BANKBTB

Contents

The **Baku** school

The Baku carpet weaving school combines the following Absheron villages: Novkhany, Fatmai, Nardaran, Bulbula, Mardakan etc. These carpets are distinguished by softness of fabric, intense colours, high artistic taste and functionality of working. The Baku carpet weaving school also includes the Khyzy region outside Absheron and Gadi, Kesh, Fyndygan and other carpet weaving locations within that region.
The most carpets bear names of villages, where they were woven. The Baku group includes "Khilabuta", "Khilaafshan", "Novkhany", "Surakhany", "Gala", "Baku", "Goradil", "Fatmai", "Gadi" and other types of patterns.

The main distinctions of the Baku school consisted in the carpet style, which was rather loose, and weaving of middle fineness, as well as in the backing that was woolen and cotton. The wool is of high quality and soft to the touch, the shuttle was tied with double thread and the knot was made symmetrically.
As to colour ranges there are typically present pale, almost transparent colours, as well as harmonic combinations of dark-blue, blue, fawn, ivory, yellow, chocolate and pure red tones.

Chairman's Speech

ESTEEMED PARTNERS AND CLIENTS,
DEAR FRIENDS!

As Chairman of the Supervisory Board of Bank BTB OJSC, I am proud to report on the accomplishment of all outstanding challenges facing us in 2013 with the stepping stone that has allowed the bank to commend about a high-grade new level of business and financial services.

Over the past year we managed to multifold the capitalization and ensure full compliance with the requirements of the regulator. On its own terms, such a requirement was beyond the scope of preliminary development strategy of the bank, however the chosen by us the concept of business has proved its strength, resistance to external stresses and efficiency.

The key to success has been the fruitful cooperation with our partners and customers, which allowed making a qualitative leap and increasing the quantitative indicators of the bank without compromising the quality of operations. Our operations were the least risky sector that allows you to plan doubling - tripling of the size of the bank in the medium term. In other words, OJSC Bank BTB created in 2013 the power to remain in the medium term, at least, adequate so phenomenal in the modern world economic growth rates, which are incorporated in the state of development of the concept "Azerbaijan 2020: vision for the future."

Being the youngest bank of Azerbaijan, we have demonstrated the effectiveness of emerging in the country of new credit institutions and further deepening of the financial market. In the face of Bank BTB, we believe that the financial and banking sector still has a lot of room for growth, not only in the retail banking and small

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business support, but also in a system of medium and large businesses.

Our optimism in terms of the prospects for development and on changes in the labor market has been justified. In connection with the new challenges in the past year, we have dramatically increased the number of employees without compromising the quality of our services. The adequacy of the new Azerbaijani personnel with modern requirements and standards allows us to look to the future and plan further development of services, improving their quality and accessibility.

Enjoying remarkable capacity to implement our business model, we are ready to take the next step towards partners and clients, ensuring maximum comfort and satisfaction of our service. New residence in one of the best places of Baku, which will be engaged by the bank in late 2014 early 2015, will increase the secure cooperation with the Bank BTB, thereafter expand access to high-tech services and the convenience of doing business with us.

Hence this year on, you will feel like work improves throughout our branches and offices in line with the growth and change of our employees. You will witness our new corporate and operational standards in action. It will not be a single action, and turn into a steady and constant process.

We do not promise the whole mountains of gold, we simply make life more pleasant and convenient. Eventually, we are grateful that you share our goals.

Yours,

Asim Salamov

Chairman of the Supervisory Board

The **Ganja** school

The Ganja carpet weaving school covers the town of Ganja and nearby villages, as well as Gadabey, Goranboy, Shamkir and Samukh districts.
The centre of the school is Ganja.
The Ganja carpet weaving school positively influenced carpet weaving in the districts that surround the town of Ganja.
The Ganja carpet weaving school includes such compositions as "Ganja Carpet", "The Ancient Carpet of Ganja", "Gelkend Carpet" etc. The Muslim prayer rug "Fakhraly" is differing from other carpet compositions by its high artistic features.

Carpets of the Ganja school typically have elongated form, high-cut pile and symmetrical weaving. The texture is coarse and loose to the touch, the backing is woolen. The shuttle is in the form of double driving and weft, the weaving is semi-fine or coarse.
The colour range of the Ganja carpets was brighter and more saturated. Blue colour of various tones and also red, green, yellow, fawn, black and brown colours are common in the carpets.

Azerbaijan's Economy In 2013

The unique combination of internal and external political factors and challenges has largely determined economic conditions and the dynamics of 2013.
The political-economic system established in Azerbaijan has successfully coped with this stress and stepped up to the next level.

The next domestic political cycle started without significant difficulties.
Electoral processes have been easily and safely: Ilham Aliyev received a popular mandate for another term upon receiving 60.8% of votes of ALL eligible citizens or 84.54% of the voters attending the polls.

Azerbaijan keeps up remaining politically stable and predictable already de facto three decades in a row, and it will be up to the horizon by the year of 2020 which will be echoed as a positive impact on the investment climate and the inflow of foreign investment into the country.

The main feature in 2013 for Azerbaijan and the region was actually a crucial requirement to determine the membership of major European clubs integration - the European or Eurasian (as yet Customs) union.
"The integration issue" was settled down within the repeatedly declared concept by President Aliyev repeatedly: "We want to establish effective working relationships with the European Union and all other pending organizations. Principles of our relations with all organizations of which we are not a member are open, clear and not go beyond international guidelines; rather, it is the principles of mutual respect, non-interference in each other's affairs, mutual support, mutual understanding and full cooperation."

The country's well-known partnership preferences in favor of the European Union derive directly from the share of this association in the foreign trade balance of Azerbaijan. Following-up the year of 2013, the EU's share in it was 44% (including 48.02% of exports and 58.4% in the formation of the trade surplus), while with CIS this figure accounted for less than 11.8% of country's foreign trade, and trade deficit with this association exceeded $ 1.043 billion

Azerbaijan keeps up remaining politically stable and predictable already de facto three decades in a row, and it will be up to the horizon by the year of 2020 which will be echoed as a positive impact on the investment climate and the inflow of foreign investment into the country.

Efficiency of foreign economic activity simply requires Azerbaijan to develop connections and relationships with its major "buyer". President Aliyev has already announced that the year of 2014 should define the future format of the strategic relationship between the EU and Azerbaijan: "I am sure in the forthcoming years; we will create a more efficient format with the European Union."

In 2013, the partnership preference yielded "synergistic effect" in the form authorizing the opening of the Southern Gas Corridor in EU: on December 17, a final investment decision on the second stage of the mega- condensate field of Shah Deniz was accepted in Baku. Investment agreement on Shah Deniz -2 immediately was called the contract for the XXI century for simply causing the total impact on the economy.

Upon the anticipated capital investment of $ 45 billion, the signed long-term contracts for the sale of Azerbaijani gas to Europe after 2018 will yield $ 250 billion in revenue, or about $ 800 per thousand cubic meters of Azeri gas to be delivered to the EU.

In other words, Azerbaijan in 2013 provided high efficiency of the development of its natural resources, which will significantly affect the growth of labor productivity in the country.
Thus the structure of the gas agreements allows increasing the price of Azerbaijani gas to $ 1,000 per thousand cubic meters. In other words, the economic efficiency and productivity will increase. This will have long-term positive impact on the overall competitiveness of the Azerbaijani economy.

In 2013, the government announced in word and deed that the preferential energy resources are no longer considered as a basis for internal and external competitiveness of Azerbaijan. New principal became the economic efficiency, productivity and balance and autonomous economic stability.

Decision 333 of December 2, 2013 the Cabinet of Ministers sharply raised the excise rates on oil products and discovered the process correcting structural imbalances present in the economic system.

Excise taxes on gasoline rose to 134-159%, diesel fuel - up to 57%. Excise tax on jet fuel was set at 68%, and straight-run gasoline (naphtha) - 70%. Excise duty on liquefied natural gas is equal to 69%. Excise on motor oil is 160 and 170%, fuel oil - 147%, bitumen - 180%.

Government officials did not hide the fact that they used Tariff (Price) Council to deal with the structural imbalances.

agricultural sector as a whole - 19.2%, while the profitability of the banking system was estimated at 15%.

Increasing fuel regulated tariffs virtually did not caused an impact on the macroeconomic indicators. GDP in 2013 grew by 5.8% (by the increase of tariffs growth was 5.7%), and inflation was 2.4%, being about one-third lower than forecast. Exposure is to follow with a lag of 3-6 months, but it will

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According to them, increasing fuel prices translates almost Azerbaijani economy to a new level of macroeconomic equilibrium. Through point change in tariffs, even if very sensitive, it is planned to reduce or eliminate the imbalances present in the economy over those six years that have passed since the last increase in regulated prices.

Imbalances have been very significant and unfair. Thus, the profitability of primary agricultural production was 54.8% and the

happen in 2014, that is, in the changing financial system.

In 2013, two opposing trends emerged in the financial system of Azerbaijan - insurance sector sank deeper into the phase of tightening regulation and expected doubling capital requirements, and the banking system emerged from phase stringency for 5 times. The actual situation is related to the different stages of development sectors.

