabilities		1,632	5,874
Deferred income tax liabilities	8	1,099	1,803
Other liabilities	20,24	19,699	5,233
Subordinated debt	21,24	823	2,809
Total liabilities		599,693	519,875
EQUITY:			
Share capital	22	52,870	52,870
Property revaluation reserve		7,218	7,604
Retained earnings		68,178	62,528
Total equity		128,266	123,002
TOTAL LIABILITIES AND EQUITY		**727,959**	**642,877**

On behalf of the Management Board:

Chairman
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April 28, 2015
Baku, the Republic of Azerbaijan

Chief Accountant
Mrs. Rena Efendiyeva

April 28, 2015
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OPEN JOINT STOCK COMPANY BANK OF BAKU

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2014

(in thousands of Azerbaijan Manats)

	Notes	Share capital	Property revaluation reserve	Retained earnings	Total equity
January 1, 2013		52,870	7,989	31,920	92,779
Profit for the year		-	-	46,391	46,391
Depreciation of revaluation reserve		-	(385)	385	-
Dividends declared	22	-	-	(16,168)	(16,168)
December 31, 2013		52,870	7,604	62,528	123,002
Profit for the year		-	-	40,661	40,661
Depreciation of revaluation reserve		-	(386)	386	-
Dividends declared	22	-	-	(35,397)	(35,397)
December 31, 2014		**52,870**	**7,218**	**68,178**	**128,266**

On behalf of the Management Board:

Chairman
Mr. Farid Huseynov

April 28, 2015
Baku, the Republic of Azerbaijan

Chief Accountant
Mrs. Rena Efendiyeva

April 28, 2015
Baku, the Republic of Azerbaijan

The notes on pages 9-52 form an integral part of these consolidated financial statements.

OPEN JOINT STOCK COMPANY BANK OF BAKU

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

	Year ended December 31, 2014	Year ended December 31, 2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Interest received	171,866	139,365
Interest paid	(51,794)	(39,338)
Fees and commissions received	10,728	12,154
Fees and commissions paid	(2,736)	(2,201)
Net realized gains from dealing in foreign currencies	701	640
Other income received	82	14
Personnel expenses paid	(25,519)	(26,972)
Other operating expenses paid	(10,723)	(9,772)
Cash flows from operating activities before changes in operating assets and liabilities	92,605	73,890
Net increase in operating assets		
Amounts due from banks and other credit institutions	5,735	(6,830)
Loans to customers	(94,685)	(143,542)
Other assets	(673)	(1,875)
Net increase in operating liabilities		
Amounts due to banks and other financial institutions	33,725	2,813
Amounts due to customers	16,318	104,229
Other liabilities	8,304	70
Net cash inflow from operating activities before income tax	61,329	28,755
Income tax paid	(16,728)	(9,450)
Net cash inflow from operating activities	44,601	19,305
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investment securities available-for-sale	(97,489)	(131,847)
Proceeds from sale and redemption of investment securities available-for-sale	79,955	141,344
Purchase of property and equipment	(4,678)	(6,138)
Proceeds from sale of property and equipment	-	9
Acquisition of intangible assets	(160)	(606)
Net cash (outflow)/inflow from investing activities	(22,372)	2,762

OPEN JOINT STOCK COMPANY BANK OF BAKU

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

	Notes	Year ended December 31, 2014	Year ended December 31, 2013
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from debt securities issued		13,240	5,950
Dividends paid		(28,672)	(14,536)
Subordinated debt repaid		(1,962)	-
Net cash outflow from financing activities		(17,394)	(8,586)
Effect of exchange rate changes on the balance of cash and cash equivalents held in foreign currencies		(287)	183
NET INCREASE IN CASH AND CASH EQUIVALENTS		4,548	13,664
CASH AND CASH EQUIVALENTS, beginning of the year	9	40,824	27,160
CASH AND CASH EQUIVALENTS, end of the year	9	**45,372**	**40,824**

Significant non-cash financing transactions

Repossessed collaterals amounted to AZN 725 thousand and AZN 450 thousand during the year ended December 31, 2014 and December 31, 2013, respectively.

On behalf of the Management Board:

Chairman
Mr. Farid Huseynov

April 28, 2015
Baku, the Republic of Azerbaijan

Chief Accountant
Mrs. Rena Efendiyeva

April 28, 2015
Baku, the Republic of Azerbaijan

The notes on pages 9-52 form an integral part of these consolidated financial statements.

(in thousands of Azerbaijan Manats, unless otherwise indicated)

1. ORGANIZATION

OJSC Bank of Baku is the parent company of the Group. The Bank operates under banking license number 247 issued by the Central Bank of the Republic of Azerbaijan (the "CBAR") on February 18, 2005.

The Bank accepts deposits from the public and extends credit, transfers payments in the Republic of Azerbaijan and abroad, exchanges currencies and provides other banking services to its commercial and retail customers. Its main office is in Baku and it has 24 branches (2013: 22) in Baku and other cities of the Republic of Azerbaijan and 1 servicing outlet as at December 31, 2014 (2013: 1 servicing outlet). The Bank's registered legal address is 42 Ataturk Avenue, Baku, AZ 1069, Azerbaijan.

The Bank is a member of the deposit insurance system. The system operates under the Law on Deposit Insurance and other regulations and is governed by the Azerbaijan Deposit Insurance Fund. Insurance covers the Bank's liabilities to individual depositors for the amount up to AZN 30 thousand with maximum interest rate of 9% for each individual in case of business failure and revocation of the CBAR banking license.

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

Name	Country of operation	Proportion or ownership interest/voting rights (%) 2014	2013	Type of operation
Bank of Baku OJSC	*The Republic of Azerbaijan*	*Parent*		*Banking*
BOB Broker Ltd.	*The Republic of Azerbaijan*	100		*Broker services*

"BOB Broker" Ltd. (the "Subsidiary") is a wholly-owned subsidiary of the Bank and is consolidated in the financial statements of the Bank. The Subsidiary was formed as a limited liability company under the laws of the Republic of Azerbaijan on February 28, 2007. It is principally engaged in brokerage of securities in the Azerbaijan stock market. It possesses a license for operations with securities from the State Securities Committee of the Republic of Azerbaijan dated May 15, 2007.

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

Shareholder	December 31, 2014, %	December 31, 2013, %
NAB Holding	40.00	40.00
Azpetrol Neft Shirketi LLC	28.89	28.89
Mr. Hikmat Ismayilov	21.11	-
Mr. Elchin Isayev	10.00	10.00
Mr. Rafig Aliyev	-	11.22
Azinvest LLC	-	9.89
Total	**100.00**	**100.00**

NAB Holding is ultimately controlled by Nader Mohaghegh Oromi and Bahram Mohaghegh Oromi. The ultimate shareholder of Azpetrol Neft Shirketi LLC is Mr. Ibrahim Mammadov.

These consolidated financial statements were authorized for issue on April 28, 2015 by the Management Board.

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

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

These consolidated financial statements have been prepared on the assumption that the Group is a going concern and will continue in operation for the foreseeable future.

These consolidated financial statements are presented in thousands of Azerbaijan Manats ("AZN"), unless otherwise indicated.

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

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

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

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

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

The Bank and its consolidated company, registered in the Republic of Azerbaijan, maintain their accounting records in accordance with local accounting practice. These consolidated financial statements have been prepared from the statutory accounting records and have been adjusted to conform to IFRS.

The Group presents its consolidated statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in Note 27.

Functional currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary of the economic environment in which the entity operates ("the functional currency"). The functional currency of the parent of the Group is the Azerbaijan Manats ("AZN"). The presentational currency of the consolidated financial statements of the Group is AZN. All values are rounded to the nearest thousand Manats, except when otherwise indicated.

Offsetting

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

The principal accounting policies are set out below.

Basis of consolidation

These consolidated financial statements incorporate the financial statements of the Bank and its subsidiary. 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.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Revenue recognition

Recognition of interest income and expense

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income and expense are recognised 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. All other commissions are recognized when services are provided.

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 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.

Financial assets

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

Available-for-sale financial assets

Available-for-sale (AFS) financial assets are non-derivatives that are either designated as available-for-sale or are not classified as loans and receivables, held to maturity investments or financial assets at fair value through profit or loss.

Notes of the CBAR held by the Group that are traded in an active market are classified as AFS and are stated at fair value. 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.

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 (including balances with the CBAR, amount due from banks and other credit institutions, loans to customers and other financial assets) are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Other debt securities

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

Impairment of financial assets

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

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

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

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

For certain categories of financial asset, such as loans and receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of loans and receivables could include the 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 profit or loss.

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

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

In respect of AFS equity securities, impairment losses previously recognized in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income and accumulated under the heading of 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 allowance for impairment losses when deemed uncollectible. Loans and advances are written off after management has exercised all possibilities available to collect amounts due to the 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 profit or loss 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.

Financial liabilities and equity instruments issued

<u>Classification as debt or equity</u>

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.

<u>Equity instrument</u>

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 recognized at the proceeds received, net of direct issue costs.

