Azerbaijan Industry Bank OJSC

Consolidated Financial Statements and
Independent Auditors' Report
For the year ended 31 December 2017

Azerbaijan Industry Bank OJSC
Consolidated financial statements and independent auditors report

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Statement of management's responsibilities for the preparation and approval of the consolidated financial statements

For the year ended 31 December 2017

The following statement is made with a view to distinguishing respective responsibilities of the management and those of the independent auditors in relation to the consolidated financial statements of "Azerbaijan Industry Bank" Open Joint Stock Company (the "Bank") and its subsidiary (collectively referred to as the "Group").

The management is responsible for the preparation of the consolidated financial statements that present fairly the financial position of the Group as at 31 December 2017, the results of its operations, cash flows and changes in equity for the year then ended, in accordance 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 proper accounting records with reasonable accuracy at any time to ensure that these records enable them to prepare the consolidated financial statement of the Group in compliance with IFRS;
- Maintaining statutory accounting records in compliance with legislation and accounting standards of the Republic of Azerbaijan;
- Taking such steps are reasonably available to them to safeguard the assets of the Group; and
- Detecting and preventing fraud, errors and other irregularities.

The consolidated financial statements of the Group for the year ended 31 December 2017 were authorized for issue on 30 April 2018 by the management of the Group:

On behalf of the Management Board:

Dogan Tandogan
Chairman of the Board

Baku, Republic of Azerbaijan
Date: 30 April 2018

Sarvan Mikayılov
Chief Accountant/Finance Director

Baku, Republic of Azerbaijan
Date: 30 April 2018

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Independent auditors' report
To the Shareholders of Azerbaijan Industry Bank OJSC

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Azerbaijan Industry Bank Open Joint Stock Company (the "Bank") and its subsidiary (collectively referred to as the "Group"), which comprise the consolidated statement of financial position as at 31 December, 2017, the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December, 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

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

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

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

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

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

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Independent auditors' report

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

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Grant Thornton
Baku, Republic of Azerbaijan
Date: 30 April 2018

Consolidated statement of financial position
As at 31 December 2017

	Notes	31 December 2017 AZN	31 December 2016 AZN
ASSETS			
Cash and balances with the Central Bank of the Republic of Azerbaijan	4	17,471,662	27,216,103
Due from banks	5	616,918,094	453,652,297
Loan and advances to customers	6	289,887,553	287,790,909
Available-for-sale investments	7	2,040,380	2,040,380
Investment in associate	8	3,989,986	4,137,736
Property and equipment	9	832,081	1,014,999
Intangible assets	10	2,417,535	2,715,766
Deferred tax assets	24	174,970	-
Repossessed assets	11	310,781	142,208
Other assets	12	2,553,131	1,329,323
TOTAL ASSETS		936,596,173	780,039,721
LIABILITIES AND EQUITY			
LIABILITIES:			
Due to Central Bank of the Republic of Azerbaijan	13	-	10,000,000
Amounts due to banks and government agencies	14	208,012,409	248,753,131
Deposits by customers	15	644,352,233	441,887,625
Deferred tax liability	24	-	42,554
Income tax liability	24	-	24,985
Other liabilities	16	1,714,971	1,139,433
TOTAL LIABILITIES		854,079,613	701,847,728
EQUITY:			
Equity attributable to owners of the Bank:			
Share capital	17	60,000,000	60,000,000
Treasury shares	17	(344,900)	(344,900)
Retained earnings		22,861,460	18,536,893
TOTAL EQUITY		82,516,560	78,191,993
TOTAL LIABILITIES AND EQUITY		936,596,173	780,039,721

On behalf of the Management Board:

AZƏRBAYCAN RESPUBLİKASI AZƏRBAYCAN SƏNAYE BANKI AÇIQ SƏHMDAR CƏMİYYƏTİ ASB OPEN JOINT STOCK COMPANY AZERBAIJAN INDUSTRY BANK

Dogan Tandogan
Chairman of the Board
Date: 30 April 2018

Sarvan Mikayılov
Chief Accountant/Finance Director
Date: 30 April 2018

The accompanying notes 1 to 31 form an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income
For the year ended 31 December 2017

	Notes	31 December 2017 AZN	31 December 2016 AZN
Interest income	18	**24,456,530**	18,386,037
Interest expense	18	**(14,052,345)**	(9,488,928)
Net interest income before recovery of provision for impairment losses on interest bearing assets		**10,404,185**	8,897,109
Provision for impairment losses on loan and advances to customers, deposit placed in Banks and other guaranties, net	19	**(1,331,006)**	(3,264,481)
Net interest income		**9,073,179**	5,632,628
Net gain on foreign exchange operations	20	**2,771,977**	5,985,278
Fee and commission income	21	**3,364,218**	2,347,528
Fee and commission expense	22	**(1,782,647)**	(1,320,887)
Share of loss from investments in associates	8	**(147,750)**	(307,750)
Reversal/(provision) for impairment loss on repossessed collaterals	11	**769,831**	(324,670)
Other income		**1,365**	257,366
Other expenses		**(130,979)**	(286,194)
Net non-interest income		**4,846,105**	6,350,671
Operating income		**13,919,194**	11,983,299
Operating expenses	23	**(8,837,071)**	(7,415,794)
Profit before income tax		**5,082,123**	4,567,505
Income tax expense	24	**(757,556)**	(1,183,816)
Net profit for the year		**4,324,567**	3,383,689
TOTAL COMPREHENSIVE INCOME		**4,324,567**	3,383,689
EARNINGS PER SHARE	25	**0.072**	0.056

On behalf of the Management Board:

Dogan Tandogan
Chairman of the Board
Date: 30 April 2018

Sarvan Mikayılov
Chief Accountant/Finance Director
Date: 30 April 2018

The accompanying notes 1 to 31 form an integral part of these consolidated financial statements.

Consolidated statement of changes in equity
For the year ended 31 December 2017

	Notes	Share capital AZN	Treasury Shares AZN	Retained earnings AZN	Total Equity AZN
31 December 2015	**17**	60,000,000	(344,900)	15,153,204	74,808,304
Total comprehensive income		-	-	3,383,689	3,383,689
31 December 2016	**17**	**60,000,000**	**(344,900)**	**18,536,893**	**78,191,993**
Total comprehensive income		**-**	**-**	**4,324,567**	**4,324,567**
31 December 2017	**17**	**60,000,000**	**(344,900)**	**22,861,460**	**82,516,560**

On behalf of the Management Board:

Dogan Tandogan
Chairman of the Board
Date: 30 April 2018

Sarvan Mikayılov
Chief Accountant/Finance Director
Date: 30 April 2018

The accompanying notes 1 to 31 form an integral part of these consolidated financial statements.

Consolidated statement of cash flows
For the year ended 31 December 2017

	Notes	31 December 2017 AZN	31 December 2016 AZN
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit for the year before income tax		**5,082,123**	4,567,505
Adjustments for:			
Provision for impairment losses on interest bearing assets	**19**	**(507,867)**	3,374,426
(Revesrsal)/provision of guaranties	**19**	**(26,348)**	34,993
(Reversal)/Provision for impairment loss on repossessed collaterals –net	**11**	**(769,831)**	324,670
Due from bank provision /(reversal)	**5**	**1,865,221**	(144,938)
Interest expense		**1,903,611**	366,111
Share of loss from investment in associate	**8**	**147,750**	307,750
Depreciation on property and equipment	**9**	**444,481**	475,479
Amortization of intangible assets	**10**	**299,272**	141,211
Loss on sale of assets		**2,506**	35,609
Cash inflow from operating activities before changes in operating assets and liabilities		**8,440,918**	9,482,816
Changes in operating assets and liabilities			
Decrease/(increase) in operating assets:			
Minimum reserve deposits with the Central Bank of Azerbaijan Republic	**4.1**	**(2,261,736)**	(939,460)
Due from banks with original maturity within 90 days	**4.1**	**284,998,200**	(191,662,946)
Time deposits and overnight and blocked account	**5**	**(166,724,130)**	(25,369,356)
Loans and advances to customers	**6**	**(1,588,777)**	(128,828,096)
Repossessed assets	**11**	**601,258**	59,286
Other assets		**(1,018,483)**	2,224,676
(Decrease)/increase in operating liabilities:			
Due to Central Bank of the Republic of Azerbaijan	**13**	**(10,000,000)**	-
Deposits by banks and government agencies	**14**	**(14,068,500)**	80,025,386
Loans from Banks repaid	**14**	**(26,672,222)**	-
Deposits by customers	**15**	**202,464,608**	10,567,977
Other liabilities		**601,886**	(857,641)
Cash generated from /(used in) operating activities before taxation		**266,332,104**	(254,780,174)
Interest on loans obtained paid during the year		**(1,903,611)**	(305,000)
Income tax paid	**24**	**(1,205,390)**	(996,584)
Net cash generated from/(used in) operating activities		**271,664,021**	(246,598,942)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Disposal of investment in associates		**-**	408,000
Payments for property and equipment	**9**	**(264,069)**	(229,196)
Payments for intangible assets	**10**	**(1,041)**	(2,178,032)
Net cash used in investing activities		**(265,110)**	(1,999,228)

Consolidated statement of cash flows
For the year ended 31 December 2017

	Notes	31 December 2017 AZN	31 December 2016 AZN
Net increase/(decrease) in cash and cash equivalents		**271,398,911**	(248,598,170)
Cash and cash equivalents, at the beginning of the year	**4.1**	**59,946,227**	308,544,397
Cash and cash equivalents, at the end of the year	**4.1**	**331,345,138**	59,946,227

On behalf of the Management Board:

Dogan Tandogan
Chairman of the Board
Date: 30 April 2018

Sarvan Mikayılov
Chief Accountant/Finance Director
Date: 30 April 2018

The accompanying notes 1 to 31 form an integral part of these consolidated financial statements.

1. Legal status and nature of operations

Azerbaijan Industry Bank Open Joint Stock Company (the 'Bank') was established in the Republic of Azerbaijan in 1996. The Bank is registered in the Republic of Azerbaijan to provide commercial banking services and has been operating under a full banking license number 241 from September 28, 1996. It was formed as Caspian Investment Bank and was renamed to Capital Investment Bank ('CI Bank') on June 2, 1998 and on March 28, 2006 the Bank changed its legal status to Open Joint Stock Company. On November 30, 2006, the Bank changed its name to "Azerbaijan Industry Bank" OJSC. The Bank's primary business consists of commercial activities, originating loans and guarantees, trading with securities and foreign currencies. As at 31 December 2017 the Bank had 6 branches in the Republic of Azerbaijan (31 December 2016 - 6 branches). The registered office of the Bank is located at 3, Zarifa Aliyeva Street, Baku AZ 1005, Azerbaijan.

The Bank is a parent company of a subsidiary (the 'Subsidiary') and an associate collectively (the 'Group') which consists of the following enterprises:

Subsidiary Name	Country of operation	Proportion or ownership interest/voting rights		Share capital (AZN)	Share capital (AZN)	Type of operation
		2017	2016	**2017**	2016	
Azerbaijan Industry Leasing LLC	The Republic of Azerbaijan	**100%**	100%	1,000,000	1,000,000	Leasing
Associate Name	**Country of operation**	**Proportion or ownership interest/voting rights**		**Share capital (AZN)**	**Share capital (AZN)**	**Type of operation**
		2017	2016	**2017**	2016	
Azerbaijan Industry Insurance OJSC	The Republic of Azerbaijan	**25%**	25%	**2,750,000**	2,750,000	Insurance

Azerbaijan Industry Leasing LLC is a limited liability company registered in the Republic of Azerbaijan on 20 April 2004. It was formed as CI Leasing LLC and was renamed to Azerbaijan Industry Leasing LLC on 6 February 2007. The company's primary business consists of leasing operations. The address of its registered office is as follows: 3, Zarifa Aliyeva Street, Baku AZ 1005, the Republic of Azerbaijan.