Insurance is still a developing market in Azerbaijan, where the gross yield (about 405 million AZN) is still below 1% of GDP, while Banking is the developed market: its net profit in itself is comparable with the total insurance premiums in the country. Banking assets in 2013 exceeded 20 billion or 30% of GDP and bank lending economy (about 15 billion AZN) - 25% of GDP. In this regard, the banking system has great economic importance (in terms of financial indicators) than agriculture, from which lags behind in terms of profitability by almost 4 times. In these circumstances, in 2013 the Central Bank of Azerbaijan adopted a decision in principle regarding the future direction of the banking sector.

In fact, the CBA decision to raise the minimum capital of banks operating from 10 million to 50 million AZN to 1 January 2014 was the empirical stress test for the banking system. Only when it became clear that the owners of 95% of bank assets have shown a high degree of financial absorption, raising funds to recapitalize the Central Bank went from stress scenario on a gently sloping schedule and extended deadlines for capital requirements for another year.

Today, the CBA does not actually need to conduct with the support of the IMF and World Bank has long planned Financial Sector Assessment (FSAP) - its empirical stress test yielded significantly greater results than any speculative conclusions. Azerbaijan's banking sector has proved to be a matter of stability, consistency, efficiency and potential of resource mobilization.

To date, by increasing capital requirements an Azerbaijani bank averagely is able to independently finance the project any client worth about 20 million versus 3.5 million AZN earlier. The question of the inability of local banks to finance large projects, standing almost since 1995, was closed in 2013.

Yet there emerged another question dealing with the readiness and willingness of banks to finance the economy. Practically, for the first time to the banking sector of Azerbaijan which essentially had no deep experience in the realm a common question emerged with the leading countries of the world.

Regulators in the U.S. and EU have long and unsuccessfully struggling with "reluctance" of banks to finance the real sector. Banks prefer to invest in the stock and foreign exchange market, but do not get involved with the real sector. A similar trend hit Azerbaijan by the end of 2013, however, local banks with a surplus of liquidity stand aside from the real sector in retail lending in the absence of the stock market in a country.

The primary cause for this is expressed in the lack of highly profitable projects in the real sector outside of government or government-related investment, and difficult access to such projects. CBA is in not in the stance of affecting the real sector or banks' access to public contracts and it can not push banks forced to return to the economy by other means.

In the beginning, the Central Bank announced that the active phase of the budget cycle in Azerbaijan is completed, announcing the beginning of decline in public investment and related projects. Then having corrected its own instruction (on assets classification, etc.) CBA began pushing banks from retail to real sector, primarily to small and medium businesses. Indirectly, its actions should force banks to move to a better balance.

The shallow depth of the banking sector leads to the pursuit of high-margin calls on the banking market tidal wave. Yesterday wave of banking activity rushed to trade finance; today it covers the retail sector that will rush somewhere else tomorrow. Such dynamics leaves the whole sphere without adequate financial services, reducing their quality and contributes to the stability of the banking sector.

Even during the empirical stress test, before making "pushing" solutions of CBA, number of Azerbaijani banks began to move to the new balance of its operations, even if it took a rejection or correction of its strategic goals.

The **Karabakh** school

The Karabakh carpet weaving school covers the south-western region of Azerbaijan. It includes such settlements as Shusha, Gubadly, Khanlyg, Tutmaz etc. Carpet weaving was very common in Djabrail, Agdam, Barda and Fyuzuli. Carpets were manufactured and put up for sale in many villages of the region.

One of the most known Azerbaijani carpets from Karabakh is "Shadda", which was woven in the village Lemberan near Barda. The carpet was woven in two sheets that were sewn together on the edges with red strips, which adds a special tonality to the carpet. The camel pictures were made of a special fabric and the white parts were made of silk.

The Bank's Profile

The OJSC "Bank BTB" was established in 2010 (licence No. 254) and is a full-service bank providing high-quality financial services to a wide range of customers. In 2013, it showed enviable flexibility for a young credit institution and, having refused from the implementation of the Strategic Plan for the years 2011-2015, adopted the "truncated" Strategic evelopment Plan for the years 2013-2015. As expected, it increases efficiency of response to varying conditions of the external and internal business environment.

Today the Bank is oriented to work with the socio-economic group "middle class" and keen to help with formation and development of small and medium-sized businesses in the Republic of Azerbaijan.

Henceforth the bank provides high-quality professional banking services, helping customers to enhance personal well-being and increase savings, promoting economic growth of Azerbaijan and transformation of savings into investments. The Bank BTB positions itself as a bank that is reliable, attentive to needs of customers and responsible, which assumes:

- Refusal of operations with a high level of risk;
- A reasonable and transparent system of decision-making;
- High-quality services and products;
- A competent staff;
- Friendliness to the customers;
- Attentive studying of needs of existing and future customers;
- Provision of consultation services to customers;
- Social responsibility;
- Respect for the employees and customers.

The OJSC "Bank BTB" sees itself as a bank of the first choice for the following services: consumer crediting, automobile credits, mortgage lending, money remittances, plastic cards and salary projects, business crediting, collection activity and delivery of especially valuable consignments. It also claims the status of a bank of the second choice for such products as operations with foreign currency in cash, leasing of bank cells (safes), remote bank service (Internet banking and mobile banking) and interbank crediting.

Basic advantages

Following the flexible strategy focused on the end consumer of financial services has led to rationalisation of the Bank's activity under the conditions of stiffening competition. Today it is not merely ready to realise its potential, but also to create conditions for realisation of a new generation of professionals grown up in the Bank or engaged from outside on a competitive basis.

The major factors of the Bank competitiveness are:

- Professional management;
- High-quality advances portfolio and sound liquidity;

Within the limits of the truncated strategic plan, the share of the retail segment will increase, and though this segment will not suppress operations in the corporate sector, it will dominate over them.

- Ability for fast decision-making;
- Low sensitivity to risks;
- Steadily growing resource base; and
- Rather low level of dependence on the international financial markets, as well as the diversified resource base.

Strategic vision

The cardinally new Strategic Development Plan for the years 2013-2015 is based on understanding on the beginning of a new industrialisation of the country. The Bank expects a new investment boom, expansion of number of small and medium-sized enterprises, and increase of competition in the bank industry against the background of actual closing of securitisation for it abroad.

In this connection, the Bank has revised a number of strategic targets. Now it claims the market share of 5% and plans moderate growth at the level of 20-30% a year, depending on an indicator.

The OJSC "Bank BTB" has updated approaches to its corporate management system. It is relating not so much to modification of the organizational structure with the advent of the positions of Directors "in the directions", as to introduction of regular monitoring for overall performance of the Bank at all levels. The practice of at least a quarterly directors' report about performance of the Strategic Development Plan to the Supervisory Board and also at least monthly review of reports of chiefs of departments and bank branches by the Board becomes a norm. Practically it is for the first time, when a task of working out and implementation of an annual tactical and calendar plan is set in the banking sector.

Activity rationalisation is not connected with crisis condition of the credit institution (in 2013 the bank increased by 50% the volume of business), and with the problem of increasing competitiveness and innovativeness of business, for which the Bank will increase, on the one hand, professional level of its employees and, on the other hand, - actively engage staff on a competitive basis.

The new economy of Azerbaijan, which will appear in the course of new industrialisation, need a commercial bank of a new type. The Bank BTB is not confused by the fact, that for this purpose it is required to invent its own "know-how" and unique approaches to conducting the business and management of risks and assets.

In 2013, the Bank achieved implementation of the first stage of its primary goal - change of structure of the customer base. For the first time the retail business exceeded 50% of its active operations. Within the limits of the truncated strategic plan, the share of the retail segment will increase, and though this segment will not suppress operations in the corporate sector, it will dominate over them.

The **Gazakh** school

The Gazakh school covers the Gazakh, Agstafa and Tovuz districts of Azerbaijan.
The Azerbaijan's city of Gazakh is the centre of the Gazakh carpet weaving. Among Gazakh carpets there are particularly standing out the so-called "star carpets" (or "star-kazak rugs"), which in turn are divided into four groups, depending on a carpet background and sizes of a star pattern.
One of the earliest star carpets is considered to be "Develi" with the picture of camels on a white background and multiple rhombic decorations.

The Gazakh carpets are distinguished by high cutting, symmetrical weaving, middle density of 800 to 1000 knots per square decimeter, softness to the touch, but heavy weight, with two to eight shuttle threads, woolen backing and coarse weaving.
The composition was saturated with a colour array, where mainly natural dyes were used.
It is very common for the Gazakh carpets to have bright-red background colours received from madder, and also blue, dark-blue and ivory colours.

The Bank's Strategy

The Strategic Development Plan for the period of 2013-2015 is focused on giving a new quality of activity to the OJSC "Bank BTB" in the period of the bank sector industrialisation, which is critical for the financial and credit system of the country. The expected transition from numerical superiority of the banks, which are small under the international standards, to credit institutions of medium sizes and bank corporations leaves traces on each market participant. The situation requires to choose one of the following three ways: leaving the market of banking services; expansion to the sizes of an average European bank; and joining a bank corporation by some means or other.

The Strategic Development Plan for the years 2013-2015 unequivocally determines prospects of the OJSC "Bank BTB" as expansion to the sizes of an average European bank. It declares the new philosophy of bank - maintaining of development through overcoming of own weaknesses, and in this context it is the successor of the ideology "support on own forces", on which the bank's strategy for the years 2010-2015 was based.