<u>Financial liabilities</u>

Financial liabilities are classified as 'other financial liabilities'

Other financial liabilities

Other financial liabilities, including amounts due to banks and other financial instructions, amounts due to customers, other liabilities and subordinated debt, are initially measured at fair value, net of transaction costs.

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

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

Financial guarantee contracts

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

Financial guarantee contracts issued by the 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 and loss.

Leases

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

The Group as lessee

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

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

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.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, amounts due from the CBAR excluding obligatory reserves, and amounts due from banks and other credit institutions with original maturity of less or equal to 90 days and are free from contractual encumbrances.

Minimum reserve deposits with the CBAR

Minimum reserve deposits with the CBAR represent the amount of obligatory reserves deposited with the CBAR 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.

Repossessed assets

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

Property and equipment

Buildings are stated in the consolidated statement of financial position at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amounts do not differ materially from those that would be determined using fair values at the end of each reporting period. Land is stated at cost.

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

Construction in progress is carried at cost, less any recognised impairment loss. 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.

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

Freehold land is not depreciated.

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

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

Buildings	5%
Furniture and equipment	20%
Computers and communication equipment	25%
Vehicles	20%
Other	20%

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

Intangible assets

Intangible assets acquired separately

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

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, and 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). Where 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. Where 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.

Taxation

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

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of profit or loss 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

The Republic of 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.

Foreign currencies

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

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

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

Retirement benefit costs

Payments to defined contribution retirement benefit plans are recognised as an expense when employees have rendered service entitling them to the contributions.

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.

Equity reserves

The reserve recorded in equity on the Group's consolidated statement of financial position includes revaluation reserves which comprise change in fair value of buildings.

Segment Reporting

The Group's operations are in the Republic of Azerbaijan and constitute a single industry segment - commercial banking. Accordingly, for purposes of IFRS 8 "Operating Segments" the Bank is treated as one operating segment.

Critical accounting judgments and key sources of estimation uncertainty

In the application of the Group's accounting policies 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.

Key sources of estimation uncertainty

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

Impairment of 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 December 31, 2014 and 2013 the gross loans to customers totaled AZN 663,683 thousand and AZN 564,884 thousand, respectively, and allowance for impairment losses amounted to AZN 49,889 thousand and AZN 18,258 thousand, respectively.

Loans from government agencies

Management has assessed the nature of the agreements with the National Fund for Entrepreneurship Support and Azerbaijan Mortgage Fund, and in particular whether the Bank is acting as an agent of the Government agencies, or as a principal with the borrower under this program. Having considered the risks and rewards related to the loans issued under those programs, management have concluded that the Bank is acting as a principal and accordingly the accounting in these financial statements follows this judgment. Had an alternative conclusion been reached, the gross amounts of loans to customers and due to the Government agencies, of AZN 22,259 thousand and AZN 17,633 thousand as at December 31, 2014 and 2013, respectively, would have been excluded from the Bank's financial statements.

Valuation of financial instruments

As described in Note 25, 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 25 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 Group management believes that the chosen valuation techniques and assumptions used are appropriate in determining the fair value of financial instruments.

Property and equipment carried at revalued amounts

Certain property (buildings) is measured at revalued amounts. The latest full scope appraisal was as of December 31, 2012. The next revaluation is preliminary scheduled as at December 31, 2015. The carrying value of revalued property amounted to AZN 13,516 thousand and AZN 14,201 thousand as at December 31, 2014 and 2013, respectively.

3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

New and revised IFRSs in issue but not yet effective.

The Group has not applied the following new and revised IFRSs that have been issued but are not yet effective:

- Annual Improvements to IFRSs 2010-2012 Cycle[1];
- Annual Improvements to IFRSs 2011-2013 Cycle[1];
- Annual Improvements to IFRSs 2012-2014 Cycle[2];
- Amendments to IAS 16 and IAS 38 - *Clarification of Acceptable Methods of Depreciation and Amortisation*[2];
- Amendments to IAS 27 - *Equity Method in Separate Financial Statements*[2];
- IFRS 15 *Revenue from Contracts with Customers*[3];
- IFRS 9 *Financial Instruments*[4].

[1] Effective for annual periods beginning on or after 1 July 2014, with earlier application permitted.
[2] Effective for annual periods beginning on or after 1 January 2016, with earlier application permitted.
[3] Effective for annual periods beginning on or after 1 January 2017, with earlier application permitted.
[4] Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.

IFRS 15 *Revenue from Contracts with Customers.* In May 2014, IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and the related interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognise 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 and services. Specifically, the standard provides a single, principles based five-step model to be applied to all contracts with customers.

The five steps in the model are as follows:

- Identify the contract with the customer;
- Identify the performance obligations in the contract;
- Determine the transaction price;
- Allocate the transaction price to the performance obligations in the contracts;
- Recognise revenue when (or as) the entity satisfies a performance obligation.

Under IFRS 15, an entity recognises revenue when or as a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added on topics such as the point in which revenue is recognised, accounting for variable consideration, costs of fulfilling and obtaining a contract and various related matters. New disclosures about revenue are also introduced.

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 9 *Financial Instruments.* IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. In July 2014 IASB issued a finalised version of IFRS 9 mainly introducing impairment requirements for financial assets and limited amendments to the classification and measurement requirements for financial assets. IFRS 9 is aiming at replacing IAS 39 Financial Instruments: Recognition and Measurement.

The key requirements of IFRS 9 are:

- **Classification and measurement of financial assets.** Financial assets are classified by reference to the business model within which they are held and their contractual cash flow characteristics. Specifically, debt instruments that are held within the business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost after initial recognition. The 2014 version of IFRS 9 introduces a 'fair value through other comprehensive income' category for debt instruments held within the business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset giving rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding which are measured at fair value through other comprehensive income after initial recognition. All other debt and equity investments are measured at their fair values. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.
- **Classification and measurement of financial liabilities.** Financial liabilities are classified in a similar manner to under IAS 39, however there are differences in the requirements applying to the measurement of an entity's own credit risk. IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss.
- **Impairment.** The 2014 version of IFRS 9 introduces an 'expected credit loss' model for the measurement of the impairment of financial assets, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before a credit loss is recognized.
- **Hedge accounting.** Introduces a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principal of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.
- **Derecognition.** The requirements for the derecognition of financial assets and liabilities are carried forward from IAS 39.
- The standard is effective from January 1, 2018 with early application permitted. Depending on the chosen approach to applying IFRS 9, the transition can involve one or more than one date of initial application for different requirements.

The management of the Group anticipates that the application of IFRS 9 in the future may have a significant impact on amounts reported in respect of the Group's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 until a detailed review has been completed.

Amendments to IAS 27 – *Equity Method in Separate Financial Statements.* The amendments to IAS 27 allows entities to apply the equity method as one of the option for accounting for its investments in subsidiaries, joint ventures and associates in its separate financial statements. The amendments are effective from 1 January 2016 with earlier application permitted. The management of the Group does not expect any impact of these amendments on the financial statements as the Company does not prepare its separate financial statements.

Annual Improvements to IFRSs 2010-2012 Cycle. The Annual Improvements to IFRSs 2010-2012 Cycle include a number of amendments to various IFRSs, which are summarized below.

The amendments to IFRS 2 change the definition of 'vesting condition' and 'market condition' and add definitions for 'performance condition' and 'service condition' which were previously included within the definition of 'vesting condition'.

The amendments to IFRS 3 clarify that contingent consideration that is classified as an asset or liability should be measured at fair value at each reporting date, irrespective of whether the contingent consideration is a financial instrument within the scope of IAS 39 or IFRS 9 or a non-financial asset or liability.

The amendments to IFRS 8 require an entity to disclose the judgements made by management in applying the aggregation criteria to operating segments and clarify that a reconciliation of the total of the reportable segments' assets to the entity's assets should only be provided if the segment assets are regularly provided to the chief operating decision-maker.

The amendments to the basis for conclusions of IFRS 13 clarify that the issue of IFRS 13 and consequential amendments to IAS 39 and IFRS 9 did not remove the ability to measure short-term receivables and payables with no stated interest rate at their invoice amounts without discounting, if the effect of discounting is immaterial. These amendments are considered to be effective immediately.

The amendments to IAS 16 and IAS 38 remove perceived inconsistencies in the accounting for accumulated depreciation/ amortisation when an item of property, plant and equipment or an intangible asset is revalued. The amended standards clarify that the gross carrying amount is adjusted in a manner consistent with the revaluation of the carrying amount of the asset and that accumulated depreciation/ amortisation is the difference between the gross carrying amount and the carrying amount after taking into account accumulated impairment losses.

The amendments to IAS 24 clarify that a management entity providing key management personnel services to a reporting entity is a related party of the reporting entity. Consequently, the reporting entity should disclose as related party transactions the amounts incurred for the service paid or payable to the management entity for the provision of key management personnel services. However, disclosure of the components of such compensation is not required.

The management of the Group does not anticipate that the application of these amendments will have a significant effect on the consolidated financial statements.