Azerbaijan Industry Insurance OJSC is an open joint stock company registered in the Republic of Azerbaijan on 17 December 1996. It was formed as CI Insurance OJSC and was renamed to Azerbaijan Industry Insurance OJSC on 12 March 2007. The principal activity of the company is insurance services. The company operates under insurance license issued by the Ministry of Finance of the Republic of Azerbaijan dated 30 March 2007. Insurance business written by the company includes, but is not limited to, cargo, property, casualty, medical, third party liability, automobile insurance and reinsurance. The address of its registered office is Gumush plaza, H. Seyidbeyli Street, 122, Baku, Azerbaijan.

On 30 December 2009 Anadolu Investment Company LLC purchased newly issued shares of Azerbaijan Industry Insurance OJSC amounting to AZN 2,000,000 and became 50% shareholder of the company. As at 31 December 2011 the Bank held the remaining 50% shareholding (45% directly and 5% via its 100% subsidiary Azerbaijan Industry Leasing LLC) and had control over the company's operations. In December 2012, the Bank sold a 20% shareholding in Azerbaijan Industry Insurance OJSC (taking its effective shareholding down to 30%) to Anadolu Investment Company LLC for the total amount of AZN 1,632,000 and thus the Bank ceased to control Azerbaijan Industry Insurance OJSC but retained significant influence over its operations.

In September 2016, the Group sold 5% shareholding in Azerbaijan Industry Insurance OJSC (takingits effective shareholding down to 25%) to Anadolu Investment Company LLC for the total amount of AZN 550,000.

1. Legal status and nature of operations

As at 31 December 2017 and 2016, the following shareholders owned the issued shares of the Bank:

	2017	2016	**2017**	2016
Shareholder:			**AZN**	AZN
Anadolu Investment Company LLC	**98.4252%**	94.2517%	**59,055,100**	56,551,000
Gozal Kurt Leyla	**1.0000%**	-	**600,000**	-
Azerbaijan Industry Leasing LLC	**0.5748%**	0.5748%	**344,900**	344,900
Azerbaijan Industry Insurance OJSC	**-**	5.1735%	**-**	3,104,100

On 14th of August 2017 Azerbaijan Industrial Insurance OJSC sold it's shares amounted AZN 600,000 to the Leyla Kurt Gozal and shares amounted AZN 2,504,000 shares to the Anadolu Investment Company LLC.

As at 31 December 2017 and 2016 the ultimate controlling party of the Group was Leyla Kurt Gozal.

Statement of compliance with International Financial Reporting Standards

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

2. Standards, interpretations and amendments

2.1. Standards, interpretations and amendments to existing standards that are effective in 2017

Following relevant new standards, revisions and amendments to existing standards were issued by the IASB, which are effective for the accounting period beginning on or after 1 January 2017 and have been adopted by the Bank:

Standard number	**Title**	**Effective date**
IFRS 12	Disclosure of Interests in Other Entities	January 1, 2017
IAS 7	Statement of Cash Flows	January 1, 2017
IAS 12	Income Taxes	January 1, 2017

2. Standards, interpretations and amendments

2.2. Standards, interpretations and amendments to existing standards that are not yet effective and have not been adopted early by the Bank

At the date of authorisation of these financial statements, the following new standards, interpretations and amendments to existing standards have been published but are not yet effective, and have not been adopted early by the Bank.

Standard number	Title	Effective date
IFRS 9	Financial Instruments – Amendments	January 1, 2018
IFRS 15	Revenue from Contracts with Customers – New	January 1, 2018
IAS 28	Investments in Associates and Joint Ventures	January 1, 2018
IFRS 16	Leases	January 1, 2019

Management anticipates that all the relevant pronouncements will be adopted in the Group's accounting policies for the first period beginning after the effective date of the pronouncement. Information on the relevant new standards, amendments and interpretations that are not yet effective have been provided below. The Group's management has yet to assess the impact of these changes on the Group's financial statements.

IFRS 9 Financial Instruments – New and Amendments (effective for accounting period on or after January 1, 2018)

In July 2014, the IASB issued the final version of IFRS 9 'Financial Instruments' which reflects all phases of the financial instruments project and replaces IAS 39 'Financial Instruments: Recognition and Measurement' and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting.

Classification and measurement

Financial assets are classified by reference to the business model within which they are held and their contractual cash flow characteristics. The 2014 version of IFRS 9 introduces a 'fair value through other comprehensive income' category for certain debt instruments. 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.

Impairment

The 2014 version of IFRS 9 introduces an 'expected credit loss' (ECL) model for the measurement of the impairment of financial assets, so it is no longer necessary for a credit event to have occurred before a credit loss is recognised. The new impairment mode will apply to the financial assets measured at amortised cost. Under IFRS 9, loss allowances will be measured on the basis of the credit risk of financial asset at the reporting date.

The ECL model will apply higher percentage of loss where credit risk increases significantly since initial recognition. An entity may determine that financial asset's credit risk has not increased significantly if the asset has low credit risk at the reporting date. The estimated ECL will be calculated based on the actual credit loss experience. The Group will perform the calculation of ECL rates separately for different types of customer including related parties.

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

Derecognition

The requirements for derecognition of financial assets and liabilities are carried forward from IAS 39.

2. Standards, interpretations and amendments to existing standards

2.2. Standards, interpretations and amendments to existing standards that are not yet effective and have not been adopted early by the Bank

IFRS 9 is effective for accounting period beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of IFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before February 1, 2015.

Management has yet to assess the impact of this revised standard on the Group's financial statements.

IFRS 15 Revenue from Contracts with Customers - New (effective for accounting period beginning on or after January 1, 2018)

IFRS 15 establishes a single comprehensive five-step model for entities to use in accounting for revenue arising from contracts with customers. It will supersede the following revenue Standards and Interpretations upon its effective date:

- IAS 18 *Revenue*;
- IAS 11 *Construction Contracts;*
- IFRIC 13 *Customer Loyalty Programmes*;
- IFRIC 15 *Agreements for the Construction of Real Estate*;
- IFRIC 18 *Transfers of Assets from Customers*; and
- SIC 31 *Revenue-Barter Transactions Involving Advertising Services*.

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; and
- Recognise revenue when (or as) the entity satisfies a performance obligation.

Guidance is also provided 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 Group's management is in the process of assessing the impact of IFRS 15 on these financial statements. Therefore, the impact is not known as at the reporting date. However, management intend to use the modified transition approach of transition to IFRS 15.

IAS 28 Investments in Associates and Joint Ventures (effective for accounting period beginning on or after 1 January 2018)

An entity that is a venture capital organisation, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. If an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which (a) the investment entity associates or joint venture is initially recognised; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associates or joint venture first becomes a parent.

2. Standards, interpretations and amendments to existing standards

2.2 Standards, interpretations and amendments to existing standards that are not yet effective and have not been adopted early by the Bank

IFRS 16 Leases - New (effective for accounting period beginning on or after 1 January 2019)

IFRS 16 Leases specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17. Management has yet to assess the impact of this revised standard on the Group's financial statements.

3. Summary of significant accounting policies

3.1. Basis of preparation

These consolidated financial statements have been prepared using the measurement bases specifid by IFRS for each type of asset, liability, income and expense. The measurement bases are more fully described in the accounting policies below.

The preparation of the financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected. Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements are described in note 3.15. 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 30.

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

3.2. Basis of consolidation

The Group financial statements consolidate the parent company and its subsidiary as of 31 December 2017. Control is achieved when the Company:

- 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.

3. Summary of significant accounting policies

3.2. Basis for consolidation

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group. Consolidation is done on line by line basis and all intra-group transactions, balances, income and expenses are eliminated in full.

3.3. Investment in an associate

The Group's investment in its associate, an entity in which the Group has significant influence, is accounted for using the equity method. Under the equity method, the investment in the associate is initially recognized at cost. The carrying amount of the investment is adjusted to recognize changes in the Group's share of net assets of the associate since the acquisition date.

The statement of comprehensive income reflects the Group's share of the results of operations of the associate. When there has been, a change recognized directly in the equity of the associate, the Group recognizes its share of any changes, when applicable, in the statement of changes in equity.

Unrealized gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The Group's share of profit or loss of an associate is shown on the face of the statement of comprehensive income and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate.

After application of the equity method, the Group determines whether it is necessary to recognize an impairment loss on its investment in its associate. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, and then recognizes the loss as "Share of losses of an associate" in the statement of comprehensive income.

3.4. Recognition of interest income and expense

Interest income and expense are recognized on an accrual basis using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability or group of financial assets or financial liabilities and of allocating the interest income or interest expense over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Income is recognized on an effective interest basis for debt instruments.

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.

3. Summary of significant accounting policies

3.4 Recognition of fee and commission income and expense

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.

3.5 Recognition of dividend income

Dividend income is recognized on the ex-dividend date (if it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably.

3.6 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.

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

Financial assets

Financial assets of the Group are classified into the following specified categories: financial assets "at fair value through profit or loss" (FVTPL), "held-to-maturity" investments, "loans and receivables" and "available-for-sale" (AFS) financial assets. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

a) Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category "financial assets at fair value through profit or loss". Financial assets are classified as held for trading if they are acquired for selling in the near term and are recognized at fair value. Derivatives are also classified as held for trading unless they are designated and effective hedging instruments. Gains or losses on financial assets held for trading are recognized in the profit and loss accounts.

b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered with the intention of immediate or short-term resale and are not classified as trading securities or designated as investment securities available-for-sale. Such assets are carried at amortized cost using the effective interest method. Gains and losses are recognized in profit and loss accounts when the loans and receivables are derecognized or impaired, as well as through the amortization process.

3. Summary of significant accounting policies

3.6. Financial instruments

c) Available-for-sale investments

Available-for-sale investments financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition, available-for-sale investments financial assets are measured at cost less any impairment, if any. Available-for-sale financial assets comprise equity investment in unquoted companies and as the fair values could not be reliably estimated, they are measured at cost. In case the fair values are reliably measureable, these instruments are subsequently carried at fair values with the respective gains/losses recognized in other comprehensive income until the investment is derecognized or until the investment is determined to be impaired at which time the accumulative gain or loss previusely reported in other comprehensive income is reclassified to the profit and loss account.

Determination of fair value

The fair value for financial instruments traded in active market at the reporting date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, options pricing models and other relevant valuation models.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, unrestricted balances on correspondent and time deposit accounts and advances to banks with original maturities within 90 days. For the purposes of determining cash flows, the minimum reserve deposit required by the Central Bank of the Republic of Azerbaijan ("CBAR") and blocked accounts are not included as a cash equivalent due to restrictions on their availability (Note 4).

Due from banks

In the normal course of business, the Group maintains advances or deposits for various periods of time with other banks. Due from banks are initially recognized at a fair value. Due from banks with a fixed maturity term are subsequently measured at amortized cost using the effective interest method and are carried net of any allowance for impairment losses. Those that do not have fixed maturities are carried at amortized cost based on expected maturities. Amounts due from financial institutions are carried net of any allowance for impairment losses.

Loans and advances to customers

Loans and advances to customers are non-derivative assets with fixed or determinable payments that are not quoted in an active market, other than those classified in other categories of financial assets.

Loans granted by the Group are initially recognized at a fair value plus related transaction costs. Where the fair value of consideration given does not equal the fair value of the loan, for example where the loan is issued at lower than market rates, the difference between the fair value of consideration given and the fair value of the loan is recognized as a loss on initial recognition of the loan and included in the statement of comprehensive income according to nature of these losses. Subsequently, loans are carried at amortized cost using the effective interest method. Loans and advances to customers are carried net of any allowance for impairment losses.

3. Summary of significant accounting policies

3.6. Financial instruments

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 re-negotiated 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 income statement 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.

Leases

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

The Group as lessor

Amounts due from lessees under finance leases are recognized as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods 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 recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

The Group as lessee

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred. In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability.

The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Reclassification of financial assets

If a non-derivative financial asset classified as held for trading is no longer held for selling in the near term, it may be reclassified out of the fair value through profit or loss category in one of the following cases:

3. Summary of significant accounting policies

3.6 Financial instruments

A financial asset that would have met the definition of loans and receivables above may be reclassified to loans and receivables category if the Group has the intention and ability to hold it for the foreseeable future or until maturity;

Other financial assets may be reclassified to available for sale or held-to-maturity categories only in rare circumstances.