As a result of additional focusing of own approaches, the Bank BTB becomes a conductor of the idea of the development concept "Azerbaijan 2020: Looking into the future" in the private banking sector. As is known, the national concept has the ultimate goal of expanding scale of the Azerbaijan economy (a new "GDP doubling" by 2020), first of all, using internal factors of growth. And the new strategy aims the Bank BTB, on the one hand, at development without a pursuit of external securitisation and investments, and on the other hand - at expansion (development) of active and potential consumers, creating a credit institutions of a new type, in which the average Azerbaijan family of 4-5 persons with the annual income of 20-100 thousand manats can satisfy its demands for all financial services - from municipal payments to financing of family (own) business. Such problem will unconditionally require creation of a service system along the lines of private banking and, due to development of modern IT technologies, it will be, perhaps, "a bank with home delivery".

Whatever are the epithets and philosophy, a bank is, first of all, a credit establishment, and, in its new strategy, the Bank BTB has determined the following credit priorities for itself:

- Consumer loans;
- Car loans;
- Micro-crediting;
- Credit cards;
- Crediting of legal bodies;
- Mortgage lending.

As a result of additional focusing of own approaches, the Bank BTB becomes a conductor of the idea of the development concept "Azerbaijan 2020: Looking into the future" in the private banking sector.

The products of each priority will be formed conservatively, based on careful analysis, account of individual requirements and market condition. The reservation at the level of 4% for losses and a flexible percentage policy are implemented in this case.

The Bank refuses crediting of the projects that can damage health of people, morals of public and environment.

The Strategy directly requires to make bank recognisable and be focused on sale of products of the first choice (see "Bank's Profile") with simultaneous informing on all product assortment.

De facto "demobilisation" of credit resources and outward investments - their conversion into increase of customers' well-being standard becomes a new word for the banking strategy in Azerbaijan.

With that end in view, the Bank BTB plans:

- To establish relations for operative gaining of short-term credits from the interbank credit market, where it sees itself in the role of a borrower;
- To co-operate with state funds;
- To participate in programs for stimulation of economic growth in the regions of Azerbaijan; and
- To establish contacts with international funds (first of all, with Middle East ones) for crediting of customers and diversification of sources of liabilities.

For the purpose of reducing the liquidity risk, the Bank will maintain at least 10% of its liabilities in a high-liquidity form. In other words, these means will be on correspondent accounts, in cash and in high-liquidity securities (state securities of Azerbaijan and corporate bonds of the industrial and financial sector of the country's economy).

The philosophy "a bank with home delivery" of OJSC "Bank BTB" plans faster growth of the IT infrastructure that should meet requirements for at least 3 years.
The following becomes the priorities in use of IT technologies:

- Maintenance of information safety;
- Continuous operation of information and communication systems for support of sale of the Bank's services and products; and
- Introduction of modern technologies - Internet, SMS banking and other innovations.

The **Guba** school

The centre of the Guba carpet weaving school located in north-east Azerbaijan is divided into the following three parts: mountainous, piedmont and low parts. Central locations of the villages Gonagkend, Budug and Salmaseyud, as well as other points can be considered the mountainous part. In the piedmont part, carpets were manufactured in the villages Amirkhanly, Pirabidil, Dere-chichi etc. As to the low part, it was concentrated in villages of the Shabran Lowland zone. Carpets woven in the territories of Derbend also belong to this school. The brightest compositions of the Guba carpets are: "An Ancient Minaret", "Pirabedil", "Hadjigaib", "Jack" etc.

The distinctive features of the Guba carpets are high velvety pile that is extremely elastic and springy and texture that is very dense to the touch. Heads are made by the technique in the "sumakh" style in some cases and in the form of "honeycomb" in the other cases. Threads are woolen in the backing and woolen and cotton in wefts. Brighter backgrounds of the central field, which are sometimes of a super-saturated blue colour, are typical for the carpet colour range. Patterns are distinguished expressively, often with special tones of the yellow and green colours. It is not rare to find also other colours, such as natural wool, orange and ivory colours.

Corporate Management

Updating of approaches to conducting the banking business has also required updating of the organisational structure of the OJSC "Bank BTB". The declared transformation of the Bank into a credit institution of the new type requires adequate management and supervision. Classical schemes of the corporate management accepted throughout the world have proved to be strong enough for the foundation of "a new bank".

In 2013, the organisational structure of the Bank BTB has been reconstructed, based on purposes and objectives of its new Strategic Development Plan. So, responsibility for fulfilment of the plan has been imposed on the persons determined by decisions of the Supervisory Board and the Board. Joint decision-making on strategic and tactical questions, which increases involvement of chiefs of departments and even the Bank's departments into the process, is introduced.

The bank transfers to "zone" responsibility of senior management. For this purpose, the Board membership has included unit directors (Chief Officers) in 2013. Each of them will supervise an expanded zone of responsibility, that is:

- Finance Unit
- Administrative Unit
- Risk Unit
- Sales Unit

The new structure of the management allows the Bank to optimise staff development for the account of better forecasting of mid-term and long-term demands for human resources (including casual workers) and carrying out of diagnostics of staff. Henceforth the HR department will make short-term (up to 6 months), mid-term (6-12 months) and long-term (more than a year) forecast of demand for human resources by the parameters of quantity and quality, as well as their financial cost, including costs of training / additional training.

The Bank also introduces a new multilevel internal control system. It includes:

- The control of the authorised bodies over current performance of departments and bank services;
- Estimation of every possible risk, their level and influence on Bank;
- Establishment of limits for conducting of financial, market and other operations, control over performance and avoidance of conflict of interests; and
- Timely modification of existing procedures in accordance with requests of the state regulating authorities and business practicability.

Besides this internal administrative supervision, there is also established an internal audit with direct subordination to the general meeting of shareholders.

The Supervisory Board can only preliminarily get acquainted with reports and internal audit recommendations. External auditors will be also engaged for estimating activity of the internal audit department and internal control procedures.

The new structure of the management allows the Bank to optimise staff development for the account of better forecasting of mid-term and long-term demands for human resources (including casual workers) and carrying out of diagnostics of staff.

Structure

Internal Committees

- **Risk Management Committee**
- **Loan Committee**
- **IT Committee**
- **ALCO**

Deputy Chairman of the Management Board

Human Resources Department

- Human Resources Management Division
- Human Resources Development Division

Law Department

- Law Support Division
- International Law Division
- Law Proceedings Division

Risk Management Department

- Financial Monitoring Division
- Troubled Loans Management Division
- Monitoring Division
- Loan Control Division

Information Technologies Department

- Programming Division
- Systems, Networks and Technical Support Division

Administrative Department

- Secretariat
- Archives Division
- General Services Division

Security Department

- Banking Security Division
- IT Security Division
- Valuables Transportation and Security Division

General Meeting of Shareholders

Audit Committee

Internal Audit Department

Supervisory Board

Chairman of the Management Board

First Deputy Chairman of the Management Board

Loan Department
- Portfolio Management Division
- Corporate Customers Division
- Special Projects Financing Division

Finance Department
- Accounting, Bookkeeping and Reporting Division
- Clearance Division
- Budget Planning and Financial Control Division
- Treasury Division

Bank Cards Department
- Bank Cards Operations Division
- Acquiring and Technical Support Division

Small and Medium-Sized Business Development Department
- Small and Medium-Sized Business Management Division
- Small and Medium-Sized Business Standart Product Loans Management Division
- Small and Medium-Sized Business Financial Product Loans Management Division
- Small and Medium-Sized Business Loans Control, Administration and Support Division

Operational Department
- Corporate Banking Division
- Retail Banking Division
- Treasury and Cash Division

Deputy Chairman of the Management Board

Retail Product Development and Process Management Department
- Product Development Division
- Process Management Division

Retail Sales Management Department
- Consumer Loans Division
- Micro-Loans Division
- Partner Relations Division
- NPL

Retail Business Administration Department
- Legal Processes Management Division
- Human Resource Management Division
- Front Office

Marketing, Public Relations and Advertising Department
- Public Relations Division
- Advertising Division

BANKBTB

The Supervisory Board

Salamov Asim
Chairman of Supervisory Board

Mehdiyeva Nigar
Member of Supervisory Board

Pashali Jeyhun
Member of Supervisory Board

Management Board of the Bank

Rzaev Emil
Chairman of the Management Board

Gojayev Samir
Deputy Chairman of the Board

Abbasov Rufat
Deputy Chairman of the Board

Rafiev Vugar
Member of the Management Board of the Bank

The **Nakhchivan** school

Nakhchivan was famous among the centres of arts, trade and culture of Azerbaijan for its decorative and applied arts since ancient times. Carpet weaving was one of the leading professional and commercial spheres of the region. Such cities as Nakhchivan, Shahbuz, Ordubad and Julfa were the centres of weaving pile and pileless carpets, which used wool and silk, for many centuries. Carpet kits "gyabe" (a long, rather narrow carpet laid usually along the walls) with the area of 20-30 m^2 were very popular there.
At the same time, carpets with geometrical, floral and animal ornament, which were typical in Nakhchivan, were long, narrow and striped.

Nakhchivan carpets under the name of "Dragon" ("Aidaha" - Azerb., XVIII-XIX centuries), famous for their rich and varied content, can be found in Istanbul these days. Dimensions of the Nakhchyvan carpets are in the range of 2 to 30 m^2. Their density is 30x30 to 40x40 knots per square decimetre.

Review
Of The Bank's Activity
General trends

Bank BTB OJSC in 2013 was under pressure from changing regulatory requirements in line with the rest of the banking sector. Some of them, like raising the minimum capital requirements were announced by the Central Bank in advance, while others, like evaluation in terms of leverage, introduced and reviewed throughout the year. Stable de facto remained mere exchange rate (national currency has strengthened only 0,785 to 0,7845 AZN for 1 USD) and the discount rate of the Central Bank, to keep the level of 4.75 %, which is centralized at slowing lending banks had limited impact on the situation .