Annual Improvements to IFRSs 2011-2013 Cycle. The Annual Improvements to IFRSs 2011-2013 Cycle include the following amendments to various IFRSs.

The amendments to IFRS 3 clarify that the standard does not apply to the accounting for the formation of all types of joint arrangement in the financial statements of the joint arrangement itself.

The amendments to IFRS 13 clarify that the scope of portfolio exception for measuring the fair value of
a group of financial assets and financial liabilities on a net basis includes all contracts that are within the scope of, and accounted for in accordance with, IAS 39 or IFRS 9, even if those contracts do not meet the definitions of a financial assets or financial liabilities within IAS 32.

The amendments to IAS 40 clarify that IAS 40 and IFRS 3 are not mutually exclusive and application of both standards may be required. Consequently, an entity acquiring investment property must determine whether the property meets the definition of investment property in terms of IAS 40, and whether the transaction meets the definition of a business combination under IFRS 3.

The management of the Group does not anticipate that the application of these amendments will have a significant effect on the consolidated financial statements.

Annual Improvements to IFRSs 2012-2014 Cycle. The Annual Improvements to IFRSs 2012-2014 Cycle include the following amendments to various IFRSs.

The amendments to IFRS 5 clarify that reclassification of an asset or a disposal group from held for sale to held to distribution to owners or vice versa should not be considered changes to a plan of sale or a plan of distribution to owners and that the classification, presentation and measurement requirements applicable to the new method of disposal should be applied. In addition, amendments clarify that assets that no longer meet the criteria for held for distribution to owners and do not meet the criteria for held for sale should be treated in the same way as assets that cease to be classified as held for sale. The amendments should be applied prospectively.

The amendments to IFRS 7 provide additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset for the purposes of the disclosures required in relation to transferred assets. In addition, amendments to IFRS 7 were made to clarify that the disclosure requirements on offsetting financial assets and financial liabilities are not explicitly required to be included in the condensed interim financial statements for all interim periods, however, the disclosures may need to be included in condensed interim financial statements to comply with IAS 34. The amendments should be applied retrospectively.

The amendments to IAS 19 clarify that the high quality corporate bonds used to estimate the discount rate for post-employment benefits should be issued in the same currency as the benefits to be paid. The amendments apply from the beginning of the earliest comparative period presented in the financial statements in which the amendments are fist applied.

The amendments to IAS 34 clarify that information required by IAS 34 that is provided elsewhere within the interim financial report but outside the interim financial statements should be incorporated by way of a cross-reference from the interim financial statements to the other part of the interim financial report that is available to users on the same terms and at the same time as the interim financial statements.

The management of the Group does not anticipate that the application of these amendments will have a significant effect on the consolidated financial statements.

4. RECLASSIFICATIONS

Certain reclassifications were made to the consolidated statement of profit or loss for the year ended December 31, 2013 to conform to the presentation for the year ended December 31, 2014 as current year presentation provides better view of the financial performance of the Group.

	As previously reported	Reclassification amount	As reclassified
Interest income	137,206	5,233	142,439
Other income	5,247	(5,233)	14

5. ALLOWANCE FOR IMPAIRMENT LOSSES

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

	Loans to customers
December 31, 2012	11,962
Additional provisions recognized	8,104
Write-off of assets	(2,318)
Recoveries of assets previously written off	510
December 31, 2013	18,258
Additional provisions recognized	37,043
Write-off of assets	(6,207)
Recoveries of assets previously written off	795
December 31, 2014	**49,889**

6. FEE AND COMMISSION INCOME AND EXPENSE

Fee and commission income and expense comprise:

	Year ended December 31, 2014	Year ended December 31, 2013
Fee and commission income:		
Plastic card operations	4,781	4,453
Cash operations	4,257	6,037
Currency conversion operations	772	665
Guarantee letters	504	611
Settlements	282	306
Other operations	132	82
Total fee and commission income	**10,728**	**12,154**
Fee and commission expense:		
Plastic card operations	(1,266)	(988)
Settlements	(1,190)	(847)
Letters of credit	(277)	(362)
Cash operations	(3)	(4)
Total fee and commission expense	**(2,736)**	**(2,201)**
Total net fee and commission income	**7,992**	**9,953**

7. OPERATING EXPENSES

Operating expenses comprise:

	Year ended December 31, 2014	Year ended December 31, 2013
Salaries and bonuses	27,179	22,944
Social security costs	4,205	3,340
Other employment expenses	297	278
Personnel expenses	**31,681**	**26,562**
Depreciation charge	2,918	2,089
Amortization charge	179	114
Depreciation and amortization charge	**3,097**	**2,203**
Marketing and advertising	4,122	3,366
Occupancy and rent	2,237	1,749
Legal and consultancy	878	587
Taxes other than income tax	332	619
Deposit insurance fee	713	1,019
Security	571	447
Repair and maintenance of property and equipment	437	572
Office supplies	410	461
Communications	391	278
Printing	289	252
Utilities	199	169
Business travel and related expenses	118	86
Vehicle running costs	91	61
Insurance	88	71
Membership fees	10	13
Other expense	355	377
Other operating expenses	**11,241**	**10,127**

8. INCOME TAXES

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

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

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences as at December 31, 2014 and 2013 relate mostly to different methods/timing of income and expense recognition as well as to temporary differences generated by tax – book bases' differences for certain assets.

The tax rate used for the reconciliations below is the corporate tax rate of 20% (2013: 20%) payable by corporate entities in the Republic of Azerbaijan on taxable profits (as defined) under tax law in that jurisdiction.

Temporary differences as at December 31, 2014 and 2013 comprise:

	December 31, 2014	December 31, 2013
Tax effect of deductible temporary differences:		
Loans to customers	1,988	317
Other liabilities	(550)	(71)
Deferred tax assets	**1,438**	**246**
Tax effect of taxable temporary differences:		
Property and equipment	(2,525)	(2,049)
Cash and cash equivalents	(12)	-
Deferred tax liabilities	**(2,537)**	**(2,049)**
Net deferred tax liability	**(1,099)**	**(1,803)**

The effective tax rate reconciliation for the years ended December 31, 2014 and 2013 is as follows:

	Year ended December 31, 2014	Year ended December 31, 2013
Profit before income tax	52,443	58,847
Tax at the statutory tax rate 20% (2013: 20%)	(10,489)	(11,769)
(Under)/over provision of income tax in prior years	(415)	219
Non-deductible expenses	(878)	(906)
Income tax expense	**(11,782)**	**(12,456)**
Current income tax expense	(12,486)	(12,283)
Change in deferred tax liabilities	704	(173)
Income tax expense	**(11,782)**	**(12,456)**

Deferred tax liabilities	**2014**	**2013**
As at January 1 – deferred tax liabilities	**(1,803)**	**(1,630)**
Change in deferred income tax balances recognized in consolidated profit or loss	704	(173)
As at December 31 – deferred tax liabilities	**(1,099)**	**(1,803)**

9. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise:

	December 31, 2014	December 31, 2013
Cash on hand	31,419	21,152
Current accounts with the CBAR	739	2,462
Current accounts with other credit institutions	13,214	17,210
Total cash and cash equivalents	**45,372**	**40,824**

As of December 31, 2014, current accounts with other credit institutions included AZN 2,378 thousand placed with one Azerbaijani banks (2013 – AZN 289 thousand placed with two Azerbaijani banks).

10. AMOUNTS DUE FROM BANKS AND OTHER CREDIT INSTITUTIONS

Due from banks and other credit institutions comprise:

	December 31, 2014	December 31, 2013
Obligatory reserve with the CBAR	9,065	12,338
Loans to credit institutions	889	1,500
Time deposits for more than 90 days	-	1,500
Blocked accounts	-	347
Total amounts due from banks and other credit institutions	**9,954**	**15,685**

Credit institutions in Azerbaijan are required to maintain a non-interest earning cash deposit (obligatory reserve) with the CBAR, the amount of which depends on the level of funds attracted by the credit institution. The Bank's ability to withdraw such deposit is significantly restricted by the statutory legislation.

Blocked accounts represent security deposits in the amount of AZN nil placed to secure settlement operations through MasterCard International (2013 - AZN 347 thousand).

11. LOANS TO CUSTOMERS

Loans to customers comprise:

	December 31, 2014	December 31, 2013
Loans to customers	663,683	564,884
Less: allowance for impairment losses	(49,889)	(18,258)
Total loans to customers	**613,794**	**546,626**

Movements in the allowance for impairment losses for the years ended December 31, 2014 and 2013 are disclosed in Note 5.