A financial asset classified as available-for-sale that would have met the definition of loans and receivables may be reclassified to loans and receivables category of the Bank has the intention and ability to hold it for the foreseeable future or until maturity.

Financial assets are reclassified at their fair value on the date of reclassification. Any gain or loss already recognized in profit and loss accounts is not reversed. The fair value of the financial asset on the date of reclassification becomes its new cost or amortized cost, as applicable.

Impairment of financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

The Group accounts for impairment losses of financial assets when there is objective evidence that a financial asset or a group of financial assets is impaired. Impairment losses are measured as the difference between carrying amounts and the present value of expected future cash flows, including amounts recoverable from guarantees and collateral, discounted at the financial asset's original effective interest rate.

Such impairment losses are not reversed, unless 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, such as recoveries, in which case the previously recognized impairment loss is reversed by adjustment of an allowance account.

For financial assets carried at cost, impairment losses are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows, discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

Derecognition of financial assets

The Group derecognises 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 entity. 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 recognize the financial asset and recognizes a collateralized borrowing for the proceeds received.

3. Summary of significant accounting policies

3.6 Financial instruments

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

On derecognition of a financial asset other than in its entirety (for example, when the Group retains an option to repurchase part of the transferred asset or retains a residual interest that does not result in the retention of substantially all the risks and rewards of ownership and the Group retains control), 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 recognizes on the basis of the relative fair values of those parts on the date of the transfer.

The difference between the carrying amount allocated to the part that is no longer recognized and the sum of the consideration received for the part no longer recognized and any cumulative gain or loss allocated to it that had been recognized in other comprehensive income is recognized in profit and loss accounts. A cumulative gain or loss that had been recognized in other comprehensive income is allocated between the part that continues to be recognized and the part that is no longer recognized based on the relative fair values of those parts.

Classification as debt or equity

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

Equity instruments

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

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

Financial liabilities

Financial liabilities are classified as either financial liabilities "at FVTPL" or "other financial liabilities".

a) Fair value through profit and loss

Financial liabilities are classified as FVTPL when the financial liability is either held for trading or it is designated as at FVTPL. Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit and loss accounts. The net gain or loss recognized in profit and loss accounts incorporates any interest paid on the financial liability and is included in the "other income/(loss)" line item in the statement of comprehensive income.

b) Other financial liabilities

Other financial liabilities are initially measured at fair value, net of transaction costs.

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

3. Summary of significant accounting policies

3.6 Financial instruments

b) Other financial liabilities

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

c) Amounts due to banks and government agencies

Amounts due to banks and government agencies are recorded when money or other assets are advanced to the Group by counterparty banks. The non-derivative liability is carried at amortized cost.

If the Group purchases its own debt, it is removed from the statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains or losses arising from early retirement of debt.

d) Deposits by customers

Deposits by customers are non-derivative liabilities to individuals, state or corporate customers and are carried at amortized cost.

e) 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 derecognizes financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit and loss accounts.

Offset of financial assets and liabilities

Financial assets and liabilities are offset and reported net on the statement of financial position when the Group has a legally enforceable right to set off the recognized amounts and the Bank intends either to settle on a net basis or to realize the asset and settle the liability simultaneously. In accounting for a transfer of a financial asset that does not qualify for derecognition, the Group does not offset the transferred asset and the associated liability.

3. Summary of significant accounting policies

3.7 Investment property

Investment property, comprising building, is held for capital appreciation. Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment property is carried at historical cost net of accumulated depreciation and recognized impairment loss. Depreciation was calculated on a straight-line basis over the useful life of the assets, which is 14 years. However, it is now fully depreciated.

An investment property is derecognized upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognized.

3.8 Property and equipment

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

Furniture and equipment	25%
Computers	25%
Vehicles	25%
Leasehold improvements	20%
Other equipment and leasing assets	20%
Freehold land is not depreciated.	-

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

3.9 Intangible assets

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

License and certificates	50%
Other intangible assets	10%

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

3. Summary of significant accounting policies

3.10 Impairment of non-financial assets

On an ongoing basis, the Group reviews the carrying amounts of its tangible and definitely-lived 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 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.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

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

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

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

3.11 Repossessed assets

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

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

3.12 Taxation

Income tax

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

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

3. Summary of significant accounting policies

3.12 Taxation

Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each reporting date 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 is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realized. Deferred tax is charged or credited in the statement of comprehensive income, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred income tax assets and deferred income tax liability are offset and reported net on the statement of financial position if Group has a legally enforceable right to set off current income tax assets against current income tax liabilities; and deferred income tax assets and the deferred income tax liabilities relate to income taxes levied by the same taxation authority on the same taxable entity.

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 statement of comprehensive income.

3.13. Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognized as a deduction from equity, net of any tax effects. Dividends on ordinary shares are recognized in equity as a reduction in the period in which they are declared.

Own equity instruments which have been subsequently reacquired (treasury shares) are recognized at cost and deducted from equity.

No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

3. Summary of significant accounting policies

3.14. Foreign currency translation

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognized 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.

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

	31 December 2017	31 December 2016
AZN/1 USD	**1.7001**	1.7707
AZN/1 Euro	**2.0307**	1.8644
AZN/1 GBP	**2.2881**	2.1745
AZN/1 RUB	**0.0295**	0.0293

3.15. Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) because 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 recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, considering 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 the economic benefits required to settle, a provision is expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

3.16. Critical accounting judgments and key sources of estimation uncertainty

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

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

Key sources of estimation uncertainty

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

3. Summary of significant accounting policies

3.16. Critical accounting judgments and key sources of estimation uncertainty

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.

Impairment of loans and receivables

Along with the prudential regulations of CBAR the primary factors that the Group considers whether a financial asset is impaired are its overdue status and realizability of related collateral, if any. The following other principal criteria are also used to determine that there is objective evidence that an impairment loss has occurred:

- the viability of the customer's business model and its capability to trade successfully out of financial difficulties and generate sufficient cash flow to service its debt obligations;
- the realizable value of security (or other credit mitigations) and likelihood of successful repossession;
- the likely deduction of any costs involved in recovery of amounts outstanding;
- the borrower experiences a significant financial difficulty as evidenced by borrower's financial information that the Bank obtains;
- the borrower considers bankruptcy or a financial reorganisation;
- the adverse change in the payment status of the borrower because of changes in the international or local economic conditions that impact the borrower.

3. Summary of significant accounting policies

3.16. Critical accounting judgments and key sources of estimation uncertainty

Valuation of financial instruments

As described in Note 28, no financial instruments are fair valued rather are carried at cost or amortised cost. Management believes that the carrying values of financial insturemtns reported approximate their fair values as at December 31, 2017.

Effect of IFRS 9 and IFRS 15

The initial impact assessment of IFRS 9 and IFRS 15 is based on currently available information and may be subject to changes arising from further reasonable and supportable information being made available to the Group in 2018 when the Group will adopt these standards.

4. Cash and balances with the Central Bank of the Republic of Azerbaijan

	31 December 2017 AZN	31 December 2016 AZN
Cash in hand	**7,512,339**	7,324,964
Balances with CBAR	**9,959,323**	19,891,139
	17,471,662	27,216,103

Balance with CBAR includes the obligatory minimum reserve deposits (restricted balances) of AZN 4,820,693 and AZN 2,558,957, respectively, as at 31 December 2017 and 2016. The Bank is entitled to use all funds on its correspondent account if average daily balance for 30 days' period will be eventually higher than required mandatory reserve.

4.1. Cash and cash equivalents for the purposes of statements of cash flows

Cash and cash equivalents for the purposes of the consolidated statement of cash flows comprise the following:

	31 December 2017 AZN	31 December 2016 AZN
Cash and balances with the CBAR	**17,471,662**	27,216,103
Due from banks with original maturity within 90 days	**306,246,600**	21,248,400
Correspondent accounts	**12,617,579**	14,129,216
	336,335,841	62,593,719
Less: minimum reserve deposits with CBAR	**(4,820,693)**	(2,558,957)
Less: blocked account	**(170,010)**	(88,535)
Total cash and cash equivalents	**331,345,138**	59,946,227

Mandatory minimum reserve deposits and blocked account are not available for use in the Bank's day-to-day operations. Balances with CBAR and mandatory minimum reserve deposits are non-interest-bearing.

5. Due from banks

Due from banks comprise:

	31 December 2017 AZN	31 December 2016 AZN
Time deposits and overnight	**610,748,272**	444,105,617
Correspondent accounts	**12,617,579**	14,129,216
	623,365,851	458,234,833
Less: allowance for impairment losses	**(6,447,757)**	(4,582,536)
	616,918,094	453,652,297

As at 31 December 2017 and 2016 accrued interest income included in due from banks amounted to AZN 2,766,172 and AZN 1,430,617, respectively.

6. Loans and advances to customers

Loans and advances to customers comprise:

	31 December 2017 AZN	31 December 2016 AZN
Loans and advances to customers	**302,356,644**	301,124,358
Less: allowance for impairment losses	**(12,469,091)**	(13,333,449)
Total loans and advances to customers	**289,887,553**	287,790,909

Movements in the allowance for impairment losses for the years ended 31 December 2017 and 2016 are disclosed in Note 19.

As at 31 December 2017 and 2016 accrued interest income included in loans and advances to customers amounted to AZN 3,499,137 and AZN 3,703,225, respectively.

The table below summarizes carrying value of loans and advances to customers analyzed by type of collateral, rather than the fair value of collateral itself:

	31 December 2017 AZN	31 December 2016 AZN
Loans collateralized by deposits and blocked cash	**223,933,500**	209,728,751
Loans collateralized by guarantees	**42,555,204**	55,118,469
Loans collateralized by equipment	**25,015,919**	24,153,969
Loans collateralized by immovable property	**3,358,794**	4,756,788
Loans collateralized by movable property	**-**	37,425
Unsecured loans	**7,493,227**	7,328,956
	302,356,644	301,124,358
Less: allowance for impairment losses	**(12,469,091)**	(13,333,449)
Total loans and advances to customers	**289,887,553**	287,790,909

6. Loans and advances to customers

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

	31 December 2017 AZN	31 December 2016 AZN
Analysis by sector:		
Manufacturing	**170,113,798**	167,544,093
Trade and services	**72,130,594**	82,110,780
Construction	**36,165,319**	8,711,743
Agriculture	**13,608,303**	19,690,744
Individuals	**7,204,445**	14,180,549
Transport and communication	**1,221,662**	6,501,486
Other	**1,912,523**	2,384,963
	302,356,644	301,124,358
Less: allowance for impairment losses	**(12,469,091)**	(13,333,449)
Total loans and advances to customers	**289,887,553**	287,790,909

Loans and advances to individuals comprise the following products:

	31 December 2017 AZN	31 December 2016 AZN
Consumer loans	**4,094,606**	9,480,290
Plastic cards	**2,235,176**	3,866,942
Business cards	**2,906**	2,617
Mortgage loans	**473,127**	405,455
Car loans	**398,630**	425,245
	7,204,445	14,180,549
Less: allowance for impairment losses	**(3,043,051)**	(3,580,066)
Total loans and advances to individuals	**4,161,394**	10,600,483

As at 31 December 2017 and 2016, of the entire loans portfolio (100% of total portfolio) is granted to customers operating in the Republic of Azerbaijan, which represents a significant geographical concentration in one country.