Uniqueness of Bank BTB was in its youth as a credit institution. While other banks already had some history and managed to build up muscles, Bank BTB had to solve capital problems effectively in the period of its establishment, and it took a rapid changeover of business.

In fact, central to the Bank BTB was the challenge of mobilizing capital resources that on the background of the banking practice indicator leverage not facilitate decision. However, last year it was able to increase its total capital from 16.1 million to 50.414 million AZN. Key to the success was the increase in the share capital of up to 44.840 million AZN and increase accumulated (retained) profits doubled - from 1.488 million to 3.090 million AZN due to the excess profits of the bank over the past year mark of 1.602 million AZN.

Major success demanded additional stress from shareholders and management.

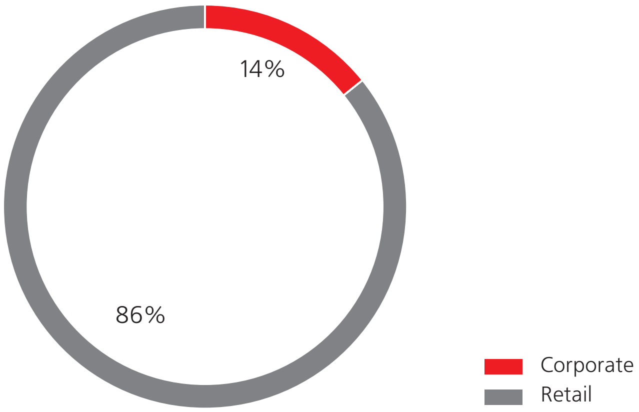
On the one hand it was necessary for the bank administrators to convince shareholders to make additional capital injections, and with another - quickly send funds received to increase the share capital, to large enough income bringing investments.

Given a range of objective constraints, it was difficult to conduct. In 2013, turnover of government securities in Azerbaijan fell sharply, and their annual yield ranged corridor 1-1.2 %, which was lower than the annual inflation and questioned the effectiveness of such investments. Corporate bonds, although the effective rate of return promised, suddenly appeared risky due to experiencing, issuers (mainly leasing companies) crisis client defaults. The de facto national stock market was not viewed as an effective place of investment banking, and the situation on foreign markets was even worse: the rate of return was inches away from being negative.

On the other hand, the bank's management could not reduce the pressure on shareholders as increased capital requirement within the past year, fueled uncertainty in the banking sector of Azerbaijan and closed the way the bank's cooperation with International Financial Institutions (IFIs) and investors. Bank, by the way, speaking, had big plans to start work with the IFIs, as despite the situation in Europe, which is still shaky, there were other markets where you can apply for financial resources.

Probably solving scheme of capital calls, jump in a time when the bank began to flourish and tried to enter the market when the development (retail business including)

Chart 1. Deposit Portfolio



needed funds not include textbooks in world financial institutes. However, it is extremely instructive for those who enter, and will devise plans to join the Azerbaijani market, and for those who seek to ensure the sustainability of its financial business. In fact, this is a survival kit in the financial market of Azerbaijan.

Possibly, the scheme is to sacrifice active strategic indicators and to bring to the dynamic balance of its activities. JSC Bank BTB in 2013 showed in practice how it works.

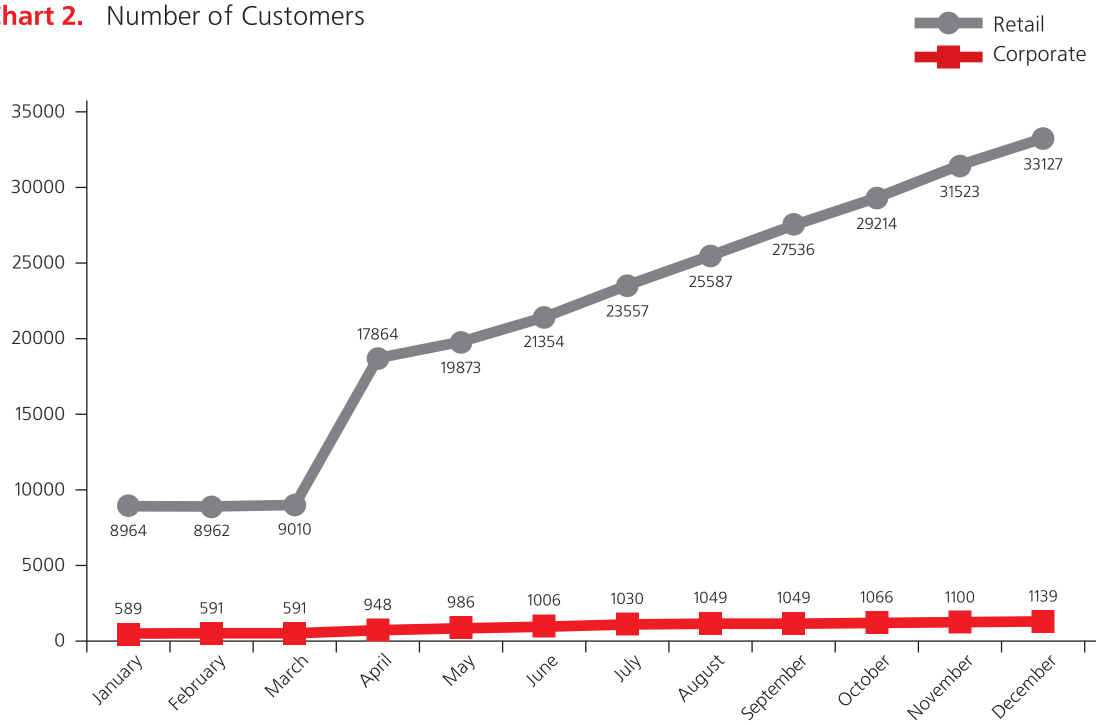
The bank straightforwardly decided that the period of any external stress (global and local economic crises, changing regulatory frameworks, etc) quality indicators prevail over quantitative "Target". JSC Bank BTB was not spending precious resources to fulfill targets on active operations. But Bank BTB targets exceeded total capital (AZN 50 million) and deposit portfolio - 58.248 million against the forecast of 40 million AZN to ensure a faster growth of its capital base. This allowed the bank to 1.5-5 times higher than the capital adequacy and liquidity.

Concurrently, the Bank provided a new balance between the sources of income and profits. Thus, its net non-interest income (4,980 billion) exceeded 60.3% of net interest income (8,250 billion) - a figure to which most of the Azerbaijani and international banks would only seek . The net profit from foreign exchange transactions exceeded 1.202 million AZN or 24.1 % of net non-interest income. In the SLE nominated more than 10% of the bank accounts of customers - such confidence in the national currency does not show any commercial bank of Azerbaijan.

Non-interest achievements of Bank BTB OJSC are all the more impressive that it did not carry out advertising their services. Indirectly, this indicates the potential power of the bank's customer base, which by January 1, 2014 reached 49,279 bank accounts or roughly one client account on 1 AZN capital and almost 3000 AZN assets.

In 2013, the bank managed to optimize the balance between corporate and individual clients, between corporate and retail business. In the active part of the balance ratio is 65% to 35% in favor of individual customers, and in the passive part - 63% to 37%, although the beginning of last year, the ratio was almost parity. Adequate balance between active and passive operations in each of the sectors became de facto basis for a new balancing of the bank in 2013.

Chart 2. Number of Customers



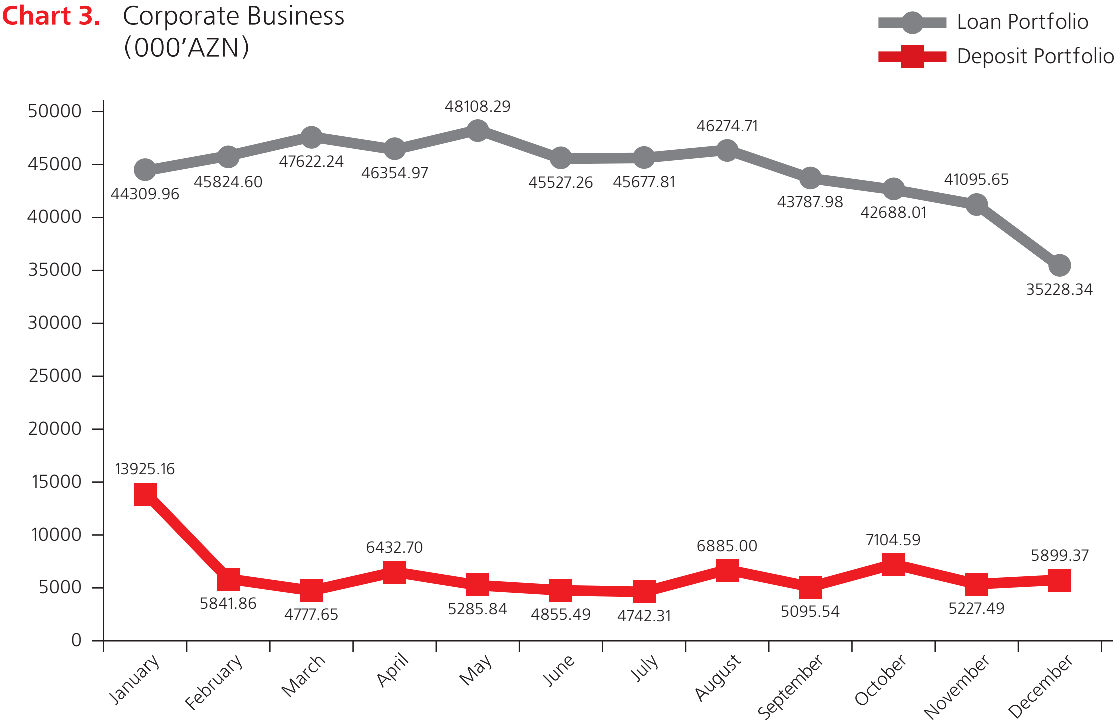
Corporate Business

In pursuit of new balance OJSC Bank BTB had to previously reconsider its approaches to doing business in the corporate sector. Strategic Plan for 2013-2015 is actually required from the bank some braking operations in the corporate sector, where the focus was to be on the small and medium business enterprises with a share of state and foreign capital, and the spheres of activity to give preference to telecommunications companies and information and communication technologies. However, the realities demanded a substantial correction of these approaches.