Loans have been extended to the following types of customers:

	December 31, 2014	December 31, 2013
Individuals	630,205	542,135
Private companies	33,478	22,749
Gross loans to customers	**663,683**	**564,884**

The table below summarizes carrying value of loans to customers analyzed by industry sector:

	December 31, 2014	December 31, 2013
Analysis by sector:		
Individuals	630,205	542,135
Trade and services	20,828	15,417
Agriculture and food processing	11,563	6,769
Manufacturing	1,087	555
Real estate construction	-	8
	663,683	564,884
Less: allowance for impairment losses	(49,889)	(18,258)
Total loans to customers	**613,794**	**546,626**

Loans to customers comprise the following products:

	December 31, 2014	December 31, 2013
Consumer loans	338,160	280,588
Cards	147,544	100,613
Microloans	79,678	58,715
Auto loans	62,535	99,604
Business loans	35,766	25,364
	663,683	564,884
Less: allowance for impairment losses	(49,889)	(18,258)
Total loans to customers	**613,794**	**546,626**

As at December 31, 2014 and 2013, loans to customers included loans totaling AZN 838 thousand and AZN 290 thousand, respectively, whose terms were renegotiated. Otherwise, these loans would be past due or impaired.

For the years ended December 31, 2014 and 2013, interest income on impaired loans to customers amounted to 10,375 thousand and 5,628 thousand, respectively. For the years ended December 31, 2014 and 2013, interest income on unimpaired loans to customers amounted AZN 170,738 thousand and AZN 136,410 thousand, respectively.

As at December 31, 2014 and 2013 100%, of loans to customers are granted to companies operating in the Republic of Azerbaijan, which represents a significant geographical concentration in one region.

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

	December 31, 2014			December 31, 2013		
	Carrying value before allowance	Allowance for impairment losses	Carrying value	Carrying value before allowance	Allowance for impairment losses	Carrying value
Loans to customers collectively assessed for impairment:						
Consumer loans	337,125	(27,430)	309,695	280,588	(9,761)	270,827
Cards	147,544	(10,702)	136,842	100,613	(2,611)	98,002
Microloans	79,678	(2,814)	76,864	58,715	(487)	58,228
Auto loans	62,535	(3,987)	58,548	99,604	(4,133)	95,471
Business loans	15,836	(4,334)	11,502	16,944	(437)	16,507
	642,718	(49,267)	593,451	556,464	(17,429)	539,035
Loans to customers individually assessed for impairment:						
Consumer loans	1,035	-	1,035	-	-	-
Business loans	19,930	(622)	19,308	8,420	(829)	7,591
Total	**663,683**	**(49,889)**	**613,794**	**564,884**	**(18,258)**	**546,626**

The fair value of collateral that the Group holds related to loans individually determined to be impaired at December 31, 2014 and 2013 amounted to AZN 21,313 thousand and AZN 2,447 thousand, respectively.

During the years ended December 31, 2014 and 2013 the Group received non-financial assets by taking possession of collateral it held as security. As at December 31, 2014 and 2013 such assets in amount of AZN 725 thousand and AZN 450 thousand, respectively, are included in other assets. It is the Group's policy to dispose repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the Group does not occupy repossessed properties for business use.

12. INVESTMENT SECURITIES AVAILABLE-FOR-SALE

Investment securities available-for-sale comprises:

	December 31, 2014	December 31, 2013
Debt securities	24,999	7,490
Equity investments	1,611	1,581
	26,610	**9,071**
Less: Allowance for impairment losses	(466)	-
Total investment securities available-for-sale	**26,144**	**9,071**

	Nominal interest rate	December 31, 2014	Nominal interest rate	December 31, 2013
Debt securities				
Notes issued by the Central Bank of the Republic of Azerbaijan	0%	24,999	0%	7,490
Total debt securities		**24,999**		**7,490**

Equity investments	Ownership	December 31, 2014	Ownership	December 31, 2013
Buta Insurance OJSC	19.0%	1,387	19.0%	1,387
International Bank of Azerbaijan OJSC	0.2%	124	0.2%	94
Baku Stock Exchange LLC	5.0%	60	5.0%	60
"MilliKart" LLC	0.8%	40	0.8%	40
		1,611		**1,581**
Less: Allowance for impairment losses		(466)		-
Total investment securities available-for-sale		**1,145**		**1,581**

13. OTHER DEBT SECURITIES

Other debt securities comprise:

	Nominal interest rate	December 31, 2014	Nominal interest rate	December 31, 2013
Long-term notes issued by the Azerbaijan Mortgage Fund	3.00% - 3.15%	4,998	2.99% - 3.15%	5,017
Total other debt securities		**4,998**		**5,017**

14. PROPERTY AND EQUIPMENT

Property and equipment comprise:

	Land and buildings	Furniture and equipment	Computers and communication equipment	Vehicles	Other	Construction in progress	Total
At initial/ revalued cost							
December 31, 2012	11,988	4,022	2,979	676	193	1,212	21,070
Additions	1,863	1,014	1,222	185	53	-	4,337
Transfers	1,212	-	-	-	-	(1,212)	-
Disposals	-	(94)	(6)	-	(1)	-	(101)
December 31, 2013	15,063	4,942	4,195	861	245	-	25,306
Additions	61	704	3,883	393	55	-	5,096
Disposals	-	(126)	(478)	(186)	-	-	(790)
December 31, 2014	15,124	5,520	7,600	1,068	300	-	29,612
Accumulated depreciation							
December 31, 2012	-	(2,018)	(1,946)	(358)	(45)	-	(4,367)
Depreciation charge	(693)	(651)	(571)	(131)	(43)	-	(2,089)
Eliminated on disposal	-	90	6	-	-	-	96
December 31, 2013	(693)	(2,579)	(2,511)	(489)	(88)	-	(6,360)
Depreciation charge	(746)	(767)	(1,198)	(155)	(52)	-	(2,918)
Eliminated on disposal	-	132	478	167	-	-	777
December 31, 2014	(1,439)	(3,214)	(3,231)	(477)	(140)		(8,501)
Net book value							
As at December 31, 2014	**13,685**	**2,306**	**4,369**	**591**	**160**	**-**	**21,111**
As at December 31, 2013	**14,370**	**2,363**	**1,684**	**372**	**157**	**-**	**18,946**

As at December 31, 2014 and 2013 included in property and equipment were fully depreciated assets of AZN 2,653 thousand and AZN 2,415 thousand, respectively.

Land and buildings owned by the Group were revalued by an independent appraiser as at December 31, 2012. The following methods were used for the estimation of their fair value: discounted cash flow method (income approach), integrated cost estimation method (cost based method), method of sales comparison (comparative approach). For the estimation of the final value, certain weights were assigned to the results obtained using different approaches, depending on the degree to which the estimates met the following characteristics: reliability and completeness of the information, specifies the estimated property and other.

If the buildings were measured using the cost model, the carrying amounts would be as follows:

	December 31, 2014	December 31, 2013
Cost	6,216	6,155
Accumulated depreciation	(1,379)	(1,068)
Net carrying amount	**4,837**	**5,087**

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

	Level 2	Fair value as at December 31, 2014
Buildings	13,516	13,516
Total	**13,516**	**13,516**

15. INTANGIBLE ASSETS

Intangible assets comprise:

	Licenses	Computer software	Total
At cost			
December 31, 2012	455	920	1,375
Additions	3	603	606
December 31, 2013	458	1,523	1,981
Additions	60	100	160
December 31, 2014	518	1,623	2,141
Accumulated amortization			
December 31, 2012	(109)	(241)	(350)
Charge for the year	(14)	(100)	(114)
December 31, 2013	(123)	(341)	(464)
Charge for the year	(44)	(135)	(179)
December 31, 2014	(167)	(476)	(643)
Net book value			
December 31, 2014	**351**	**1,147**	**1,498**
December 31, 2013	**335**	**1,182**	**1,517**

16. OTHER ASSETS

Other assets comprise:

	December 31, 2014	December 31, 2013
Other financial assets:		
Settlements on money transfers	2,308	1,470
	2,308	1,470
Other non-financial assets:		
Prepayments for the purchase of property and equipment	2,007	2,425
Properties received in satisfaction of non-performing loans	725	450
Deferred expenses	422	927
Receivables from state and local funds	-	105
Other	12	21
	3,166	3,928
Less: allowance for impairment losses	(386)	(207)
	2,780	3,721
Total other assets	**5,088**	**5,191**

17. AMOUNTS DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

Amounts due to banks and other financial institutions comprise:

	December 31, 2014	December 31, 2013
Time deposits	54,041	49,754
Loans from financial institutions	50,794	24,861
Demand deposits	6,186	1,278
Total amounts due to banks and other financial institutions	**111,021**	**75,893**

As at December 31, 2014, time deposits and loans from financial institutions included balances of AZN 33,794 thousand (2013 – AZN 14,561 thousand) due to four (2013 - four) OECD and non-OECD financial institutions.

As at December 31, 2014, demand deposits included balances of AZN 5,860 thousand (2013 – AZN 1,062 thousand) due to two (2013 - two) Azerbaijani financial institutions.

Demand and time deposits include accounts with the following types of institutions:

	December 31, 2014	December 31, 2013
Insurance companies	32,118	33,254
Commercial banks	19,464	10,349
Investment companies	8,467	7,160
Other financial institutions	178	269
Demand and time deposits	**60,227**	**51,032**

As at December 31, 2014, time deposits were due to financial institutions with effective annual interest rates of 2.00% - 13.00% (AZN, USD, EUR), (2013 – 2.40% - 13.00% (AZN, USD, EUR)) and maturity in 2015-2023 (2013: in 2014-2023).