	31 December 2017			31 December 2016		
	Carrying value before allowance	**Allowance for impairment losses**	**Carrying value**	Carrying value before allowance	Allowance for impairment losses	Carrying value
	AZN	**AZN**	**AZN**	AZN	AZN	AZN
Unimpaired loans	**292,365,870**	**(296,267)**	**292,069,603**	237,207,710	(318,677)	236,889,033
Loans to customers collectively assessed determined to be impaired	**13,979**	**(2,466,431)**	**(2,452,452)**	53,258,933	(2,688,229)	50,570,704
Loans to customers individually assessed to be impaired	**9,976,795**	**(9,706,393)**	**270,402**	10,657,715	(10,326,543)	331,172
	302,356,644	**(12,469,091)**	**289,887,553**	301,124,358	(13,333,449)	287,790,909

7. Available for sale investments

Available-for-sale investments comprise:

Equity investments	Ownership % 2017	Ownership % 2016	December 31 2017 AZN	December 31 2016 AZN
International Bank of Azerbaijan – Georgia JSC	**12.50**	12.50	**1,420,380**	1,420,380
MilliKart LLC	**10.00**	10.00	**500,000**	500,000
Baku Stock Exchange CJSC	**9.52**	9.52	**120,000**	120,000
			2,040,380	2,040,380

As fair value of these investments is not readily and reliably available, consequently, these are reported at cost. Furthermore, management assert that there is no impairment in the carrying value of these investments as these are active companies.

8. Investment in associate

	31 December 2017 AZN	31 December 2016 AZN
Azerbaijan Industrial Insurance OJSC	**3,989,986**	4,137,736

The movement for Group`s investment in associate is as follows:

	31 December 2017 AZN	31 December 2016 AZN
Opening balance	**4,137,736**	4,853,486
Disposed during the year	**-**	(408,000)
Share in loss from investments in associates	**(147,750)**	(307,750)
	3,989,986	4,137,736

As at 31 December 2017 the Group's interest in its associate and its summarized financial information, including total assets, liabilities, revenues and losses, were as follows:

Name	Total Assets	Total liabilities	Revenue	Loss	Interest held (%)	Country of Incorporation
	AZN	**AZN**	**AZN**	**AZN**		
Azerbaijan Industrial Insurance OJSC	**19,019,000**	**6,163,000**	**7,127,000**	**591,000**	**25.00**	**The Republic of Azerbaijan**

As at 31 December 2016 the Group`s interest in its associate and its summarized financial information, including total assets, liabilities, revenues and losses, were as follows:

Name	Total assets	Total liabilities	Revenue	Loss	Interest held (%)	Country of incorporation
	AZN	AZN	AZN	AZN		
Azerbaijan Industrial Insurance OJSC	19,927,000	6,480,000	6,268,000	1,231,000	25.00	The Republic of Azerbaijan

9. Property and equipment

	Land	Furniture and equipment	Computers	Vehicles	Lease-hold improvements	Other equipment	Leasing assets	Total
	AZN	AZN	AZN	AZN	AZN	AZN	AZN	AZN
At cost								
31 December 2016	320	2,323,357	1,982,158	376,891	102,527	66,963	70,865	4,923,081
Additions	-	122,026	102,253	25,200	-	14,590	-	264,069
Disposals	-	-		(18,362)	-	-	-	(18,362)
31 December 2017	320	2,445,383	2,084,411	383,729	102,527	81,553	70,865	5,168,788
Accumulated depreciation								
31 December 2016	-	(2,101,256)	(1,240,760)	(354,053)	(102,527)	(55,030)	(54,456)	(3,908,082)
Charge for the year	-	(155,156)	(247,460)	(20,119)	-	(5,337)	(16,409)	(444,481)
Disposal	-	-	-	15,856	-	-	-	15,856
31 December 2017	-	(2,256,412)	(1,488,220)	(358,316)	(102,527)	(60,367)	(70,865)	(4,336,707)
Net book value								
As at 31 December 2017	320	188,971	596,191	25,413	-	21,186	-	832,081

9. Property and equipment

	Land	Furniture and equipment	Computers	Vehicles	Lease-hold improvements	Other equipment	Leasing assets	Total
	AZN	AZN	AZN	AZN	AZN	AZN	AZN	AZN
At cost								
31 December 2015	320	2,572,385	2,140,329	392,891	272,416	113,979	78,415	5,570,735
Additions	-	34,910	194,286	-	-	-	-	229,196
Disposals	-	(283,938)	(352,457)	(16,000)	(169,889)	(47,016)	(7,550)	(876,850)
31 December 2016	320	2,323,357	1,982,158	376,891	102,527	66,963	70,865	4,923,081
Accumulated depreciation								
31 December 2015	-	(2,205,727)	(1,307,151)	(333,405)	(272,416)	(99,966)	(55,179)	(4,273,844)
Charge for the year	-	(179,140)	(252,142)	(36,648)	-	(2,080)	(5,469)	(475,479)
Disposals	-	283,611	318,533	16,000	169,889	47,016	6,192	841,241
31 December 2016	-	(2,101,256)	(1,240,760)	(354,053)	(102,527)	(55,030)	(54,456)	(3,908,082)
Net book value								
As at 31 December 2016	320	222,101	741,398	22,838	-	11,933	16,409	1,014,999

In the opinion of management, there has been no impairment in the carrying value of the Bank's property and equipment as at 31 December 2017 (2016: Nil).

Investment properties owned by the Group amounted 513,400 AZN have been fully depreciated for the year ended December 31, 2017 and 2016.

10. Intangible assets

	31 December 2017 AZN	31 December 2016 AZN
At cost		
Cost as at January 1,	**3,043,709**	875,403
Additions	**1,041**	2,178,032
Disposal	**-**	(9,726)
Cost as at December 31,	**3,044,750**	3,043,709
Accumulated amortization		
Accumulated amortization as at January 1,	**(327,943)**	(196,458)
Charge for the year	**(299,272)**	(141,211)
Disposal	**-**	9,726
Accumulated amortization as at December 31,	**(627,215)**	(327,943)
Net book value as at December 31,	**2,417,535**	2,715,766

Intangible assets include software and licenses.

11. Repossessed assets

Repossessed assets comprise

	31 December 2017 AZN	31 December 2016 AZN
Non-residential property	**414,375**	172,125
Residential property	-	507,451
Precious metals	-	1,320
	414,375	680,896
Less: allowance for impairment losses	**(103,594)**	(538,688)
Net book value as at December 31,	**310,781**	142,208

The following represents movement of repossessed assets

	AZN	AZN
At cost		
Cost as at January 1,	**680,896**	1,008,926
Additions	**414,375**	172,125
Disposal and sale	**(1,139,946)**	(500,155)
Transfer in /(out) off balance sheet net	**459,050**	-
Cost as at December 31,	**414,375**	680,896
Accumulated impairment		
Impairment as at January 1,	**(538,688)**	(714,173)
Reversal /(Charge) for the year, net	**769,831**	(324,670)
Disposal	**124,313**	500,155
Transfer in /(out) off balance sheet net	**(459,050)**	-
Impairment as at December 31,	**(103,594)**	(538,688)
Net book value as at December 31,	**310,781**	142,208

12. Other assets

	31 December 2017 AZN	31 December 2016 AZN
Other financial assets:		
Receivables on plastic card operations from other banks	**1,535,759**	845,701
Receivables from the government	**381,791**	-
Settlements on money transfers	**131,590**	42,281
Total other financial assets	**2,049,140**	887,982
Other non-financial assets		
Prepaid expenses	**227,023**	202,160
İncome tax paid in advance	**205,325**	-
Prepayments to suppliers for property and equipment	**34,870**	100,686
Other	**36,773**	138,495
	503,991	441,341
	2,553,131	1,329,323

13. Due to Central Bank of the Republic of Azerbaijan

	31 December 2017 AZN	31 December 2016 AZN
Borrowing from Central Bank of Azerbaijan Republic	**-**	10,000,000

The following movement presented for cash flow purposes for the loans obtained from the CBAR:

	31 December 2017 AZN	31 December 2016 AZN
Loan from CBAR as at January 1,	**10,000,000**	10,000,000
Interest expense during the year	**292,500**	305,000
Repaid during the year	**(10,292,500)**	(305,000)
Loan from CBAR as at December 31,	**-**	10,000,000

14. Amount due to banks and government agencies

Amounts due to banks and government agencies comprise of:

	31 December 2017 AZN	31 December 2016 AZN
Deposits from banks	**160,906,361**	167,188,550
Amount due to the National Fund for Support of Entrepreneurship	**46,785,714**	56,100,000
Loans from Bank	**-**	25,061,111
Amount due to Azerbaijan Mortgage Fund	**320,309**	403,447
Correspondent accounts of other banks	**25**	23
	208,012,409	248,753,131

14. Amount due to banks and government agencies

As at 31 December 2017 and 2016 accrued interest expense included in Amounts due to banks and government agencies amounted to AZN 1,266,971 and AZN 919,820, respectively.

As at 31 December 2017 and 2016 the Group had loans and deposits from one financial institution totaling AZN 154,214,088 and AZN 160,217,982, respectively.

As at 31 December 2017 and 2016 included in Amounts due to banks and government agencies are loans from the National Fund for Support of Entrepreneurship amounting to AZN 46,785,714 and AZN 56,100,000, respectively. These loans have maturity periods from 1 year to 7 years and bear an annual interest rate of 1%. There are no new loans acquired, while repayment of AZN 9,831,181 has been made during the year ended December 31, 2017.

As at 31 December 2017 and 2016 included in Amounts due to banks and government agencies are loans from the Azerbaijan Mortgage Fund amounting to AZN 320,309 and AZN 403,447, respectively. These loans have maturity periods from 12 to 17 years (2016: 13 to 18) and bear an annual interest rate of 4-8%. There are no new loans acquired while repayment of AZN 83,138 has been made during the year ended December 31, 2017.

The following movement presented for cash flow purposes for the loans obtained from the Banks:

	31 December 2017 AZN	31 December 2016 AZN
Loans from Banks as at January 1,	**25,061,111**	-
Obtained during the year	**-**	25,000,000
Interest expense during the year	**1,611,111**	61,111
Repaid during the year	**(26,672,222)**	-
Loans from Banks as at December 31,	**-**	25,061,111

15. Deposits by customers

Deposits by customers comprise of:

	31 December 2017 AZN	31 December 2016 AZN
Time deposits	**481,047,163**	366,597,495
Deposits payable on demand	**163,305,070**	75,290,130
	644,352,233	441,887,625

As at 31 December 2017 and 2016 accrued interest expense included in deposits by customers amounting to AZN 5,113,059 and AZN 2,935,834, respectively.

As at 31 December 2017 and 2016 deposits by customer insured by the State Deposit Insurance Fund of the Republic of Azerbaijan amounted to AZN 11,744,422 and AZN 7,361,225 respectively.

15. Deposits by customers

	31 December 2017 AZN	31 December 2016 AZN
Analysis by sector:		
Individuals	**331,950,009**	339,001,569
Trade and services	**260,420,955**	91,691,309
Transport and communication	**13,888,870**	1,006,898
Agriculture	**7,190,894**	6,157,461
Energy	**1,054,012**	5,662
Construction	**676,604**	444,630
Manufacturing	**469,882**	546,644
Mining	**-**	54,760
Other	**28,701,007**	2,978,692
	644,352,233	441,887,625

16. Other liabilities

Other liabilities comprise of:

	31 December 2017 AZN	31 December 2016 AZN
Other financial liabilities:		
Settlements on money transfers and plastic card operations	**1,108,503**	618,689
Accrued expenses	**183,740**	125,967
Payables to the employees	**80,250**	89,729
	1,372,493	834,385
Other non-financial liabilities:		
Tax payable	**277,305**	159,146
Provision for guarantees and other commitments	**52,332**	78,680
Others	**12,841**	67,222
	342,478	305,048
	1,714,971	1,139,433

17. Share capital

As at 31 December 2017 and 2016 the number of authorized, issued and fully paid ordinary shares were 60 million, of which treasury shares comprised 0.345 million. All ordinary shares have a nominal value of AZN 1 (2016: AZN 1) and rank equally and carry one vote each. As at 31 December 2017 and 2016 treasury shares represent shares held by the subsidiary of the Bank.