In 2013 the bank supporting the growth of its retail business, decided to strengthen corporate direction. Now it declares that the development and deepening of business related to retail and small business lending, should not affect the corporate direction. OJSC Bank BTB believes that Azerbaijan has enough good economic growth not only in the small, but in the medium and large businesses, and it is worth to use and to attract not only the individuals, whereas also manufacturing companies that have appeared and will appear on the market. This approach is assumed further providing a balance between these directions.

Outcomes in 2013 showed that the bank does have room to grow in the corporate segment. Thus, the accounts of corporate clients constitute only 3.32 % of all deposit accounts. Formally, the corporate sector provided 37% of clients' deposits at the bank, but after deduction of deposits of banks and financial institutions, its share dropped to 9.6%.

Chart 3. Corporate Business (000'AZN)



If the bank will be able to realize the potential of raising funds for corporate accounts, the resource base can be at least double.

Even greater promising is the activation of the corporate sector in terms of accommodation. Formally sector accounted for 35.228 million AZN loans, but the loan accounts opened for the corporate sector is about 0.5%. At the same time the bank has right 2 opportunities for expansion of active operations in the sector - as an increase in loan accounts (number of clients) and the size of the loan for one corporate client, which up to 2013 was only 482.575 AZN average.
This is due primarily to its work in industries that do not have a big appetite for large loans. On the trade and service sector accounted for 24.514 million AZN loans, the information technologies sector - 7.221 million AZN industry - 3.492 million AZN. Certainly, in the process of solving the capital requirements and the search for a new balance of the bank it was difficult to expect a significant breakthrough in the field of corporate finance and the expansion of the product set for the sector. However, diversification in the corporate sector is becoming a major objective for the near future.

The Bank recognizes that it still has a lot of untapped business areas (including certain financial instruments), and considered it its forte, as it leaves a great outlook in terms of development. To realize these opportunities, bank plans in 2014 to update its strategic business plan, making it more extensive and detailed.

Retail Business

In 2013, the necessity to slow down the expansion of the retail segment of the market has brought substantial benefits to Bank BTB: it will not have to suffer in 2014 from tightening control requirements for retail banking operations.

Divestment of high margin in favor of a smooth, soft progressive, well-trained entry into the market, a petition of Bank BTB OJSC, practically coincides with the new policy of the Central Bank, aimed at making banks to restrain the zeal retail segment, where higher margins and higher risks .

Nonetheless, in 2013 OJSC Bank BTB has become one of the most bank loans to individuals: issuing loans to these customers on average 3.83 times higher than the attraction of deposits from them.

Thus, individuals provided the attraction of 36.994 million AZN deposits and issuing of 63.925 million AZN loans. The average size of individuals' deposits amounted to 1117 AZN, and loans - 4,278 AZN.

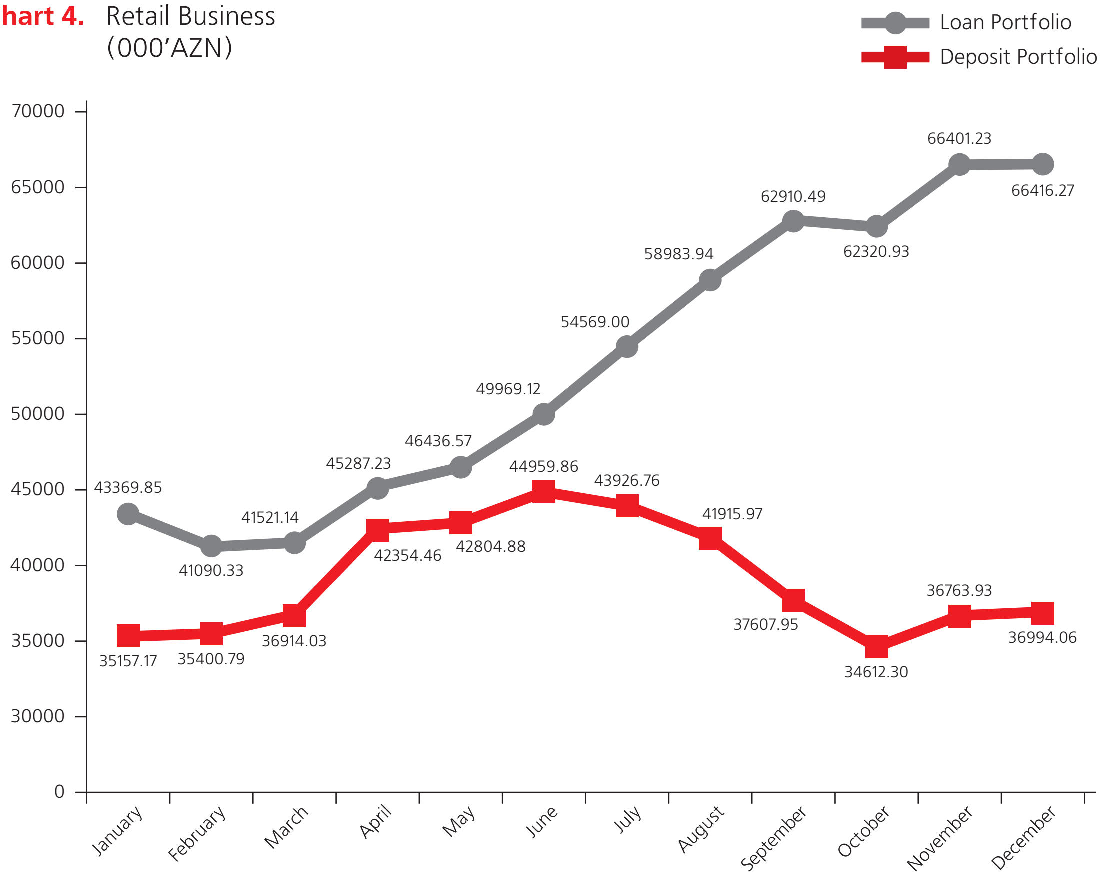
Physical persons opened 96.7% of bank deposits and 99.5% of loan accounts. However, the deposit base of individuals in the bank was still very small. Thus, only less than 3% of accounts of individual customers accounted for time deposits (deposits), and the rest were demand accounts. Moreover, the volume of individuals' deposits in the bank does not exceed 55 % of the long-term corporate deposits, which can be considered a direct consequence of the policy of the bank, based not on the mass, and a higher quality segment of the retail market.

In this context, the narrowness of the number of depositors can be seen as new market advantages of the bank. He, for example, is less dependent on the conservation of deposit rates on two-digit level, and lower rates can almost immediately affect its lending rates.

Moreover, the bank plans to increasingly manifest itself not as a bank for a narrow circle of people, and ample open public credit institution.

The bank plans to increasingly manifest itself not as a bank for a narrow circle of people, and ample open public credit institution.

Chart 4. Retail Business (000'AZN)



Branch Offices Network

In 2013, the bank expanded its branch network by opening 4 branches. In the branch was reorganized one of its sub-branches. As a result, on January 1, 2014 it had 10 branches. Although the network is not growing at the fastest pace, its expansion was accompanied by a change in policy approaches.

Bank became increasingly lead expansion in the suburbs previously considered neighborhoods Baku. So new branches opened near the metro stations as "Neftchiler", "Hazi Aslanov" "Khatai".

Herewith, the main activity of the Bank is on the branches. So, by the beginning of 2014 the central office employees were 86 people, and 142 worked in the branches of its 228 employees (+144 employees in 2013).

By estimates of the Bank, its affiliates not only exceeded the annual budget, but also lay the groundwork for 2014.

OJSC Bank BTB has announced that this year will continue to increase the branch network with the small paces. This assumes its qualitative improvement. It is planned to move away from specialization branches by standardizing their activities. Standardization touches set of products and services, interior and exterior of their offices. Some branches will undergo a redirect from moving to more cost-effective, according to the bank, place to sell banking services. In this regard, the bank admits there won't be the same growth of the branch network, which was awarded in 2013.

Nevertheless, the bank will not break the framework of the strategic plan for 2013-2015, which relates to the weaknesses Bank BTB small number of branches and their lack of outside of the capital. The plan envisages bringing the network to 10-15 branches, of which 3 are non-capital branch will be located in major cities across the country, as well as the development of the ATM network to 50 ATM.