Loans from financial institutions include accounts with the following types of institutions:

	December 31, 2014	December 31, 2013
Commercial banks	25,852	3,000
The National Fund for Entrepreneurship Support	15,925	12,393
The Azerbaijan Mortgage Fund	6,334	5,240
German Azerbaijan Fund	1,896	2,241
GFM Cossack Bond Company Limited	787	1,987
Loans from financial institutions	**50,794**	**24,861**

The Group is obligated to comply with financial covenants in relation to certain balances in amounts due to banks and other financial institutions disclosed above. These covenants include stipulated ratios, debt to equity ratios and various other financial performance ratios. The Group did not breach any of these covenants as at December 31, 2014 and 2013.

Nominal interest rates and maturities of these loans are as follows:

	December 31, 2014			December 31, 2013		
	Annual interest rate	Curren cy	Maturity	Annual interest rate	Currenc y	Maturity
The National Fund for Support of Entrepreneurship	1%-2%	AZN	2015-2022	1%	AZN	2014 – 2022
The Azerbaijan Mortgage Fund	1%-8%	AZN	2016-2044	1% - 9%	AZN	2016 – 2043
Commercial Banks	4.8%-8.5%	AZN	2015	8.3% - 11.3%	AZN	2014-2015
GFM Cossack Bond Company Limited	12%	USD	2016	12%	USD	2014
German Azerbaijan Fund	3.8%	EUR	2015	4%	EUR	2015

18. AMOUNTS DUE TO CUSTOMERS

Amounts due to customers comprise:

	December 31, 2014	December 31, 2013
Time deposits	409,612	388,365
Repayable on demand	26,338	23,566
Total amounts due to customers	**435,950**	**411,931**

As at December 31, 2014 and 2013 amounts due to customers totaling AZN 594 thousand and AZN 7 thousand, respectively, were held as security against guarantees issued, AZN 63,872 thousand and AZN 36,757 thousand, respectively, as security against loans and AZN 27,273 thousand and AZN 26,508 thousand as security against undrawn credit facilities.

As at December 31, 2014, time deposits were due to customers with effective annual interest rates of 1% - 21%, AZN (2013: 1% - 21%, AZN) and maturity in 2015-2023 (2013: mature in 2014-2024).

As at December 31, 2014, amounts due to customers of AZN 38,747 thousand (9%) were due to the ten (2013 - ten) largest customers of the Group (2013 – AZN 35,439 thousand (7%)).

Included in time deposits are deposits of individuals of AZN 393,377 thousand (2013 – AZN 375,437 thousand).

An analysis of customer accounts by economic sector follows:

	December 31, 2014	December 31, 2013
Analysis by sector:		
Individuals and employees	407,871	388,943
Energy	13,219	6,495
Trade and service	10,784	11,173
Construction	3,851	4,137
Manufacturing	104	806
Transport and communication	121	377
Total amounts due to customers	**435,950**	**411,931**

Amounts due to customers include accounts with the following types of customers:

	December 31, 2014	December 31, 2013
Individuals and employees	407,871	388,943
Private enterprises	28,001	22,736
State and budgetary organizations	78	252
Total amounts due to customers	**435,950**	**411,931**

19. DEBT SECURITIES ISSUED

Debt securities issued comprise:

	Maturity date	Interest rate	December 31, 2014	December 31, 2013
Coupon securities	2015 – 2016	11 - 12%	29,469	16,332
Total debt securities issued			**29,469**	**16,332**

20. OTHER LIABILITIES

Other liabilities comprise:

	December 31, 2014	December 31, 2013
Other financial liabilities:		
Amounts payable to the State Committee on Property Issues of the Republic of Azerbaijan	12,435	-
Salary and other payables to employees	6,162	-
Liabilities in the course of settlement	781	1,118
Dividends payable to shareholders on ordinary shares	-	3,116
Other creditors	26	361
	19,404	4,595
Other non-financial liabilities:		
Operational taxes	218	625
Payables to state and local funds	77	-
Provision for losses on guarantees and other contingent commitments	-	13
	295	638
Total other liabilities	**19,699**	**5,233**

21. SUBORDINATED DEBTS

Subordinated debts comprise:

	Issue date	Maturity date	Interest rate	December 31, 2014	December 31, 2013
Subordinated debt from foreign credit institutions - third parties (JSC Bank of Georgia, USD 2,500 thousand, semi-annual payment)	November 18, 2007	November 18, 2017	six month LIBOR plus 12.0%	-	1,986
Subordinated debt from related parties (NAB Dish Ticaret, USD 1,000 thousand, semi-annual payment)	March 19, 2008	March 19, 2018	19.45%	823	823
Total subordinated debts				**823**	**2,809**

In the event of bankruptcy or liquidation of the Group, repayments of these debts are subordinate to the repayments of the Group's liabilities to all other creditors.

The Group is not obligated to comply with financial covenants in relation to subordinated debt balances disclosed above.

22. SHARE CAPITAL

As at December 31, 2014 and 2013 the Group's shareholders' authorized, issued and fully paid capital amounted to AZN 52,870 thousand and comprised 3,400,000 ordinary shares with a par value of AZN 15.55. Each share entitles one vote to the shareholder.

In 2014, the Group declared dividends on ordinary shares amounted to AZN 35,397 thousand from its 2013 earnings (2013: AZN 16,168 thousand from its 2012 earnings).

The earnings and weighted average number of shares were used in calculation of basic and diluted earnings per share (EPS). The weighted average number of ordinary shares for the purposes of basic and diluted EPS was 3,400,000 both as at December 31, 2014 and 2013. Accordingly, EPS ratio comprised AZN 11.96 and AZN 13.64 as at December 31, 2014 and 2013.

23. COMMITMENTS AND CONTINGENCIES

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

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

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

	December 31, 2014	December 31, 2013
Contingent liabilities and credit commitments		
Commitments on loans and unused credit lines	23,403	24,693
Guarantees issued	7,711	10,454
Other transaction related contingent obligations	1,151	1,627
Total contingent liabilities and credit commitments	**32,265**	**36,774**

Operating lease commitments – Where the Group is the lessee, the future minimum lease payments under non-cancelable operating leases of buildings are as follows:

	December 31, 2014	December 31, 2013
Less than one year	142	126
Total operating lease commitments	**142**	**126**

Commitments and contingencies (before deducting collateral)	32,407	36,900
Less: Cash held as security against guarantees issued (Note 18)	(594)	(7)
Less: Cash held as security against undrawn credit facility (Note 18)	(7,245)	(8,395)
Commitments and contingencies	**24,568**	**28,498**

Legal proceedings – From time to time and in the normal course of business, claims against the Group are received from customers and counterparties. Management is of the opinion that no material unaccrued losses will be incurred and accordingly no provision has been made in these consolidated financial statements.

Taxation – Commercial legislation 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.

Operating environment – Emerging markets such as Azerbaijan are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in Azerbaijan continue to change rapidly, tax and regulatory frameworks are subject to varying interpretations. The future economic direction of Azerbaijan is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment.

Because Azerbaijan produces and exports large volumes of oil and gas, its economy is particularly sensitive to the price of oil and gas on the world market, which decreased significantly during 2014. Management is unable to reliably estimate the effects of any further price fluctuations on the Group's financial position.

24. TRANSACTIONS WITH RELATED PARTIES

Transactions between the Bank and its subsidiary, which is related party of the Bank, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below:

	Notes	December 31, 2014 Related party balances	December 31, 2014 Total category as per the financial statements caption	December 31, 2013 Related party balances	December 31, 2013 Total category as per the financial statements caption
Loans to customers	11		663,683		564,884
- shareholders and entities in which a substantial interest is owned by shareholders of the Group		4		-	
- key management personnel of the Group		1,028		524	
Investment securities available-for-sale	12		26,144		9,071
- shareholders and entities in which a substantial interest is owned by shareholders of the Group		921		1,387	
Amounts due to customers	18		435,950		411,931
- shareholders and entities in which a substantial interest is owned by shareholders of the Group		17,700		10,872	
- key management personnel of the Group		3,607		1,083	
Other liabilities	20		19,699		5,233
- shareholders and entities in which a substantial interest is owned by shareholders of the Group		-		3,116	
- key management personnel of the Group		5,646		-	
Subordinated debt	21		823		2,809
- shareholders and entities in which a substantial interest is owned by shareholders of the Group		823		823	
Commitments on loans and unused credit lines	23		23,403		24,693
- key management personnel of the Group		28		1,093	
- shareholders and entities in which a substantial interest is owned by shareholders of the Group		597		49	
Guarantees issued	23		7,711		10,454
- shareholders and entities in which a substantial interest is owned by shareholders of the Group		4,692		9,781	

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

	Year ended December 31, 2014		Year ended December 31, 2013	
	Related party transactions	**Total category as per the financial statements caption**	**Related party transactions**	**Total category as per the financial statements caption**
Key management personnel compensation		(31,681)		(26,562)
- salaries and other short-term benefits	(8,556)		(6,714)	

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

		Year ended December 31, 2014		Year ended December 31, 2013	
	Notes	**Related party transactions**	**Total category as per the financial statements caption**	**Related party transactions**	**Total category as per the financial statements caption**
Interest income			181,653		142,439
- shareholders and entities in which a substantial interest is owned by shareholders of the Group		418		551	
- key management personnel of the Group		117		45	
Interest expense			(54,038)		(47,266)
- shareholders and entities in which a substantial interest is owned by shareholders of the Group		(423)		(1,333)	
- key management personnel of the Group		(71)		(196)	
Provision for loan impairment losses	5		(40,340)		(8,104)
- key management personnel of the Group		-		1	
Fee and commission income	6		10,728		12,154
- shareholders and entities in which a substantial interest is owned by shareholders of the Group		224		201	
- key management personnel of the Group		9		5	
Other operating expenses	7		(11,241)		(10,127)
- shareholders and entities in which a substantial interest is owned by shareholders of the Group		(950)		(836)	

25. 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.