18. Net interest income

	31 December 2017 AZN	31 December 2016 AZN
Interest income comprises:		
Interest income on financial assets recorded at amortized cost comprises:		
Interest on due from banks	**12,695,890**	8,303,276
Interest on loans and advances to customers	**11,760,640**	10,082,761
Total interest income	**24,456,530**	18,386,037
Interest expense comprises:		
Interest expense on financial liabilities recorded at amortized cost comprise:		
Interest on deposits by customers	**(8,912,020)**	(6,244,606)
Interest on amounts due to banks and government agencies	**(5,140,325)**	(3,244,322)
Total interest expense on financial liabilities recorded at amortized cost	**(14,052,345)**	(9,488,928)
	10,404,185	8,897,109

19. Allowance for impairment losses

The movements in allowance for impairment losses on repossessed assets and loan and advances to customers are as follows:

	Due from banks AZN	Loans and advance to customers AZN	Guaranties reserve AZN	Grant Total AZN
31 December 2015	(4,727,474)	(9,959,023)	(43,687)	(14,730,184)
Provision charged	(997,290)	(3,405,916)	(34,993)	(4,438,199)
Provision reversed	1,142,228	31,490	-	1,173,718
Total during the year	144,938	(3,374,426)	(34,993)	(3,264,481)
31 December 2016	**(4,582,536)**	**(13,333,449)**	**(78,680)**	**(17,994,665)**
Written off against provison	**-**	**356,491**	**-**	**356,491**
Charge for the the year:				**-**
Provision charged	**(1,865,221)**	**(738,489)**	**-**	**(2,603,710)**
Provision reversed	**-**	**1,246,356**	**26,348**	**1,272,704**
Total during the year	**(1,865,221)**	**507,867**	**26,348**	**(1,331,006)**
31 December 2017	**(6,447,757)**	**(12,469,091)**	**(52,332)**	**(18,969,180)**

20. Net gain on foreign exchange operations

Net gain on foreign exchange operations comprises:

	31 December 2017 AZN	31 December 2016 AZN
Exchange gain on dealing-net	**3,281,784**	2,831,651
Exchange (loss)/gain on position- net	**(509,807)**	3,153,627
	2,771,977	5,985,278

21. Fee and commission income

Fee and commission income comprise of:

	31 December 2017 AZN	31 December 2016 AZN
Fee and commission income:		
Plastic card services	**1,460,032**	1,211,698
Documentary operations	**1,115,342**	316,313
Cash operations	**251,661**	255,021
Settlements	**471,110**	513,717
Other operations	**66,073**	50,779
	3,364,218	2,347,528

22. Fee and commission expense

Fee and commission expense comprise of:

	31 December 2017 AZN	31 December 2016 AZN
Fee and commission expense:		
Plastic card services	**1,518,883**	1,164,793
Documentary operations	**188,732**	107,348
Cash operations	**63,192**	36,946
Settlements	**11,840**	11,800
	1,782,647	1,320,887

23. Operating expenses

Operating expenses comprise of:

	31 December 2017 AZN	31 December 2016 AZN
Salaries and employee benefits	**4,078,668**	3,366,494
Legal and professional fee	**1,447,592**	1,142,325
Software costs	**846,053**	606,351
Depreciation and amortization	**743,682**	616,690
Rent, rates and taxes	**585,645**	586,105
Security costs	**355,380**	354,005
Communication expenses	**238,373**	271,133
Taxes other than income tax	**103,130**	48,151
Insurance expenses	**99,263**	86,444
Advertising and marketing expenses	**80,713**	53,849
Utilities	**48,839**	38,889
Transportation and travel	**45,973**	40,429
Repairs and maintenance expenses	**45,249**	52,579
Office supplies	**43,749**	64,273
Plastic card and cheques printing expenses	**26,867**	12,296
Other expenses	**47,895**	75,781
	8,837,071	7,415,794

24. 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 operates, 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 31 December 2017 and 2016 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.

Tax legislation of the Republic of Azerbaijan may give rise to various interpretations and changes. If the interpretations of the management do not correspond to the interpretation of the tax authorities concerning tax legislation, additional taxes, penalties and interest may be assessed by the tax authorities on the Group's financial statements.

24. Income taxes

The analysis of deferred tax assets and deferred tax liabilities is as follows:

		31 December 2017 AZN	31 December 2016 AZN
Deferred tax assets	(a)	**198,003**	337,026
Deferred tax liabilities	(b)	**(23,033)**	(379,580)
Net deferred tax asset/(liability)		**174,970**	(42,554)

The gross movement on the deferred tax balances is as follows:

	31 December 2017 AZN	31 December 2016 AZN
At the beginning of the year	**(42,554)**	119,693
Release/(charge) to profit and loss account	**217,524**	(162,247)
Net deferred tax asset /(liability)	**174,970**	(42,554)

The movement in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

a) Deferred tax assets

	31 December 2017 AZN	31 December 2016 AZN
Deductible temporary differences:		
Other assets	**713,833**	1,499,782
Property and equipment	**276,180**	185,350
	990,013	1,685,132
Deferred tax asset 20% (2016: 20%)	**198,003**	337,026

b) Deferred tax liabilities

	31 December 2017 AZN	31 December 2016 AZN
Taxable temporary differences:		
Intangible assets	**114,644**	156,578
Other liabilities	**520**	1,036,262
Deposits by customers	**-**	705,062
	115,164	1,897,902
Deferred tax liability 20% (2016: 20%)	**23,033**	379,580

24. Income taxes

The effective tax rate reconciliation is as follows for the years ended 31 December 2017 and 2016:

	31 December 2017 AZN	31 December 2016 AZN
Profit before income tax	**5,067,123**	4,567,505
Tax at the statutory tax rate 20% (2016: 20%)	**(1,013,425)**	(913,501)
Tax effect of permanent differences	**38,345**	(108,068)
Tax effect of temporary differences	**217,524**	(162,247)
Income tax expense	**(757,556)**	(1,183,816)
Current income tax expense	**(975,080)**	(1,021,569)
Deferred tax release/(charge) to profit and loss account	**217,524**	(162,247)
Income tax expense	**(757,556)**	(1,183,816)

Income tax paid in advance/Income tax payable

	31 December 2017 AZN	31 December 2016 AZN
Balance at 1 January,	**(24,985)**	-
Charge for the year	**(975,080)**	(1,021,569)
Income tax paid during the year	**1,205,390**	996,584
Balance at 31 December	**205,325**	(24,985)

25. Earnings per share

The earnings and weighted average number of ordinary shares used in the calculation of basic and diluted earnings per share is as follows:

	31 December 2017 AZN	31 December 2016 AZN
Net profit for the year attributable to owners of the Bank	**4,324,567**	3,383,689
Weighted average number of ordinary shares for basic and diluted earnings per share	**60,000,000**	60,000,000
Earnings per share - basic and diluted	**0.072**	0.056

26. Contingencies and commitments

In the normal course of business, the Group is a party to financial instruments with off-balance sheet risk to meet the needs of its customers.

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

As at 31 December 2017 and 2016 contingent liabilities comprise:

	31 December 2017 AZN	31 December 2016 AZN
Contingent liabilities and credit commitments		
Guarantees issued and similar commitments	**60,989,067**	10,314,328
Commitments on loans and unused credit lines	**7,680,516**	11,395,967
	68,669,583	21,710,295

Extension of loans and advances to customers within credit line limits is approved by the Group on a case-by-case basis and depends on borrowers' financial performance, debt service and other conditions. As at 31 December 2017 and 2016 such unused credit lines come to AZN 7,680,516 and AZN 11,395,967 respectively.

Capital regulatory commitment

The Bank is fully complied with minimum capital requirements of the Regulator. For detail, refer to note 30 to the financial statements.

Further, the Bank submitted their periodical staturtory retruns to the Financial Markets Supervison Chamber within the stipulated time frame and no adverse comments has been received till to the issuance of these financial staetments.

Legal proceedings

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

Taxation

Commercial legislation of the Republic of Azerbaijan, including tax legislation, may allow more than one interpretation. In addition, there is a risk of tax authorities making arbitrary judgments of business activities. If a 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 for additional taxes, penalties and interest.

26. Contingencies and commitments

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 and advances to customers and receivables, as an underestimation of the taxable profit.

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. Mangement believes that its interpretation of the relevant legislation as at 31 December 2017 is appropriate and that the Group's tax, and currency positions will be sustained.

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. As has happened in the past, actual or perceived financial problems or an increase in the perceived risks associated with investing in emerging economies could adversely affect the investment climate in Azerbaijan and the Azerbaijan's economy in general.

Laws and regulations affecting businesses in Azerbaijan continue to change rapidly. Tax, currency and customs legislation within Azerbaijan are subject to varying interpretations, and other legal and fiscal impediments contribute to the challenges faced by entities currently operating in Azerbaijan. The future economic direction of Azerbaijan is largely dependent upon economic, fiscal and monetary measures undertaken by the government, together with legal, regulatory, and political developments. There has been major devaluation in Azerbaijani Mannats against US dollars since February 21, 2015. The government has introduced a floating exchange rate since December 21, 2015, which was previously pegged against US dollars. Furthermore, the Govt. remove the restriction on maximum and minimum margine diviation from CBAR exchange rate and now the Banks can set their own exchange rate based on market supply and demand basis. During the year, the exchange rate of Azerbaijani Mannats against US dollars has been recovered from AZN 1.7707 to AZN 1.7001

The global financial turmoil that has negatively affected Azerbaijan's financial and capital markets and Azerbaijan's economy and significant economic uncertainties remain. Adverse changes arising from systemic risks in global financial systems, including any tightening of the credit environment or from decline in the oil and gas prices could slow or disrupt the Azerbaijan's economy, adversely affect the Group's access to capital and cost of capital for the Group and, more generally, its business, results of operations, financial condition and prospects. Because Azerbaijan produces and exports large volumes of oil and gas, Azerbaijan's economy is particularly sensitive to the price of oil and gas on the world market which has fluctuated significantly during the year.
The Group's mangment is monitoring these developments in the business operating environment and taking appropriate corrective measurments for the sustainablitly of the Group.

27. Transactions with related parties

Transactions between the Bank and its subsidiary, which is a 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. Transactions have been entered on mutually agreed terms:

		31 December 2017		31 December 2016	
	Notes	**Related party balances**	**Total category as per the consolidated financial statements**	**Related party balances**	**Total category as per the consolidated financial statements**
		AZN	**AZN**	AZN	AZN
Loans and advances to customers (gross):	**6**		**302,356,644**		301,124,358
- shareholders and entities in which a substantial interest is owned by shareholders of the Group		***48,377,741**		*59,191,202	
- key management personnel/ Associates of the Group		**98,521**		591,472	
Allowance for impairment losses:	**6**		**12,469,091**		13,333,449
shareholders and entities in which a ubstantial interest is owned by hareholders of the Group		**444,376**		325,079	
- key management personnel/ Associates of the Group		**1,033**		5,915	
Deposits by customers:	**15**		**644,352,233**		441,887,625
- shareholders and entities in which a substantial interest is owned by shareholders of the Group		**32,063,290**		18,749,165	
- key management personnel/ Associates of the Group		**320,431,548**		328,197,463	
Guarantees issued & similar commitments:	**26**		**60,989,067**		10,314,328
- shareholders and entities in which a substantial interest is owned by shareholders of the Group		**422,128**		4,290,185	

* This amount includes AZN 39,437,000 (2016: AZN 52,600,000) million which is pledged as security deposits.