Institutional Development

The successful creation of a sufficient capital base in 2013 completed the making of OJSC Bank BTB that actualized the question of its further institutional development. Although the clear answer was not forthcoming, the contours of institutionalization become more than obvious.

The Bank has made a political decision to enter the world market, more precisely, on the opening to foreign markets. It does not expect that for the year of 2014, interest on the part of international financial institutions in the Azerbaijani market is large, but believes that the interest in OJSC Bank BTB may be higher than the overall market. Bank considers that its main foreign investment appeal is being sufficiently "fresh" bank with a dynamic growth rate and having reserves in terms of development. Without revealing specific plans, Bank BTB is ready to play on the interest of international financial institutions in cooperation with banks with high growth potential. He explicitly states that consider themselves the most profitable for investments: the size and value of the bank is more acceptable in the market than the value of the large major banks.

To further opportunities, the bank has already introduced information transparency and openness of accountability and began to change the system of corporate governance. In 2013, there was a transition to the new organizational structure. As a new structure in the Bank was formed the Board of Directors of the Western type, which is not a collegial body, and the Council who has authority to specific-sector administrators. In this regard, occured new assignments for Directors of Sales, Finance, Administration and Risks.

In 2014, the organizational structure will be developed in order to strengthen the work on corporate governance and raise it to the level of the best standards. The Bank does not exclude even attract foreign specialists, although the task is to transform the bank into the informal banking school, where the flow of young professionals is constantly improving its level is included in the team and implements opportunities for career growth.

In the same context, will continue shaping the image of Bank BTB, as a modern bank, will begin advertising its services on the basis of its own strategy will intensify technological development. The Bank is ready to update the internal software development, strengthen IT- team thereof.

In 2014, OJSC Bank BTB will offer new products, including online banking services and advanced services for mobile banking.

The **Shirvan** school

Carpets woven in the Shirvan cities of Shamakhy, Maraza, Agsu and Kurdamir belong to the Shirvan carpet weaving school. The school combines 25 compositions, including also Salyan carpets, which are similar in their technical features. The Shirvan group includes the following compositions: "Maraza Carpet", "Gobustan Carpet", "Shirvan Carpet", "Kurdamir Carpet", "Shilyan Carpet", "Shiralibek Carpet", "Chukhanly Carpet", "Bidio Carpet", "Sor-sor Carpet", "Hadjigabul Carpet" etc.

In the VI-VIII centuries, German and English merchants and ambassadors left valuable information in their diaries on the artistic value of the Shirvan carpets. These carpets were glorified in paintings of European artists as early as in the XIV-XV centuries. The Dutch painter Hans Memling (the XV century) painted the carpet "Shirvan" in his work "Maria With Her Baby".

Independent Auditor's Report

To the Shareholders and the Board of Directors of Bank "BTB" OJSC:

We have audited the accompanying financial statements of Bank "BTB" OJSC (hereinafter referred to as "the Bank") which comprise the statement of financial position as of 31 December 2013 and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as of 31 December 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

RSM Azerbaijan

Baku, Republic of Azerbaijan

19th March 2014

STATEMENT OF FINANCIAL POSITION
as at **31 DECEMBER 2013**
(in New Azerbaijani Manats)

	Note	31 December 2013	31 December 2012
ASSETS			
Cash and cash equivalents	6	4,915,919	6,606,801
Due from banks	7	2,550	2,550
Loans and advances to customers	8	97,009,394	80,571,476
Intangible assets	9	164,315	184,536
Premises and equipment	9	32,426,225	1,390,423
Other financial assets	10	46,097	90,366
Other assets	11	26,950	12,581
TOTAL ASSETS		**134,591,450**	**88,858,733**
LIABILITIES			
Due to banks	12	8,267,105	4,079,816
Customer accounts	13	56,685,546	57,652,579
Other borrowed funds	14	21,425,875	11,732,179
Deferred income tax liability	22	2,128	14,888
Other financial liabilities	15	80,488	79,487
Other liabilities	16	5,030	10,230
TOTAL LIABILITIES		**86,466,172**	**73,569,179**
EQUITY			
Share capital	17	44,840,000	13,600,000
Retained earnings		3,285,278	1,689,554
TOTAL EQUITY		**48,125,278**	**15,289,554**
TOTAL LIABILITIES AND EQUITY		**134,591,450**	**88,858,733**

On behalf of the Management Board:

Chairman of the Management Board

19th March 2014

Baku, Azerbaijan

Chief Accountant

19th March 2014

Baku, Azerbaijan

AZƏRBAYCAN RESPUBLİKASI BANK «BTB» AÇIQ SƏHMDAR CƏMİYYƏTİ • AZERBAIJAN REPUBLIC BANK «BTB» OPEN JOINT STOCK COMPANY • BANK BTB

The notes on pages 45-88 form an integral part of these financial statements. The Independent Auditors' Report is on page 40

STATEMENT OF COMPREHENSIVE INCOME
as at **31 DECEMBER 2013**
(in New Azerbaijani Manats)

	Note	2013	2012
Interest income	18	16,120,325	9,454,830
Interest expense	18	(6,872,297)	(3,760,569)
Net interest income		**9,248,028**	**5,694,261**
Provision for loan impairment	8	(2,309,225)	(1,675,048)
Net interest income after provision for loan impairment		**6,938,803**	**4,019,213**
Fee and commission income	19	2,061,744	2,430,854
Fee and commission expense	19	(233,986)	(164,340)
Net gain on foreign exchange operations	20	505,309	401,857
Administrative and other operating expenses	21	(7,200,111)	(4,951,742)
Other income		540	3,222
Profit before tax		**2,072,299**	**1,739,064**
Income tax expense	22	(476,575)	(306,773)
PROFIT FOR THE YEAR		**1,595,724**	**1,432,291**
Other comprehensive income for the year		**–**	**–**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**1,595,724**	**1,432,291**
Earnings per share for profit during the year – basic and diluted (expressed in AZN per share):		1,595,724	1,432,291
Ordinary Shares	23	76.19	105.32

On behalf of the Management Board:

Chairman of the Management Board

19th March 2014

Baku, Azerbaijan

Chief Accountant

19th March 2014

Baku, Azerbaijan

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STATEMENT OF CHANGES IN EQUITY
as at **31 DECEMBER 2013**
(in New Azerbaijani Manats)

	Note	Share capital	Retained earnings	Total equity
Balance at 1 January 2012		**12,000,000**	**1,857,263**	**13,857,263**
Increase of share capital	17	1,600,000	(1,600,000)	-
Total comprehensive income for 2012		**–**	**1,432,291**	**1,432,291**
Balance at 1 January 2013		**13,600,000**	**1,689,554**	**15,289,554**
Increase of share capital	17	31,240,000	-	31,240,000
Total comprehensive income for 2013		**–**	**1,595,724**	**1,595,724**
Balance at 31 December 2013		**44,840,000**	**3,285,278**	**48,125,278**

On behalf of the Management Board:

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Chairman of the Management Board

19th March 2014

Baku, Azerbaijan

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Chief Accountant

19th March 2014

Baku, Azerbaijan

AZƏRBAYCAN RESPUBLİKASI BANK «BTB» AÇIQ SƏHMDAR CƏMİYYƏTİ
AZERBAIJAN REPUBLIC BANK «BTB» OPEN JOINT STOCK COMPANY
BANK BTB

The notes on pages 45-88 form an integral part of these financial statements. The Independent Auditors' Report is on page 40

BANKBTB

STATEMENT OF CASH FLOWS
as at **31 DECEMBER 2013**
(in New Azerbaijani Manats)

	Notes	Year ended 31 December 2013	Year ended 31 December 2012
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit before income tax		2,072,299	1,739,064
Adjustments for:			
Provision for impairment losses on interest bearing assets		2,309,225	1,675,048
Depreciation and amortization expense		786,339	361,570
Translation (gain)/loss on foreign exchange operations		-	-
Cash flows from operating activities before changes in operating assets and liabilities		**5,167,863**	**3,775,682**
Changes in operating assets and liabilities			
(Increase)/decrease in operating assets:			
Minimum reserve deposit with NBAR		(138,136)	(701,923)
Due from banks		-	10
Loans to customers		(18,747,143)	(46,229,503)
Other financial assets		44,269	(82,401)
Other assets		(14,369)	65,435
Increase/(decrease) in operating liabilities:			
Customer accounts		(967,033)	29,379,236
Due to banks		4,187,289	4,040,602
Borrowings		9,693,969	10,095,804
Other financial liabilities		1,001	67,605
Other liabilities		(5,200)	(16,586)
Cash inflow/(outflow) from operating activities before taxation		**(777,763)**	**393,961**
Income tax paid		(489,335)	(409,487)
Net cash inflow/(outflow) from operating activities		**(1,267,098)**	**(15,526)**
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of premises and equipment		(31,801,919)	(678,005)
Purchases of intangible assets		-	(153,470)
Net cash inflow/(outflow) from investing activities		**(31,801,919)**	**(831,475)**
CASH FLOWS FROM FINANCING ACTIVITIES:			
Issue of ordinary share capital		31,240,000	-
Net cash inflow/(outflow) from financing activities		**31,240,000**	**–**
Effect of changes in foreign exchange rate on cash and cash eq.		-	-
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(1,829,017)	(847,001
CASH AND CASH EQUIVALENTS, beginning of year		**5,544,641**	**6,391,642**
CASH AND CASH EQUIVALENTS, end of year		**3,715,623**	**5,544,641**

On behalf of the Management Board:

Chairman of the Management Board

19th March 2014

Baku, Azerbaijan

Chief Accountant

19th March 2014

Baku, Azerbaijan

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The notes on pages 45-88 form an integral part of these financial statements. The Independent Auditors' Report is on page 40

NOTES TO THE FINANCIAL STATEMENTS as at **31 DECEMBER 2013**

(in New Azerbaijani Manats)

1 Introduction

These financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2013 for Bank "BTB" OJSC (the "Bank").