Financial assets and liabilities

The following methods and significant assumptions was applied to estimate the fair values of the following financial instruments:

- Cash and cash equivalents. Due to the short-term environment of these types of assets, the carrying amount is assumed to be reasonable estimate of their fair value.
- Amounts due from banks and other credit institutions. For loans and term deposits, the fair value is estimated as the present value of estimated future cash flows discounted at the appropriate year-end market rates and making adjustments for credit risk of the Group or counterparty.
- Loans to customers. The fair value is estimated by discounting the scheduled future cash flows of the individual loans through the estimated maturity using market rates as at the respective year-end.
- Investment securities available-for-sale (debt securities). The fair value of quoted debt securities is determined based on quoted active market prices at the reporting date.
- Other debt securities. The fair value is estimated as the present value of estimated future cash flows discounted at the appropriate year-end market rates and making adjustments for credit risk of the Group or counterparty.
- Other financial assets and liabilities are represented by short-term receivables and payables, therefore the carrying amount is assumed to be reasonable estimate of their fair value.
- Amounts due to banks and other financial institutions. For demand deposits, the carrying amount is assumed to be reasonable estimate of their fair value due to the short-term environment of these types of assets. The fair value of loans and term deposits is estimated as the present value of estimated future cash flows discounted at the appropriate year-end market rates.
- Amounts due to customers. The carrying amount of current customer accounts is assumed to be reasonable estimate of their value due to the short-term environment and availability requirements of these types of liability. The fair value of term deposits is estimated as the present value of estimated future cash flows discounted at the appropriate year-end market rates.
- Debt securities issued. The fair value is estimated as the present value of estimated future cash flows discounted at the appropriate year-end market rates.
- Subordinated debt. The fair value is estimated as the present value of estimated future cash flows discounted at the appropriate year-end market rates.

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

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period.

	December 31, 2014	Valuation technique and key input	Fair value hierarchy	December 31, 2013	Valuation technique and key input	Fair value hierarchy
Investment securities available-for-sale (debt securities)	24,999	Quoted bid prices in an active market.	Level 2	7,490	Quoted bid prices in an active market.	Level 2
Total investment securities available-for-sale	**24,999**			**7,490**		

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):

	December 31, 2014		December 31, 2013	
		Fair value		Fair value
	Carrying value	Level 2	Carrying value	Level 2
Cash and cash equivalents	45,372	45,372	40,824	40,824
Amounts due from banks and other credit institutions	9,954	9,955	15,685	15,685
Loans to customers	613,794	615,297	546,626	546,626
Other debt securities	4,998	4,949	5,017	5,017
Other financial assets	2,308	2,308	1,470	1,470
Amounts due to banks and other financial institutions	111,021	114,814	75,893	75,893
Amounts due to customers	435,950	441,279	411,931	411,931
Debt securities issued	29,469	28,594	16,332	16,332
Other financial liabilities	19,404	19,404	4,595	4,595
Subordinated debt	823	1,016	2,809	2,809

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.

26. CAPITAL ADEQUACY

The Bank maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using, among other measures, the ratios established by the CBAR in supervising the Bank.

The objectives of management when managing the Bank's capital are (i) to comply with the capital requirements set by CBAR, (ii) to safeguard the Bank's ability to continue as a going concern and (iii) to maintain strong credit ratings and healthy capital ratios in order to support its business and to maximize shareholders' value. Compliance with capital adequacy ratios set by CBAR is monitored monthly with reports outlining their calculation reviewed and signed by the Bank's Chief Accountant and Chairman of the Management Board. The other objectives of capital management are evaluated annually.

Management believes that the Bank was in compliance with the statutory capital adequacy ratio throughout 2014.

As at December 31, 2014 and 2013, the Bank's capital adequacy ratio on statutory basis was as follows:

	December 31, 2014	December 31, 2013
Tier 1 capital	78,503	67,105
Tier 2 capital	56,346	63,726
Total regulatory capital	**134,849**	**130,831**
Risk-weighted assets	**634,577**	**598,332**
Tier 1 capital adequacy ratio	12.37%	11.22%
Total capital adequacy ratio	21.25%	21.87%

27. RISK MANAGEMENT POLICIES

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

- Credit exposures
- Liquidity risk
- Market risk

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

Credit risk

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

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

The Group structures the level of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry segments. Limits on the level of credit risk by a borrower and a product (by industry sector) are approved quarterly by the Management Board. The exposure to any one borrower including banks and brokers is further restricted by sub-limits covering on and off-balance sheet exposures which are set by the Credit Committee. Actual exposures against limits are monitored daily.

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

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

Maximum exposure of credit risk

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

The following table presents the maximum exposure to credit risk of balance sheet and off balance sheet financial assets. For financial assets in the consolidated statement of financial position, 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. Offset represents cash collateral but showed as minimum between cash amount pledged and carrying value of asset, the same principal applied to collateral pledged.

	Maximum exposure	Offset	Net exposure after offset	Collateral pledged	Net exposure
December 31, 2014					
Cash and cash equivalents (excluding cash on hand)	13,953	-	13,953	-	13,953
Amounts due from banks and other credit institutions	9,954	-	9,954	-	9,954
Loans to customers	613,794	17,444	596,350	101,872	494,478
Investment securities available-for-sale (excluding equity investments)	24,999	-	24,999	-	24,999
Other debt securities	4,998	-	4,998	-	4,998
Other financial assets	2,308	-	2,308	-	2,308
Guarantees issued	7,711	594	7,117	591	6,526
Commitments on loans and unused credit lines	23,403	7,245	16,158	-	16,158
December 31, 2013					
Cash and cash equivalents (excluding cash on hand)	19,672	-	19,672	-	19,672
Amounts due from banks and other credit institutions	15,685	-	15,685	-	15,685
Loans to customers	546,626	10,899	535,727	133,413	402,314
Investment securities available-for-sale (excluding equity investments)	7,490	-	7,490	-	7,490
Other debt securities	5,017	-	5,017	-	5,017
Other financial assets	1,470	-	1,470	-	1,470
Guarantees issued	10,454	7	10,447	-	10,447
Commitments on loans and unused credit lines	24,693	8,395	16,298	-	16,298

Collateral and other credit enhancements

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

The main types of collateral obtained are as follows:

- For auto lending: cash, liens over vehicles, third party guarantees;
- For business lending: charges over real estate, inventory and trade receivables, third party guarantees;
- For consumer lending: cash, charges over credited consumer appliances, third party guarantees, mortgages over residential properties;
- For microloans: cash, inventory and trade receivables, third party guarantees, charges over real estate; and
- For card lending: cash, third party guarantees.

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

Off – balance sheet risk

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

Credit quality per class of financial assets

The credit quality of financial assets is managed by the Group's internal credit ratings. The table below shows the credit quality by class of asset for loan-related lines in the consolidated statement of financial position, based on the Group's credit rating system. In the table below loans to banks and customers of high grade are those having a minimal level of credit risk, normally with a government guarantee or very well collateralized. Other borrowers individually assessed for impairment with good financial position and good debt service and loans collectively assessed for impairment are included in the standard grade. Investment securities of high grade are those issued by government and its agencies with very low default probability and at risk free rate.