27. Transactions with related parties

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

		31 December 2017		31 December 2016	
	Notes	**Related party balances**	**Total category as per the consolidated financial statements**	Related party balances	Total category as per the consolidated financial statements
Total employee benefits	**23**		**4,078,668**	**-**	**3,366,494**
Key management personnel compensation:		**314,374**		231,654	**-**

Included in the consolidated statement of comprehensive income for the years ended 31 December 2017 and 2016 are the following amounts which were recognized in transactions with related parties:

		31 December 2017		31 December 2016	
	Notes	**Related party balances**	**Total category as per the consolidated financial statements**	**Related party balances**	**Total category as per the consolidated financial statements**
		AZN	**AZN**	AZN	AZN
Interest income:	**18**		**24,456,530**		18,386,037
- shareholders and entities in which a substantial interest is owned by shareholders of the Group		**1,019,847**		1,658,958	
- key management personnel/ Associates of the Group		**31,218**		63,300	
Interest expense:	**18**		**14,052,345**		9,488,928
- shareholders and entities in which a substantial interest is owned by shareholders of the Group		**71,495**		90,581	
- key management personnel/ Associates of the Group		**5,194,669**		5,783,913	
Provision for impairment losses on interest bearing assets:			**1,331,006**		3,264,481
- shareholders and entities in which a substantial interest is owned by shareholders of the Group		**119,297**		342,069	
- key management personnel/ Associates of the Group		**(4,882)**		22,993	
Fee and commission income:	**21**		**3,364,218**		2,347,528
- shareholders and entities in which a substantial interest is owned by shareholders of the Group		**524,038**		755,896	
- key management personnel/ Associates of the Group		**22,735**		54,455	
Operating expenses:	**23**		**8,837,071**		7,415,794
- shareholders and entities in which a substantial interest is owned by shareholders of the Group		**53,122**		86,736	
- key management personnel/ Associates of the Group		**-**		8,763	

Interest rates on related parties loan range from 1.5% to 27% per anum.

28. Fair value of financial instruments

Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties at an arm's length transaction, other than in forced or liquidation sale.

Assets for which fair value approximates carrying value

For financial assets and liabilities that have a short-term maturity (less than 3 months), it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits and savings accounts without a maturity.

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

- Cash and balances with the Central Bank of the Republic of Azerbaijan and minimum reserve deposit with the Central Bank of the Republic of Azerbaijan, due to the short-term environment and availability restrictions of these types of assets, the carrying amount is assumed to be reasonable estimate of their fair value.
- The fair value of loans and advances to banks and loans and advances to customers for loans provided during the period of one month to the reporting date is assumed to be fair value amount for them. The fair value of the other loans is estimated by application of market interest rates when the loans were originated with the current market rates offered on similar deposits with the deduction of the allowances for credit losses from the calculated fair value amounts.
- Loans and advances to personal customers are made at fixed rates. As there is no active secondary market in the Republic of Azerbaijan for such loans and advances, there is no reliable market value available for this portfolio. Fixed rate - Certain of the loans secured are at a fixed rate. Fair value has been estimated by reference to the market rates available at the reporting date for similar loans of maturity equal to the remaining fixed period.
- Other financial assets and liabilities are mainly represented by short-term receivables and payables, therefore the carrying amount is assumed to be a reasonable estimate of their fair value.
- The carrying value of term deposits (included in deposits by customers and Amounts due to banks and government agencies) for term deposits placed during the period of one month to the reporting date is assumed to be the fair value amount for them. The fair value of the other term deposits is estimated by application of market interest rates when the deposits were placed with the current market rates offered on similar deposits.

28. Fair value of financial instruments

The following table compares the carrying amount of financial assets and liabilities to their estimated fair values:

	31 December 2017		31 December 2016	
	Carrying value AZN	**Fair value AZN**	Carrying value AZN	Fair value AZN
Financial assets				
Cash and balance with the Central Bank of the Republic of Azerbaijan	**17,471,662**	**17,471,662**	27,216,103	27,216,103
Due from banks	**616,918,094**	**616,918,094**	453,652,297	453,652,297
Loans and advanced to customers	**289,887,553**	**289,887,553**	287,790,909	287,790,909
Available-for-sale investments	**2,040,380**	**2,040,380**	2,040,380	2,040,380
Other financial assets	**2,049,140**	**2,049,140**	887,982	887,982
	928,366,829	**928,366,829**	771,587,671	771,587,671
Financial liabilities				
Due to Central Bank of the Republic of Azerbaijan	**-**	**-**	10,000,000	10,000,000
Amounts due to banks and government agencies	**208,012,409**	**208,012,409**	248,753,131	248,753,131
Deposits by customers	**644,352,233**	**644,352,233**	441,887,625	441,887,625
Other financial liabilities	**1,372,493**	**1,372,493**	834,385	834,385
	853,737,135	**853,737,135**	701,475,141	701,475,141

Financial investments - available for sale

Available-for-sale financial assets are usually valued using valuation techniques or pricing models consist of unquoted equities.

The fair value of equity securities included in equity investments available-for-sale cannot be measured reliably. As at 31 December 2017 and 2016 the carrying value was AZN 2,040,380 and AZN 2,040,380, respectively. Since these shares are not publicly traded and the range of reasonable fair value estimates is significant, it is not possible to estimate fair values reliably, accordingly these are carried at cost.

29. Capital risk management

The Group's objectives when managing capital are to comply with the capital requirements set by the Finanical Market Supervisory Chamber (FIMSA) and CBAR to the Bank, to safeguard the Group's ability to continue as a going concern and to maintain a sufficient capital base to achieve a capital adequacy ratio of at least 10%. Compliance with capital adequacy ratios set by the FIMSA and CBAR is monitored monthly with reports outlining their calculation reviewed and signed by the Group's Chairman of Management Board, Chief Accountant, Chief of Internal Audit Department and the Chairman of Supervisory Board. Other objectives of capital management are evaluated annually.

Under the current capital requirements set by the FIMSA and CBAR banks have to: (a) hold the minimum level of share capital of AZN 50,000,000 (2016: AZN 50,000,000); (b) maintain a ratio of regulatory capital to risk weighted assets ("statutory capital ratio") at or above a prescribed minimum of 10% (2016: 10%) and (c) maintain a ratio of tier-1 capital to the risk-weighted assets (the 'Tier-1 capital ratio') at or above the prescribed minimum of 5% (2016: 5%); (d) Tier 2 capital should not exceed 50 percent of regulatory capital; (e) Tier 2 capital should not exceed the amount of tier 1 capital.

29. Capital risk management

FIMSA and CBAR sets and monitors capital requirements for the Bank.

The Bank defines as capital those items defined by statutory regulation as capital for credit institutions. Under the current capital requirements set by FIMSA and CBAR, banks have to maintain a ratio of capital to risk weighted assets (statutory capital ratio) above the prescribed minimum level. The Bank complies with the statutory capital ratio as at 31 December 2017 and 31 December 2016. The calculation of capital adequacy based on requirements set by the FIMSA as at 31 December is as follows:

	31 December 2017 AZN	31 December 2016 AZN
Tier 1 capital		
Share capital	**60,000,000**	60,000,000
Retained earnings	**16,957,675**	13,124,477
Total tier 1 capital	**76,957,675**	73,124,477
Deductions from tier 1 capital		
Deferred tax assets	**(34,013)**	(34,013)
Intangible assets	**(2,417,535)**	(2,715,766)
Total tier 1 capital after deductions	**74,506,127**	70,374,698
Tier 2 capital		
Total reserves	**5,107,546**	5,330,206
Current year gain	**4,357,295**	3,833,198
Total tier 2 capital	**9,464,841**	9,163,404
Total capital before deductions	**83,970,968**	79,538,102
Deductions	**(5,790,380)**	(5,790,380)
Total regulatory capital after deductions	**78,180,588**	73,747,722
Total risk-weighted assets:	**408,603,707**	426,416,463
Statutory Principal amount of loans to customers issued (or restructured) to related parties after 1 June 2015 (after impairment allowance)	**9,253,506**	10,794,842
Total loans provided to the related parties	**9,403,395**	11,450,301
Tier 1 capital adequacy ratio	**16.33%**	16.50%
Regulatory capital adequacy ratio	**17.25%**	17.29%

The Bank also monitors its capital adequacy levels calculated in accordance with the requirements of the Basel Accord, as defined in the International Convergence of Capital Measurement and Capital Standards (updated April 1998) and Amendment to the Capital Accord to incorporate market risks (updated November 2007), commonly known as Basel I.

29. Capital risk management

The following table shows the composition of the capital position calculated in accordance with the requirements of the Basel Accord, as at 31 December:

	31 December 2017	31 December 2016
Tier 1 capital		
Share capital	**60,000,000**	60,000,000
Retained earnings	**22,861,460**	18,536,893
Treasury shares	**(344,900)**	(344,900)
Total capital	**82,516,460**	78,191,993
Risk-weighted assets		
On-balance sheet	**408,603,707**	426,416,463
Off-balance sheet	**1,076,961**	1,892,429
Total risk weighted assets	**409,680,668**	428,308,892
Total capital expressed as a percentage of risk-weighted assets (total capital ratio and tier 1 capital)	**20.14%**	18.26%

The risk-weighted assets are measured by means of a hierarchy of risk weights classified according to the nature and reflecting an estimate of credit, market and other risks associated with each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for unrecognized contractual commitments, with some adjustments to reflect the more contingent nature of the potential losses. The Bank is subject to minimum capital adequacy requirements calculated in accordance with the Basel Accord established by covenants under liabilities incurred by the Bank.

Reconciliation of total statutory capital to IFRS equity

The following information is intended to provide additional information to users of the financial statements of the Bank for the year ended 31 December 2017 and is not required under International Financial Reporting Standards (IFRS).

The following table provides an overview of the differences in composition of the net assets as at 31 December 2017 presented in the Bank`s financial statements prepared under IFRS and total regulatory capital determined under the rules and regulations of FIMSA ("statutory capital").

	31 December 2017 AZN	31 December 2016 AZN
Statutory retained earnings	**21,314,970**	16,957,675
Differences between total statutory capital & IFRS equity:		
Prior years adjustments	**1,579,217**	1,815,180
Investment in associate	**(147,750)**	(307,750)
Other expenses	**(34,013)**	-
Deferred tax income/ (expense)	**217,524**	(162,247)
Income tax expense	**6,469**	-
Subsidairy retained earning (group reporting)	**(74,957)**	234,035
IFRS retained earnings	**22,861,460**	18,536,893

30. 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 risk
- 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 processes 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 Credit Department specialists.

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. A small 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 more 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.

30. Risk management policies

Maximum exposure of credit risk

The following table presents the maximum exposure to credit risk of on-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.

Maximum exposure of credit risk

	Maximum exposure	Offset	Net exposure after offset	Collateralized loans	Net exposure
Year ended 31 December 2017	**AZN**	**AZN**	**AZN**	**AZN**	**AZN**
Balances with the CBAR	**9,959,323**	**-**	**9,959,323**	**-**	**9,959,323**
Due from banks	**616,918,094**	**-**	**616,918,094**	**-**	**616,918,094**
Loans and advanced to customers	**289,887,553**	**(223,933,500)**	**65,954,053**	**(58,460,826)**	**7,493,227**
Available-for-sale investments	**2,040,380**	**-**	**2,040,380**	**-**	**2,040,380**
Other financial assets	**2,049,140**	**-**	**2,049,140**	**-**	**2,049,140**
Guarantees issued and similar commitments	**60,989,067**	**(57,899,974)**	**3,089,093**	**(3,089,093)**	**-**
Commitments on loans and unused credit lines	**7,680,516**	**-**	**7,680,516**	**-**	**7,680,516**
	989,524,073	**(281,833,474)**	**707,690,599**	**(61,549,919)**	**646,140,680**
Year ended 31 December 2016					
Balances with the CBAR	19,891,139	-	19,891,139	-	19,891,139
Due from banks	453,652,297	-	453,652,297	-	453,652,297
Loans and advanced to customers	287,790,909	(209,728,751)	78,062,158	(70,733,202)	7,328,956
Available-for-sale investments	2,040,380	-	2,040,380	-	2,040,380
Other financial assets	887,982	-	887,982	-	887,982
Guarantees issued and similar commitments	10,314,328	(2,786,004)	7,528,324	(7,528,324)	-
Commitments on loans and unused credit lines	11,395,967	-	11,395,967	-	11,395,967
	785,973,002	(212,514,755)	573,458,247	(78,261,526)	495,196,721

30. Risk management policies

The table below shows the credit quality by classes of loans andvances to the customers, based on Group's rating system.