The Bank incorporated and is domiciled in the Republic of Azerbaijan. The Bank is a joint stock company with limited liabilities of shareholders and was set up in accordance with Azerbaijani regulations.

Principal activity. The Bank's principal business activity is commercial banking operations within the Republic of Azerbaijan. The Bank has operated under a full banking license #254 issued by the Central Bank of the Republic of Azerbaijan (CBAR) since 19 March 2010.

As at 31 December 2013, the Bank had 10 branches and 5 service points within the Republic of Azerbaijan.

Registered address and place of business. The Bank's registered address is: 13A Nobel Avenue, Khatai district, Baku, Azerbaijan Republic.

Presentation currency. These financial statements are presented in Azerbaijani Manats ("AZN"). The Azerbaijani Manat ("AZN") is the official currency of Republic of Azerbaijan.

At 31 December 2013, the principal rate of exchange used for translating foreign currency monetary balances was USD 1 = AZN 0.7845 and EUR= AZN 1.078.

2 Operating Environment of the Bank

The Republic of Azerbaijan The Republic of Azerbaijan displays certain characteristics of an emerging market, including the existence of a currency that is not freely convertible in most countries outside of the Republic of Azerbaijan, relatively low inflation and slow economic growth. The banking sector in the Republic of Azerbaijan is sensitive to adverse fluctuations in confidence and economic conditions. The Azerbaijani economy occasionally experiences falls in confidence in the banking sector accompanied by reductions in liquidity. For management it is difficult to predict economic trends and developments in the banking sector and consequently what effect, if any, a deterioration in the liquidity of or confidence in the Azerbaijani banking system could have on the financial position of the Bank. However, management notes that the Bank has strong relations with refinancing partners and has not experienced any liquidity difficulties to date.

The tax, currency and customs legislations within the Republic of Azerbaijan are subject to varying interpretations and frequent changes. Furthermore, the need for further developments in the bankruptcy laws, the absence of formalized procedures for the registration and enforcement of collateral, and other legal and fiscal impediments contribute to the challenges faced by banks currently operating in the Republic of Azerbaijan. The future operating direction of the Republic of Azerbaijan is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory, and political developments.

It is impossible for Management to reliably estimate the effects on the Bank's financial position of any further deterioration in the liquidity of the financial markets and the increased volatility in the currency and equity markets. Management believes it is taking all the necessary measures to support the sustainability and development of the Bank's business in the current circumstances.

Going Concern

According to the Board decision of Central Bank of Azerbaijan Republic the total Share Capital of the Banks should be increased to AZN 50,000,000. The new minimum of Share Capital comes to force on January 01, 2015.

As at December 31, 2013, the Bank's Total Share Capital amounts to AZN 49,508,967 which constitutes only 99% of the new minimum level.In order to meet the Central Bank's criteria on the Share Capital the Bank should increase its Share Capital by 1% until January 01, 2015. The Bank's Management is confident that they will meet this stipulation before the end of 31 December 2014.

If the Bank fails to meet the criteria of increasing the shareholders' capital it will face an issue of going concern. The Financial Statements stated above have not been adjusted for uncertainities rised as a result of these issues.

3 Summary of Significant Accounting Policies

Basis of Preparation. These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention, as modified by the initial recognition of financial instruments based on fair value, and by the revaluation of premises and equipment, investment properties, available-for-sale financial assets and financial instruments categorized as at fair value through profit or loss. The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

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

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Fair value is the current bid price for financial assets and current asking price for financial liabilities which are quoted in an active market. For assets and liabilities with offsetting market risks, the Bank may use mid-market prices as a basis for establishing fair values for the offsetting risk positions and apply the bid or asking price to the net open position as appropriate. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange or other institution and those prices represent actual and regularly occurring market transactions on an arm's length basis. Valuation techniques such as discounted cash flows models or models based on recent arms length transactions or consideration of financial data of the investees are used to fair value certain financial instruments for which external market pricing information is not available. Valuation techniques may require assumptions not supported by observable market data. Disclosures are made in these financial statements if changing any such assumptions to a reasonably possible alternative would result in significantly different profit, income, total assets or total liabilities.

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

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

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

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

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

3 Summary of Significant Accounting Policies (Continued)

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

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

Mandatory cash balances with the CBAR. Mandatory cash balances in AZN and foreign currency held with the CBAR are carried at amortized cost and represent non-interest bearing mandatory reserve deposits, which are not available to finance the Bank's day-to-day operations, and hence are not considered as part of cash and cash equivalents for the purposes of the cash flow statement.

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

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

Impairment of financial assets carried at amortized cost. Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Bank determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. The primary factors that the Bank considers whether a financial asset is impaired is its overdue status and realisability 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:

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

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

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

If the terms of an impaired financial asset held at amortized cost are renegotiated or otherwise modified because of financial difficulties of the borrower or issuer, impairment is measured using the original effective interest rate before the modification of terms.

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

3 Summary of Significant Accounting Policies (Continued)

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 an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account through profit or loss.

Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined.

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

Derecognition of financial assets. The Bank derecognizes financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Bank has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all the risks and rewards of ownership of the assets or ii) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

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

Construction in progress is carried at cost less provision for impairment where required. Cost includes borrowing costs incurred on specific or general funds borrowed to finance construction of qualifying assets. Upon completion, assets are transferred to premises and equipment at their carrying amount. Construction in progress is not depreciated until the asset is available for use.

The costs of minor repairs and maintenance are expensed when incurred. The cost of replacing major parts or components of premises and equipment items are capitalized and the replaced part is retired.

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

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

If impaired, premises and equipment are written down to the higher of their value in use and fair value less costs to sell. The decrease in carrying amount is charged to profit or loss to the extent it exceeds the previous revaluation surplus in equity. An impairment loss recognized for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognized as profit or loss from disposal of fixed assets.

Depreciation. Land is not depreciated. Depreciation on other items of premises and equipment is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives as follows:

Premises	50 years;
Computers and communication equipment	4 to 5 years;
Furniture, fixtures and other	4 to 5 years; and
Vehicles	4 to 5 years.

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3 Summary of Significant Accounting Policies (Continued)

The residual value of an asset is the estimated amount that the Bank would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the Bank expects to use the asset until the end of its physical life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Intangible assets. All of the Bank's intangible assets have definite useful life and primarily include capitalized computer software.

Acquired computer software licenses are capitalized based on the costs incurred to acquire and bring to use the specific software. Development costs that are directly associated with identifiable and unique software controlled by the Bank are recorded as intangible assets if the inflow of incremental economic benefits exceeding costs is probable. Capitalized costs include staff costs of the software development team and an appropriate portion of relevant overheads. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred. Capitalized computer software is amortized on a straight line basis over expected useful lives of 5 to 10 years.

Operating leases. Where the Bank is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Bank, the total lease payments are charged to profit or loss on a straight-line basis over the period of the lease. All the operating lease agreements concluded by the Bank are for the next twelve month period, and operating lease contracts are renewed at the end of the contract period.

Due to other banks. Amounts due to other banks are recorded when money or other assets are advanced to the Bank by counterparty banks. The non-derivative liability is carried at amortized cost. If the Bank purchases its own debt, it is removed from the balance sheet and the difference between the carrying amount of the liability and the consideration paid is included in gains or losses arising from retirement of debt.

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

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

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

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

Uncertain tax positions. The Bank's uncertain tax positions are reassessed by management at every balance sheet date. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the balance sheet date and any known Court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognized based on management's best estimate of the expenditure required to settle the obligations at the balance sheet date.

Dividends. Dividends are recorded in equity in the period in which they are declared. Dividends declared after the balance sheet date and before the financial statements are authorized for issue are disclosed in the subsequent events note. The statutory accounting reports of the Bank are the basis for profit distribution and other appropriations. Azerbaijani legislation identifies the basis of distribution as the current year net profit.

3 Summary of Significant Accounting Policies (Continued)

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

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

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

All other fees, commissions and other income and expense items are generally recorded on an accrual basis by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided. Loan syndication fees are recognized as income when the syndication has been completed and the Bank retains no part of the loan package for itself or retains a part at the same effective interest rate as for the other participants.

Commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, and which are earned on execution of the underlying transaction, are recorded on its completion. Portfolio and other management advisory and service fees are recognized based on the applicable service contracts, usually on a time-proportion basis. Asset management fees related to investment funds are recorded rateably over the period the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continually provided over an extended period of time.

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

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

Monetary assets and liabilities are translated into entity's functional currency at the official exchange rate of the CBAR at the respective balance sheet dates. Foreign exchange gains and losses resulting from the settlement of transactions and from the translation of monetary assets and liabilities into Bank's functional currency at year-end official exchange rates of the CBAR are recognized in profit or loss. Translation at year-end rates does not apply to non-monetary items, including equity investments. Effects of exchange rate changes on the fair value of equity securities are recorded as part of the fair value gain or loss.