	Notes	High grade	Standard Grade	Past due but not impaired	Individually impaired	Total 2014
Cash and cash equivalents (excluding cash on hand)	9	13,953	-	-	-	13,953
Amounts due from banks and other credit institutions	10	-	9,954	-	-	9,954
Loans to customers:	11					
Auto loans		-	62,535	-	-	62,535
Business loans		1,353	14,483	-	19,930	35,766
Consumer loans		8,408	328,669	48	1,035	338,160
Microloans		12,255	67,423	-	-	79,678
Cards		5,816	141,728	-	-	147,544
		27,832	614,838	48	20,965	663,683
Investment securities available-for-sale	12	24,999	-	-	-	24,999
Other debt securities	13	4,998	-	-	-	4,998
Other financial assets	16	-	2,308	-	-	2,308
Total		**71,782**	**627,100**	**48**	**20,965**	**719,895**

	Notes	High grade	Standard Grade	Past due but not impaired	Individually impaired	Total 2013
Cash and cash equivalents (excluding cash on hand)	9	19,672	-	-	-	19,672
Amounts due from banks and other credit institutions	10	347	15,338	-	-	15,685
Loans to customers:	11					
Auto loans		32	99,572	-	-	99,604
Business loans		880	15,813	251	8,420	25,364
Consumer loans		7,077	273,231	280	-	280,588
Microloans		9,428	49,286	1	-	58,715
Cards		3,907	96,706	-	-	100,613
		21,324	534,608	532	8,420	564,884
Investment securities available-for-sale	12	7,490	-	-	-	7,490
Other debt securities	13	5,017	-	-	-	5,017
Other financial assets	16	-	1,470	-	-	1,470
Total		**53,850**	**551,416**	**532**	**8,420**	**614,218**

It is the Group's policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates focused management of the applicable risks and the comparison of credit exposures across all lines of business and products. The rating system is supported by a variety of financial analytics, combined with processed market information to provide the main inputs for the measurement of counterparty risk.

All internal risk ratings are tailored to the various categories and are derived in accordance with the Group's rating policy. The attributable risk ratings are assessed and updated regularly.
Ageing analysis of past due but not impaired loans per class of financial assets:

	Less than 30 days	**31 to 60 days**	**61 to 90 days**	**More than 90 days**	**Total 2014**
Loans to customers:					
Consumer loans	9	3	4	32	48
Total	**9**	**3**	**4**	**32**	**48**

	Less than 30 days	**31 to 60 days**	**61 to 90 days**	**More than 90 days**	**Total 2013**
Loans to customers:					
Business loans	251	-	-	-	251
Consumer loans	20	11	21	228	280
Microloans	1	-	-	-	1
Total	**272**	**11**	**21**	**228**	**532**

Impairment assessment

The main considerations for the loan impairment assessment are based on the information provided by the roll-rate model, which measures the movement of the past due amounts balances in various time brackets. The Group addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances.

Individually assessed allowances

The Group determines the allowances appropriate for each individually significant loan on an individual basis. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected dividend payout should bankruptcy ensue, the availability of other financial support and the realizable value of collateral, and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

Collectively assessed allowances

Allowances are assessed collectively for losses on loans to customers that are not individually significant (including credit cards, residential mortgages and unsecured consumer lending) and for individually significant loans where there is not yet objective evidence of individual impairment. Allowances are evaluated on each reporting date with each portfolio receiving a separate review.

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is no yet objective evidence of the impairment in an individual assessment. Impairment losses are estimated by taking into consideration the roll-rate model assessment. The impairment allowance is then reviewed by credit management to ensure alignment with the Group's overall policy.

Financial guarantees and letters of credit are assessed and provision made in a similar manner as for loans.

Geographical concentration

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

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

	The Republic of Azerbaijan	Other non-OECD countries	OECD countries	December 31, 2014 Total
NON-DERIVATIVE FINANCIAL ASSETS				
Cash and cash equivalents	41,664	126	3,582	45,372
Amounts due from banks and other credit institutions	9,954	-	-	9,954
Loans to customers	613,794	-	-	613,794
Investment securities available-for-sale	26,144	-	-	26,144
Other debt securities	4,998	-	-	4,998
Other financial assets	2,308	-	-	2,308
Total non-derivative financial assets	**698,862**	**126**	**3,582**	**702,570**
NON-DERIVATIVE FINANCIAL LIABILITIES				
Amounts due to banks and other financial institutions	76,439	2,780	31,802	111,021
Amounts due to customers	435,950	-	-	435,950
Debt securities issued	29,469	-	-	29,469
Other financial liabilities	19,404	-	-	19,404
Subordinated debt	-	-	823	823
Total non-derivative financial liabilities	**561,262**	**2,780**	**32,625**	**596,667**
NET POSITION	**137,600**	**(2,654)**	**(29,043)**	**105,903**

	The Republic of Azerbaijan	Other non-OECD countries	OECD countries	December 31, 2013 Total
NON-DERIVATIVE FINANCIAL ASSETS				
Cash and cash equivalents	23,947	165	16,712	40,824
Amounts due from banks and other credit institutions	15,338	-	347	15,685
Loans to customers	546,626	-	-	546,626
Investment securities available-for-sale	9,071	-	-	9,071
Other debt securities	5,017	-	-	5,017
Other financial assets	1,470	-	-	1,470
Total non-derivative financial assets	**601,469**	**165**	**17,059**	**618,693**
NON-DERIVATIVE FINANCIAL LIABILITIES				
Amounts due to banks and other financial institutions	61,332	1,987	12,574	75,893
Amounts due to customers	411,931	-	-	411,931
Debt securities issued	16,332	-	-	16,332
Other financial liabilities	4,440	-	155	4,595
Subordinated debt	-	1,986	823	2,809
Total non-derivative financial liabilities	**494,035**	**3,973**	**13,552**	**511,560**
NET POSITION	**107,434**	**(3,808)**	**3,507**	**107,133**

Liquidity risk

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

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

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

An analysis of the liquidity risk based on contractual undiscounted cash outflows is presented in the following table. The presentation below is based upon the information provided internally to key management personnel of the Group.

Financial liabilities As at December 31, 2014	**Less than 3 months**	**3 to 12 months**	**1 to 5 years**	**Over 5 years**	**Total**
Amounts due to banks and other financial institutions	22,448	48,037	27,812	23,703	122,000
Amounts due to customers	93,524	208,388	191,391	4	493,307
Debt securities issued	300	13,135	20,531	-	33,966
Other financial liabilities	-	19,404	-	-	19,404
Subordinated debt	77	78	1,171	-	1,326
Commitments on loans and unused credit lines	2,588	6,745	13,733	337	23,403
Total undiscounted financial liabilities	**118,937**	**295,787**	**254,638**	**24,044**	**693,406**

Financial liabilities As at December 31, 2013	**Less than 3 months**	**3 to 12 months**	**1 to 5 years**	**Over 5 years**	**Total**
Amounts due to banks and other financial institutions	7,741	34,243	27,304	16,928	86,216
Amounts due to customers	85,063	218,681	161,632	5	465,381
Debt securities issued	186	1,755	18,666	-	20,607
Other financial liabilities	-	4,595	-	-	4,595
Subordinated debts	77	331	4,047	-	4,455
Commitments on loans and unused credit lines	1,608	4,609	18,476	-	24,693
Total undiscounted financial liabilities	**94,675**	**264,214**	**230,125**	**16,933**	**605,947**

The table below shows an analysis of financial assets and financial liabilities according to maturity.

	Weighted average effective interest rate	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	December 31, 2014 Total
NON-DERIVATIVE FINANCIAL ASSETS								
Fixed interest rate instruments								
Cash and cash equivalents	7.47%	2,417	7,000	-	-	-	-	9,417
Amounts due from banks and other credit institutions	9.93%	-	-	889	-	-	-	889
Loans to customers	24.18%	42,882	61,875	235,176	262,946	10,915	-	613,794
Other debt securities	3.05%	-	-	-	4,998	-	-	4,998
Total fixed interest bearing financial assets		45,299	68,875	236,065	267,944	10,915	-	629,098
Non-interest bearing financial assets								
Cash and cash equivalents		35,955	-	-	-	-	-	35,955
Amounts due from banks and other credit institutions		-	-	-	-	-	9,065	9,065
Investment securities available for sale		24,999	-	-	-	1,145	-	26,144
Other financial assets		2,308	-	-	-	-	-	2,308
Total non-interest bearing financial assets		63,262	-	-	-	1,145	9,065	73,472
Total non-derivative financial assets and precious metals		**108,561**	**68,875**	**236,065**	**267,944**	**12,060**	**9,065**	**702,570**
NON-DERIVATIVE FINANCIAL LIABILITIES								
Fixed interest rate instruments								
Amounts due to banks and other financial institutions	7.10%	3,757	11,899	30,646	23,707	20,226	-	90,235
Amounts due to customers	11.79%	22,997	37,932	189,047	159,633	3	-	409,612
Debt securities issued	11.68%	-	57	10,044	19,368	-	-	29,469
Subordinated debts	19.45%	-	-	39	784	-	-	823
Total fixed interest bearing financial liabilities		26,754	49,888	229,776	203,492	20,229	-	530,139
Variable interest rate instruments								
Amounts due to banks and other financial institutions	4.69%	-	-	14,600	-	-	-	14,600
Total variable interest bearing financial liabilities		-	-	14,600	-	-	-	14,600
Non-interest bearing financial liabilities and commitments								
Amounts due to banks and other financial institutions		6,186	-	-	-	-	-	6,186
Amounts due to customers		26,338	-	-	-	-	-	26,338
Other financial liabilities		-	2,266	4,703	9,335	3,100	-	19,404
Commitments on loans and unused credit lines		855	1,733	6,745	13,733	337	-	23,403
Total non-interest bearing financial liabilities and commitments		33,379	3,999	11,448	23,068	3,437	-	75,331
Total non-derivative financial liabilities and commitments		**60,133**	**53,887**	**255,824**	**226,560**	**23,666**		
Interest sensitivity gap		18,545	18,987	(8,311)	64,452	(9,314)		
Cumulative interest sensitivity gap		**18,545**	**37,532**	**29,221**	**93,673**	**84,359**		
Liquidity gap		48,428	14,988	(19,759)	41,384	(11,606)		
Cumulative liquidity gap		**48,428**	**63,416**	**43,657**	**85,041**	**73,435**		