Gross loand and advances to the customers	**Neither past nor impaired**					
	High grade	**Standard grade**	**Sub-standard grade**	**Past due but not impared**	**Individually impaired**	**Total 2017**
Corporate clients	**223,627,757**	**63,329,829**	**-**	**2,796**	**6,316,742**	**293,277,124**
Individual clients	**305,743**	**5,091,098**	**525**	**22,101**	**3,660,053**	**9,079,520**
Total	**223,933,500**	**68,420,927**	**525**	**24,897**	**9,976,795**	**302,356,644**

Gross loand and advances to the customers	Neither past nor impaired					
	High grade	Standard grade	Sub-standard grade	Past due but not impared	Individually impaired	Total 2016
Corporate clients	209,682,062	68,417,418	-	13,341	6,448,640	284,561,461
Individual clients	46,689	11,991,159	29,182	344,679	4,151,188	16,562,897
Total	209,728,751	80,408,577	29,182	358,020	10,599,828	301,124,358

At the reporting date, gross value of loans and advances to customers past due but not impaired can be shown as follows:

	31 December 2017 AZN	31 December 2016 AZN
Not more than three months	**17,727**	291,464
More than three months but not more than six months	**7,170**	-
More than six months but not more than one year	**-**	335
More than one year	**-**	66,221
	24,897	358,020

At the reporting date, gross value of loans and advances to customers impaired can be shown as follows:

	31 December 2017 AZN	31 December 2016 AZN
More than three months but not more than six months	**13,259**	67,148
More than six months but not more than one year	**152,184**	91,612
More than one year	**9,811,352**	10,441,068
	9,976,795	10,599,828

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.

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.

30. Risk management policies

The geographical concentration of Group's consolidated financial assets and liabilities is set out below:

As at 31 December 2017 Non-derivative financial assets	The Republic of Azerbaijan AZN	OECD countries AZN	Non-OECD countries AZN	31 December 2017 Total AZN
Cash and balances with the CBAR	**17,471,662**	**-**	**-**	**17,471,662**
Due from banks	**165,470,534**	**384,268,882**	**67,178,678**	**616,918,094**
Loans and advances to customers	**289,887,553**	**-**	**-**	**289,887,553**
Available-for-sale investments	**2,040,380**	**-**	**-**	**2,040,380**
Other financial assets	**2,049,140**	**-**	**-**	**2,049,140**
	476,919,269	**384,268,882**	**67,178,678**	**928,366,829**
Non-derivative financial Liabilities				
Amounts due to banks and government agencies	**47,106,048**	**160,906,361**	**-**	**208,012,409**
Deposits by customers	**430,986,492**	**-**	**213,365,741**	**644,352,233**
Other financial liabilities	**1,372,493**	**-**	**-**	**1,372,493**
	479,465,033	**160,906,361**	**213,365,741**	**853,737,135**
Net position on non-derivative financial instruments	**(2,545,764)**	**223,362,521**	**(146,187,063)**	**74,629,694**

As at 31 December 2016 Non-derivative financial assets	The Republic of Azerbaijan AZN	OECD countries AZN	Non-OECD countries AZN	31 December 2016 Total AZN
Cash and balances with the CBAR	27,216,103	-	-	27,216,103
Due from banks	181,200,104	167,010,348	105,441,845	453,652,297
Loans and advances to customers	287,790,909	-	-	287,790,909
Held-to-maturity investment	-	-	-	-
Available-for-sale investments	2,040,380	-	-	2,040,380
Other financial assets	887,982	-	-	887,982
	499,135,478	167,010,348	105,441,845	771,587,671
Non-derivative financial Liabilities				
Due to Central Bank of Azerbaijan Republic	10,000,000	-	-	10,000,000
Amounts due to banks and government agencies	81,564,581	167,188,550	-	248,753,131
Deposits by customers	405,016,868	4,126,981	32,743,776	441,887,625
Other financial liabilities	834,385	-	-	834,385
	497,415,834	171,315,531	32,743,776	701,475,141
Net position on non-derivative financial instruments	1,719,644	(4,305,183)	72,698,069	70,112,530

The Group not dealing with any derivatives.

30. Risk management policies

Collateral

The amount and type of collaterals 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 collaterals obtained are as follows:

- For commercial lending, charges over equipment, movable and immovable property;
- For retail lending, mortgages over residential properties.

At 31 December 2017, the fair value of collateral that the Group holds related to loans individually determined to be impaired amounts to AZN 2,121,000 (2016: AZN 3,681,636). The collateral consists of equipment, movable and immovable property.

During the year, the Group took possession of property with a carrying value of AZN 424,575 at the reporting date (2016: AZN 176,588), which the Group is in the process of selling.

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

Credit quality by class of financial asset

The Group enters into numerous transactions where the counterparties are not rated by international rating agencies. The Group has developed internal models, which allow it to determine the rating of counterparties, which are comparable to rating of international rating agencies. A methodology to determine credit ratings of borrowers has been developed in the Group to assess corporate borrowers. This method allows for calculation and assignment/confirmation of a borrower's rating and rating of collateral for a loan.

The system is based on a scoring model depending on key performance indicators of the borrower with the possibility of insignificant expert adjustments in case of insufficient objectivity of the benchmark. The method provides for the rating assignment based on the following criteria groups: market indicators of the borrower, goodwill, credit history, transparency and reliability of information, information on business and business environment, relations of the Group and the borrower, financial situation of the borrower, business activity, and collateral provided. The financial situation and business activity are the most important criteria. Therefore, the scoring model provides for overall assessment of the borrower and the loan.

A model of the borrower's scoring assessment has been developed in the Group to assess and decide on loans to small and medium-sized businesses. The scoring model is developed relating to standard loan products and includes key performance indicators of borrowers: financial situation, relations with the borrower, management quality, target use, business plan, location, credit history, collateral, etc.

The scoring assessment based on the borrower's parameters is one of the main factors for the decision-making process relating to loans.

A methodology of evaluation of borrowers-individuals is based on following criteria: education, occupancy, financial position, credit history, property owned by the borrower. Based on information obtained the maximum limit of a loan is calculated. The maximum limit of a loan is calculated using a ratio of debt burden on a borrower.

30. Risk management policies

Credit quality by class of financial asset

The Group applies internal methodologies to specific corporate loans and groups of retail loans. The scoring methodologies are tailor-made for specific products and are applied at various stages over the life of the loan. Thus, it is not possible to make a cross-product score comparison which would agree to the outstanding balance of loans to customers per the consolidated statement of financial position. As such, more detailed information is not presented.

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

Classified loans and advances and allowance for impairment losses:

	31 December 2017					
	Loans and advances AZN	**Accrued Interest AZN**	**Gross Loan AZN**	**Impairment on loan balance AZN**	**Impairment on accrued interest AZN**	**Total impairment AZN**
General allowance						
Satisfactory	**291,739,823**	**626,047**	**292,365,870**	**2,693,530**	**2,626**	**2,696,156**
Specific allowance:			**-**			
- Un-satisfactory	**9,024**	**581**	**9,605**	**2,256**	**332**	**2,588**
- Risky	**4,191**	**183**	**4,374**	**2,095**	**183**	**2,278**
- Bad	**7,104,469**	**2,872,326**	**9,976,795**	**6,895,743**	**2,872,326**	**9,768,069**
	7,117,684	**2,873,090**	**9,990,774**	**6,900,094**	**2,872,841**	**9,772,935**
	298,857,507	**3,499,137**	**302,356,644**	**9,593,624**	**2,875,467**	**12,469,091**

	31 December 2016					
	Loans and advances AZN	Accrued Interest AZN	Gross Loan AZN	Impairment on loan balance AZN	Impairment on accrued interest AZN	Total impairment AZN
General allowance						
Satisfactory	289,681,052	673,916	290,354,968	3,030,605	4,079	3,034,684
Specific allowance:						
- Un-satisfactory	101,342	3,660	105,002	25,336	915	26,251
- Risky	7,906	761	8,667	3,953	761	4,715
- Bad	7,628,604	3,027,117	10,655,721	7,240,683	3,027,117	10,267,799
	7,737,852	3,031,538	10,769,390	7,269,972	3,028,793	10,298,765
	297,418,904	3,705,454	301,124,358	10,300,577	3,032,872	13,333,449

30. Risk management policies

Credit quality by class of financial asset

The following table provides an analysis of unimpaired loans to individuals and corporate customers that are classified in three categories according to internal ratings assigned to borrowers:

- The "Top performing" category with low credit risk includes loans with no past dues status that are granted to borrowers that have unexceptionable credit history with the Bank and other creditors; that proved to be profitable and well performing businesses with no signs of decline of their financial sustainability;
- The "Moderately performing" category with temperate credit risk includes loans with no past due status that are granted to borrowers with good credit history with the Bank and other creditors with minor exceptions in the past; that proved to be well performing businesses in the past but average financial performance at the moment.
- The "Other" category includes loans that are not overdue and are granted to borrowers that do not fall within the two categories described above.

The following table provides an analysis on unimpaired loans to individuals that are classified in categories according to internal classifications by sector assigned to borrowers:

	31 December 2017 AZN	31 December 2016 AZN
Top performing loans	**5,340,876**	12,107,135
Moderately performing loans	**9,268**	78,753
Other unimpaired	**2,095**	-
Total unimpaired loans and advances to individuals	**5,352,239**	12,185,888

The following table provides an analysis on unimpaired loans to corporate customers that are classified in categories according to internal classifications by sector assigned to borrowers:

	31 December 2017 AZN	31 December 2016 AZN
Top performing loans	**284,324,678**	275,267,666
Moderately performing loans	**1,910**	-
Total unimpaired loans and advances to corporate customers	**284,326,588**	275,267,666

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 fall due.

The Asset Liability Management Committee (“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.

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.

30. Risk management policies

Liquidity risk

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

	Demand and less than 1 month AZN	From 1 to 3 months AZN	From 3 to 12 months AZN	From 12 months to 5 years AZN	Over 5 years AZN	Maturity Undefined AZN	31 December 2017 Total AZN
Non-derivative financial assets							
Fixed interest rate instruments							
Due from banks	54,219,211	249,865,552	233,132,577	67,083,175	-	-	604,300,515
Loans and advances to customers	95,668,611	19,858,239	125,474,309	5,405,851	43,332,892	147,651	289,887,553
Total fixed interest bearing financial assets	149,887,822	269,723,791	358,606,886	72,489,026	43,332,892	147,651	894,188,068
Non-interest bearing financial assets							
Cash and balances with the Central Bank of Azerbaijan Republic	17,471,662	-	-	-	-	-	17,471,662
Due from banks	12,617,579	-	-	-	-	-	12,617,579
Available-for-sale investments	2,040,380	-	-	-	-	-	2,040,380
Other financial assets	2,049,140	-	-	-	-	-	2,049,140
Total non-interest bearing financil assets	34,178,761	-	-	-	-	-	34,178,761
Total non-derivative financial assets	184,066,583	269,723,791	358,606,886	72,489,026	43,332,892	147,651	928,366,829

30. Risk management policies

Liquidity risk

	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 12 months to 5 years	Over 5 years	Maturity Undefined	31 December 2017 Total
	AZN	AZN	AZN	AZN	AZN	AZN	AZN
Non-derivative financial liabilities							
Fixed interest rate instruments							
Amounts due to banks and government agencies	6,763,702	571,428	155,571,230	1,785,714	43,320,310	-	208,012,384
Deposits by customers	55,886,471	153,425,554	237,577,608	34,157,530	-	-	481,047,163
Total fixed interest bearing financial liabilities	62,650,173	153,996,982	393,148,838	35,943,244	43,320,310	-	689,059,547
Non-interest bearing financial liabilities							
Amounts due to banks and government agencies	25	-	-	-	-	-	25
Deposits by customers	163,305,070	-	-	-	-	-	163,305,070
Other financial liabilities	1,372,493	-	-	-	-	-	1,372,493
Total non-interest bearing financial liabilities	164,677,588	-	-	-	-	-	164,677,588
Total non-derivative financial liabilities	227,327,761	153,996,982	393,148,838	35,943,244	43,320,310	-	853,737,135
Interest sensitivity gap	87,237,649	115,726,809	(34,541,952)	36,545,782	12,582		
Cumulative interest sensivity	87,237,649	202,964,458	168,422,506	204,968,288	204,980,870		
Liquidity gap	(43,261,178)	115,726,809	(34,541,952)	36,545,782	12,582		
Cumulative liquidity gap	(43,261,178)	72,465,631	37,923,679	74,469,461	74,482,043		

30. Risk management policies

Liquidity risk

	Demand and less than 1 month AZN	From 1 to 3 months AZN	From 3 to 12 months AZN	From 12 months to 5 years AZN	Over 5 years AZN	Maturity Undefined AZN	31 December 2016 Total AZN
Non-derivative financial assets							
Fixed interest rate instruments							
Due from banks	21,037,392	-	264,222,305	154,263,384	-	-	439,523,081
Loans and advances to customers	80,131,552	50,062,007	97,500,906	16,567,292	43,308,551	220,601	287,790,909
Total fixed interest bearing financial assets	101,168,944	50,062,007	361,723,211	170,830,676	43,308,551	220,601	727,313,990
Non-interest bearing financial assets							
Cash and balances with the Central Bank of Azerbaijan Republic	27,216,103	-	-	-	-	-	27,216,103
Due from banks	14,129,216	-	-	-	-	-	14,129,216
Available-for-sale investments	-	-	-	-	-	2,040,380	2,040,380
Other financial assets	887,982	-	-	-	-	-	887,982
Total non-interest bearing financil assets	42,233,301	-	-	-	-	2,040,380	44,273,681
Total non-derivative financial assets	143,402,245	50,062,007	361,723,211	170,830,676	43,308,551	2,260,981	771,587,671

30. Risk management policies

Liquidity risk

	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 12 months to 5 years	Over 5 years	Maturity Undefined	31 December 2016 Total
	AZN	AZN	AZN	AZN	AZN	AZN	AZN
Non-derivative financial liabilities							
Fixed interest rate instruments							
Due to Central Bank of Azerbaijan Republic	-	-	10,000,000	-	-	-	10,000,000
Amounts due to banks and government agencies	6,970,567	25,203,968	160,217,982	12,957,143	43,403,447	-	248,753,108
Deposits by customers	176,838	19,951,935	189,050,004	158,305,370	-	-	367,484,146
Total fixed interest bearing financial liabilities	7,147,405	45,155,903	359,267,986	171,262,513	43,403,447	-	626,237,254
Non-interest bearing financial liabilities							
Amounts due to banks and government agencies	23	-	-	-	-	-	23
Deposits by customers	74,403,479	-	-	-	-	-	74,403,479
Other financial liabilities	834,385	-	-	-	-	-	834,385
Total non-interest bearing financial liabilities	76,124,538	-	-	-	-	-	76,124,538
Total non-derivative financial liabilities	82,385,292	45,155,903	359,267,986	171,262,513	43,403,447	-	701,475,141
Interest sensitivity gap	94,021,539	4,906,104	2,611,009	(431,837)	(94,896)		
Cumulative interest sensivity	94,021,539	98,927,643	101,538,652	101,106,815	101,011,919		
Liquidity gap	61,016,953	4,906,104	2,611,009	(431,837)	(94,896)		
Cumulative liquidity gap	61,016,953	65,923,057	68,534,066	68,102,229	68,007,333		

30. Risk management policies

Liquidity risk

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

Non-derivative financial liabilities	Weighted Average effective interest	Demand and less than 1 month AZN	From 1 to 3 months AZN	From 3 to 12 months AZN	From 12 months to 5 years AZN	Over 5 years AZN	Maturity Undefined AZN	31 December 2017 Total AZN
Fixed interest rate instruments								
Amounts due to banks and government agencies	1.77%	6,707,737	574,285	156,360,770	1,898,958	52,280,354	-	217,822,104
Deposits by customers	1.81%	55,338,852	150,468,005	239,443,095	35,171,170	-	-	480,421,122
Total fixed interest bearing financial		62,046,589	151,042,290	395,803,865	37,070,128	52,280,354	-	698,243,226
Non-interest bearing instruments								
Amounts due to banks and government agencies		25	-	-	-	-	-	25
Deposits by customers		163,305,070	-	-	-	-	-	163,305,070
Other financial liabilities		1,372,493	-	-	-	-	-	1,372,493
Liabilities on financial guarantees		-	-	-	-	-	60,989,067	60,989,067
Commitments on loans and guarantees		-	-	-	-	-	7,680,516	7,680,516
Total non-interest bearing financial liabilities and commitments		164,677,588	-	-	-	-	68,669,583	233,347,171
Total financial liabilities and commitments		226,724,177	151,042,290	395,803,865	37,070,128	52,280,354	68,669,583	931,590,397

30. Risk management policies

Liquidity risk

Non-derivative financial liabilities	Weighted Average effective interest	Demand and less than 1 month AZN	From 1 to 3 months AZN	From 3 to 12 months AZN	From 12 months to 5 years AZN	Over 5 years AZN	Maturity Undefined AZN	31 December 2016 Total AZN
Fixed interest rate instruments								
Due to Central Bank of Azerbaijan Republic	3.00%	-	-	10,250,000	-	-	-	10,250,000
Amounts due to banks and government agencies	3.35%	6,911,293	26,456,746	160,689,299	12,957,143	43,403,447	-	250,417,928
Deposits by customers	1.92%	176,751	19,970,110	191,988,740	158,601,599	-	-	370,737,200
Total fixed interest bearing financial		7,088,044	46,426,856	362,928,039	171,558,742	43,403,447	-	631,405,128
Non-interest-bearing instruments								
Amounts due to banks and government agencies		23	-	-	-	-	-	23
Deposits by customers		74,403,479	-	-	-	-	-	74,403,479
Other financial liabilities		834,385	-	-	-	-	-	834,385
Liabilities on financial guarantees		-	-	-	-	-	14,278,621	14,278,621
Commitments on loans and guarantees		-	-	-	-	-	5,212,750	5,212,750
Total non-interest bearing financial liabilities and commitments		75,237,887	-	-	-	-	19,491,371	94,729,258
Total financial liabilities and commitments		82,325,931	46,426,856	362,928,039	171,558,742	43,403,447	19,491,371	726,134,386

The amounts included above for financial guarantee contracts are the maximum amounts the Group could be forced to settle under the arrangement for the full guaranteed amount if that amount is claimed by the counterparty to the guarantee. Based on expectations at the end of the reporting period, the Group considers that it is more likely than not that no amount will be payable under the arrangement. However, this estimate is subject to change depending on the probability of the counterparty claiming under the guarantee which is a function of the likelihood that the financial receivables held by the counterparty which are guaranteed suffer credit losses.

30. Risk management policies

Market Risk

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

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

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

Most the Group's loan contracts and other financial assets and liabilities that bear interest are either fixed and contain clauses enabling the interest rate to be changed at the option of the lender. The Group monitors its interest rate margin and consequently does not consider itself exposed to significant interest rate risk or consequential cash flow risk.

Interest rate risk

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

The following table presents a sensitivity analysis of interest rate risk, which has been determined based on "reasonably possible changes in the risk variable". The level of these changes is determined by management and is contained within the risk reports provided to key management personnel.

Impact on profit before tax:

	31 December 2017		31 December 2016	
	Interest rate +1 AZN	**Interest rate -1 AZN**	Interest rate +1 AZN	Interest rate -1 AZN
Financial assets:	**9,283,668**	**(9,283,668)**	7,717,435	(7,717,435)
Financial liabilities:	**(8,537,381)**	**8,537,381**	(6,262,373)	6,262,373
Net impact on profit before income tax	**746,287**	**(746,287)**	1,455,062	(1,455,062)

30. Risk management policies

Currency risk

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

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

The Group's open positions by the major currencies in which they hold the financial assets and liabilities presented are as below:

	AZN	USD USD 1= AZN 1.7001	EUR EUR 1= AZN 2.0307	GBP GBP 1= AZN 2.2881	Other currencies	31 December 2017 Total
Non-derivative financial assets						
Cash and balances with the CBAR	**10,673,926**	**1,650,769**	**270,365**	**4,876,351**	**251**	**17,471,662**
Due from banks	**-**	**352,055,535**	**61,043,434**	**203,815,949**	**3,176**	**616,918,094**
Loans and advances to customers	**134,195,285**	**155,514,983**	**177,285**	**-**	**-**	**289,887,553**
Available-for-sale investments	**2,040,380**	**-**	**-**	**-**	**-**	**2,040,380**
Other financial assets	**2,049,140**	**-**	**-**	**-**	**-**	**2,049,140**
Total non-derivative financial assets	**148,958,731**	**509,221,287**	**61,491,084**	**208,692,300**	**3,427**	**928,366,829**
Non-derivative financial liabilities						
Amounts due to banks and government agencies	**47,106,023**	**160,906,367**	**19**	**-**	**-**	**208,012,409**
Deposits by customers	**19,040,520**	**352,649,281**	**62,080,053**	**210,582,362**	**17**	**644,352,233**
Other financial liabilities	**1,372,493**	**-**	**-**	**-**	**-**	**1,372,493**
Total non-derivative financial liabilities	**67,519,036**	**513,555,648**	**62,080,072**	**210,582,362**	**17**	**853,737,135**
Open position	**81,439,695**	**(4,334,361)**	**(588,988)**	**(1,890,062)**	**3,410**	

30. Risk management policies

Currency risk

	AZN	USD USD 1= AZN 1.7707	EUR EUR 1= AZN 1.8644	GBP GBP 1= AZN 2.1745	Other currencies	31 December 2016 Total
Non-derivative financial assets						
Cash and balances with the CBAR	13,781,028	12,997,532	437,543	-	-	27,216,103
Due from banks	-	442,115,149	749,240	10,782,546	5,362	453,652,297
Loans and advances to customers	148,635,470	138,975,137	180,302		-	287,790,909
Available-for-sale investments	2,040,380	-	-	-	-	2,040,380
Other financial assets	1,225,265	6,057	98,001		-	1,329,323
Total non-derivative financial assets	165,682,143	594,093,875	1,465,086	10,782,546	5,362	772,029,012
Non-derivative financial liabilities						
Due to CBAR	10,000,000	-	-	-	-	10,000,000
Amounts due to banks and government agencies	81,564,559	167,188,555	17	-	-	248,753,131
Deposits by customers	6,673,178	423,027,851	1,308,096	10,878,500	-	441,887,625
Other financial liabilities	535,513	221,665	77,207	-	-	834,385
Total non-derivative financial liabilities	98,773,250	590,438,071	1,385,320	10,878,500	-	701,475,141
Open position	66,908,893	3,655,804	79,766	(95,954)	5,362	

Currency risk sensitivity

The following table details the Group's sensitivity to a 6%-8% in 31 December 2017 and 6%-9% 31 December 2016 increase and decrease in the AZN against the relevant foreign currencies. 6%-8% is the sensitivity rates used because of a apreciation of the AZN that occurred shortly after the end of the reporting period (see note 30). The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 6%-8% change in foreign currency rates. A positive number below indicates an increase in profit and other equity where the AZN strengthens 6%-8% against the relevant currency. For a 6%-8% 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.

	Profit for the year		**Equity**	
	31 December 2017 AZN	31 December 2016 AZN	**31 December 2017 AZN**	31 December 2016 AZN
USD	**(181,023)**	456,349	**(144,819)**	365,079
EUR	**(42,490)**	4,838	**(33,992)**	3,870
GBP	**(143,113)**	(8,454)	**(114,490)**	(6,763)
Other currency	**274**	472	**220**	378

This is mainly attributable to the exposure outstanding on USD, EUR and GBP receivables and payables in the Group at the end of the reporting period.
In management's opinion, the sensitivity analysis is not always a representative of the inherent foreign exchange risk because the year end exposure does not reflect the exposure during the year.

30. Risk management policies

Limitations of sensitivity analysis

The above tables demonstrate the effect of a change in a key assumption while other assumptions remain unchanged. 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.

31. Post reporting date events

No adjusting or significant non-adjusting events have occurred between the reporting date and the date of authorization of these financial statements.