	Weighted average effective interest rate	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	December 31, 2013 Total
NON-DERIVATIVE FINANCIAL ASSETS								
Fixed interest rate instruments								
Cash and cash equivalents	0.50%	-	46	-	-	-	-	46
Amounts due from banks and other credit institutions	6.27%	-	3,000	-	-	-	-	3,000
Loans to customers	23.59%	40,466	56,513	237,556	205,071	7,020	-	546,626
Other debt securities	3.05%	-	-	-	3,181	1,836	-	5,017
Total fixed interest bearing financial assets		40,466	59,559	237,556	208,252	8,856	-	554,689
Non-interest bearing financial assets								
Cash and cash equivalents		40,778	-	-	-	-	-	40,778
Amounts due from banks and other credit institutions		-	-	-	-	-	12,685	12,685
Investment securities available for sale		7,490	-	-	-	1,581	-	9,071
Other financial assets		1,470	-	-	-	-	-	1,470
Total non-interest bearing financial assets		49,738	-	-	-	1,581	12,685	64,004
Total non-derivative financial assets and precious metals		**90,204**	**59,559**	**237,556**	**208,252**	**10,437**	**12,685**	**618,693**
NON-DERIVATIVE FINANCIAL LIABILITIES								
Fixed interest rate instruments								
Amounts due to banks and other financial institutions	7.90%	3,875	1,818	31,199	21,591	13,891	-	72,374
Amounts due to customers	12.01%	23,174	33,826	199,379	131,982	4	-	388,365
Debt securities issued	12.00%	-	87	295	15,950	-	-	16,332
Subordinated debts	19.45%	-	-	39	784	-	-	823
Total fixed interest bearing financial liabilities		27,049	35,731	230,912	170,307	13,895	-	477,894
Variable interest rate instruments								
Subordinated debts	12.84%	-	-	25	1,961	-	-	1,986
Amounts due to banks and other financial institutions	3.84%	-	-	908	1,333	-	-	2,241
Total variable interest bearing financial liabilities		-	-	933	3,294	-	-	4,227
Non-interest bearing financial liabilities and commitments								
Amounts due to banks and other financial institutions		1,278	-	-	-	-	-	1,278
Amounts due to customers		23,566	-	-	-	-	-	23,566
Other financial liabilities		4,595	-	-	-	-	-	4,595
Commitments on loans and unused credit lines		668	940	4,609	18,476			24,693
Total non-interest bearing financial liabilities and commitments		30,107	940	4,609	18,476	-	-	54,132
Total non-derivative financial liabilities and commitments		**57,156**	**36,671**	**236,454**	**192,077**	**13,895**		
Interest sensitivity gap		13,417	23,828	5,711	34,651	(5,039)		
Cumulative interest sensitivity gap		**13,417**	**37,245**	**42,956**	**77,607**	**72,568**		
Liquidity gap		33,048	22,888	1,102	16,175	(3,458)		
Cumulative liquidity gap		**33,048**	**55,936**	**57,038**	**73,213**	**69,755**		

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

The amounts included above for variable interest rate instruments for both non-derivative financial assets and liabilities is subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates and foreign exchanges. The Group does not have any significant equity, corporate fixed income or derivatives holdings.

Interest rate risk

The Group is exposed to interest rate risk because the Bank borrows at both floating interest rates.

The sensitivity analyses below have been determined based on the exposure to interest rates for both derivatives and non-derivative instruments at the end of the reporting period. For floating rate liabilities, the analysis is prepared assuming the amount of the liability outstanding at the end of the reporting period was outstanding for the whole year. A 100 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 100 basis points higher/lower and all other variables were held constant, the Group's:

- Profit for the year ended December 31, 2014 and 2013 would decrease/increase by AZN 146 thousand and decrease/increase by AZN 42 thousand, respectively. This is mainly attributable to the Group's exposure to interest rates on its variable rate borrowings.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Supervisory Board of the Group has set limits on positions by currency based on the CBAR regulations. The Treasury Department monitors the currency position of the Group on a daily basis.

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

	AZN	USD	EUR	Other currency	)ecember 31, 201 Total
NON-DERIVATIVE FINANCIAL ASSETS					
Cash and cash equivalents	25,853	18,806 -	660	53	45,372
Amounts due from banks and other credit institutions	6,540	367	3,047	-	9,954
Loans to customers	442,113	171,676	5	-	613,794
Investments securities available-for-sale	26,144	-	-	-	26,144
Other debt securities	4,998	-	-	-	4,998
Other financial assets	2,308	-	-	-	2,308
Total non-derivative financial assets	**507,956**	**190,849**	**3,712**	**53**	**702,570**
NON-DERIVATIVE FINANCIAL LIABILITIES					
Amounts due to banks and other financial institutions	72,659	36,464	1,898	-	111,021
Amounts due to customers	280,347	153,877	1,676	50	435,950
Debt securities issued	19,964	9,505	-	-	29,469
Other financial liabilities	19,331	47	26	-	19,404
Subordinated debt	-	823	-	-	823
Total non-derivative financial liabilities	**392,301**	**200,716**	**3,600**	**50**	**596,667**
OPEN POSITION	**115,655**	**(9,867)**	**112**	**3**	

	AZN	USD	EUR	Other currency	)ecember 31, 201 Total
NON-DERIVATIVE FINANCIAL ASSETS					
Cash and cash equivalents	19,067	19,960	1,357	440	40,824
Amounts due from banks and other credit institutions	10,800	902	3,983	-	15,685
Loans to customers	407,449	139,169	8	-	546,626
Investments securities available-for-sale	9,071	-	-	-	9,071
Other debt securities	5,017	-	-	-	5,017
Other financial assets	838	632	-	-	1,470
Total non-derivative financial assets	**452,242**	**160,663**	**5,348**	**440**	**618,693**
NON-DERIVATIVE FINANCIAL LIABILITIES					
Amounts due to banks and other financial institutions	56,103	17,549	2,241	-	75,893
Amounts due to customers	259,892	149,605	2,404	30	411,931
Debt securities issued	16,332				16,332
Other financial liabilities	4,595	-	-	-	4,595
Subordinated debt	-	2,809	-	-	2,809
Total non-derivative financial liabilities	**336,922**	**169,963**	**4,645**	**30**	**511,560**
OPEN POSITION	**115,320**	**(9,300)**	**703**	**410**	

Currency risk sensitivity. The following table details the Group's sensitivity to a 35% increase and decrease in the AZN against the relevant foreign currencies (2013 – 10%). 35% is the sensitivity rate used due to recent devaluation of AZN. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 35% (2013 – 10%) change in foreign currency rates. The sensitivity analysis includes external loans as well as loans to foreign operations with the Group where the denomination of the loan is in a currency other than the functional currency of the lender or the borrower. A positive number below indicates an increase in profit and other equity where the AZN strengthens 35 % against the relevant currency. For a 35% weakening of the AZN against the relevant currency, there would be a comparable impact on the profit and other equity, and the balances below would be negative.

	USD impact		EUR impact	
	2014	2013	2014	2013
Profit before tax	(3,453)	(930)	39	70

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

Limitations of sensitivity analysis

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

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

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

Price risk-own products

The Group is exposed to price risks of its products which are subject to general and specific market fluctuations.

The Group manages price risk through periodic estimation of potential losses that could arise from adverse changes in market conditions and establishing and maintaining appropriate stop-loss limits and margin and collateral requirements. With respect to undrawn loan commitments the Group is potentially exposed to a loss of an amount equal to the total amount of such commitments. However, the likely amount of a loss is less than that, since most commitments are contingent upon certain conditions set out in the loan agreements.

Operational risk

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

28. SUBSEQUENT EVENTS

On February 21, 2015, the Central Bank of the Republic of Azerbaijan devalued the Azerbaijani Manat (AZN). As a result, the official exchange rate of AZN to the U.S. dollar fell to AZN 1.05 per U.S. dollar, and the official exchange rate of AZN to the Euro fell to AZN 1.19 per Euro, i.e. by approximately 34% from the exchange rates at the balance sheet date. To prevent the destabilisation of the financial market and economy as a whole, the Central Bank plans to set a daily exchange rate for the AZN against a dual currency basket comprised of the U.S. dollar and the Euro.