At 31 December 2013 the principal rate of exchange used for translating foreign currency balances was USD 1 = AZN 0.7845 and EUR 1 = AZN 1.078.

Offsetting. Financial assets and liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognized amounts, and there is an intention to either settle on a net basis, or to realize the asset and settle the liability simultaneously.

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

Staff costs and related contributions. Wages, salaries, contributions to the Azerbaijan Republic state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the year in which the associated services are rendered by the employees of the Bank.

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

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4 Critical Accounting Estimates and Judgments in Applying Accounting Policies

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

Impairment losses on loans and advances. The Bank regularly reviews its loan portfolios to assess impairment. In determining whether an impairment loss should be recorded in the statement of comprehensive income the Bank makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows.

The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. The management considers the impact of financial crisis on Bank's customers conservatively during estimation and calculation of loan loss provision.

Tax legislation. Azerbaijani tax, currency and customs legislation is subject to varying interpretations. Refer to Note 22.

Initial recognition of related party transactions. In the normal course of business the Bank enters into transactions with its related parties. IAS 39 requires initial recognition of financial instruments based on their fair values. Judgment is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgment is pricing for similar types of transactions with unrelated parties and effective interest rate analysis. Terms and conditions of related party balances are disclosed in Note 29.

5 Application of New or Revised Standards and Pronouncements

For the preparation of these financial statements, the following new, revised or amended pronouncements are mandatory for the first time for the financial year beginning 1 January 2013 (the list does not include information about new or amended requirements that affect interim financial reporting or first-time adopters of IFRS since they are not relevant to IFRS Statements Limited).

Amendments to IAS 1 titled *Presentation of Items of Other Comprehensive Income* (issued in June 2011) - These amendments, that are effective retrospectively, enhance the presentation of the components of other comprehensive income. The company is required to group items presented in OCI based on whether or not they will be reclassified to profit or loss subsequently. Although not mandatory, the Company has applied the new terminology for "income statement", i e "statement of profit or loss". The retrospective application of the amendments did not have any impact other than on the presentation of items of other comprehensive income.

Amendments to IAS 1 *Presentation of Financial Statements (Annual Improvements to IFRSs 2009–2011 Cycle*, issued in May 2012) - The amendments clarify that additional comparative information is not necessary for periods beyond the minimum required by IAS 1. However, if voluntarily presented, it should be in accordance with IFRS, without triggering a requirement to provide a complete set of financial statements. They also clarify that, in the case of changes in accounting policies retrospectively or a retrospective restatement or reclassification which has a material effect on the information in the statement of financial position at the beginning of the preceding period, the Company should present the statement of financial position at the end of the current period and the beginning and end of the preceding period. However, other than disclosure of certain specified information, related notes are not required to accompany the opening statement of financial position as at the beginning of the preceding period.

5 Application of New or Revised Standards and Pronouncements (Continued)

Amendment to IAS 16 *Property, Plant and Equipment (Annual Improvements to IFRSs 2009–2011 Cycle*, issued in May 2012) - The amendment clarifies that items such as spare parts, stand-by equipment and servicing equipment should be recognized as PPE when they meet the definition in IAS 16 and as inventory otherwise. It has had no impact on the Company's financial statements.

Revised IAS 27 *Separate Financial Statements* (issued in May 2011) - The revised and re-titled standard now only deals with the requirements for separate financial statements, which have been carried over largely unchanged from IAS 27 Consolidated and Separate Financial Statements. The standard mainly requires that when an entity prepares separate financial statements, investments in subsidiaries, associates, and joint ventures are accounted for either at cost, or in accordance with IFRS 9 Financial Instruments / IAS 39 Financial Instruments: Recognition and Measurement. It also deals with the recognition of dividends, certain Company reorganisations and includes a number of disclosure requirements. It is not applicable to the Company as it deals only with separate financial statements and also the company has no such group structure as well.

Revised IAS 28 *Investments in Associates and Joint Ventures* (issued in May 2011) - The revised and re-titled standard prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. It defines "significant influence", provides guidance on how the equity method of accounting is to be applied (including exemptions from applying the equity method in some cases) and prescribes how investments in associates and joint ventures should be tested for impairment. It has had no material effect on the Company's financial statements because the company has no such investments in any associate.

Amendment to IAS 32 *Financial instruments: Presentation (Annual Improvements to IFRSs 2009–2011 Cycle*, issued in May 2012) - The amendment clarifies that income tax relating to distributions to holders of an equity instrument and to transaction costs of an equity transaction should be accounted for in accordance with IAS 12. It is has had no impact on the Company's financial statements.

Amendments to IFRS 7 titled *Disclosures – Offsetting Financial Assets and Financial Liabilities* (issued in December 2011) - The amendments allow investors to bridge differences in the offsetting reporting requirements of IFRS and US GAAP and introduce new disclosures that provide better information on how companies mitigate credit risk, including on related collateral pledged or received. They are applied retrospectively. As the company does not have any offsetting arrangements in place, the application of the amendments has had no material effect on its financial statements.

IFRS 10 *Consolidated Financial Statements* (issued in May 2011 and amended in June 2012 for its transitional provisions) - The new standard replaces all of the guidance on control and consolidation in IAS 27 *Consolidated and Separate Financial Statements* and SIC-12 *Consolidation - Special Purpose Entities*. The core principle that a consolidated entity presents a parent and its subsidiaries as if they are a single economic entity remains unchanged, as do the consolidation procedures. IFRS 10 introduces a single consolidation model that identifies control as the basis for consolidation for all types of entities, where control is based on whether an investor has power over the investee, exposure / rights to variable returns from its involvement with the investee and the ability to use its power over the investee to affect the amount of the returns. The new standard also includes guidance on participating and protective rights and on agent / principal relationships. The application of the new standard has had no material effect on the Company's financial statements, as the company has no any subsidiary company..

IFRS 11 *Joint Arrangements* (issued in May 2011 and amended in June 2012 for its transitional provisions) - The new standard (that replaces IAS 31 *Interests in Joint Ventures and SIC-13 Jointly Controlled Entities-Non-Monetary Contributions by Venturers*) requires a party to a joint arrangement to determine the type of joint arrangement in which it is involved by assessing its rights and obligations, and then account for those rights and obligations in accordance with that type of joint arrangement. Joint arrangements are either joint operations or joint ventures:

- In a joint operation, parties have rights to the assets and obligations for the liabilities relating to the arrangement. Joint operators recognise their assets, liabilities, revenue and expenses in relation to their interest in the joint operation.
- In a joint venture, parties have rights to the net assets of the arrangement. A joint venture applies the equity method of accounting for its investment in a joint venture in accordance with IAS 28 Investments in Associates and Joint Ventures (2011). Unlike under IAS 31, the use of "proportionate consolidation" is not permitted.

This IFRS does not effect to the company's Financial Statements because the company is not involved in any of above referred operations.

5 Application of New or Revised Standards and Pronouncements (Continued)

IFRS 12 ***Disclosure of Interests in Other Entities*** (issued in May 2011 and amended in June 2012 for its transitional provisions) - The new standard combines, enhances and replaces the disclosure requirements for subsidiaries, joint arrangements, associates and unconsolidated structured entities. It requires extensive disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with, interests in other entities and the effects of those interests on the Company's financial position, financial performance and cash flows. Its application has resulted in more extensive disclosures in the Company's financial statements. As the company has no any interest in other entities, accordingly the provisions of this standards do not effects to the Financial Statements.

IFRS 13 ***Fair Value Measurement*** (issued in May 2011) - The new standard defines fair value, sets out a single framework for measuring fair value and requires disclosures about fair value measurements. IFRS 13 applies when other standards require or permit fair value measurements. It does not introduce any new requirements to measure an asset or a liability at fair value, change what is measured at fair value in IFRS or address how to present changes in fair value. The new requirements have been applied prospectively. In addition, specific transitional provisions were given to entities such that they need not apply the disclosure requirements set out in the Standard in comparative information provided for periods before the initial application of the Standard. Other than the additional disclosures required, the application of IFRS 13 has had no material effect on the Company'sfinancial statements. Also, in accordance with the standard's transitional provisions, the Company has not made any new disclosures required by IFRS 13 for the 2012 comparative period.

Revised IAS 19 ***Employee Benefits*** (issued in June 2011) - The key amendments include elimination of the "corridor approach", modification of accounting for termination benefits and improvement of the recognition, presentation and disclosure requirements for defined benefit plans. The amendments have been applied retrospectively in accordance with IAS 8 (except for changes to the carrying value of assets that include employee benefit costs in the carrying amount). Besides the more extensive disclosures (see Note 26), the amendments had the following effect on the Company's financial statements.

New and revised pronouncements in issue but not yet effective The Company has not applied the following new, revised or amended pronouncements that have been issued by the IASB but are not yet effective for the financial year beginning 1 January 2013. The Directors anticipate that the new standards, amendments and interpretations will be adopted in the Company's financial statements when they become effective. The Company has assessed, where practicable, the potential impact of all these new standards, amendments and interpretations that will be effective in future periods.

Amendments to IAS 32 titled ***Offsetting Financial Assets and Financial Liabilities*** (issued in December 2011) - The amendments address inconsistencies in current practice when applying the offsetting criteria in IAS 32, mainly by clarifying the meaning of "currently has a legally enforceable right of set-off" and that some gross settlement systems may be considered equivalent to net settlement. They are effective for annual periods beginning on or after 1 January 2014, with retrospective application. As the Company does not have offsetting arrangements in place, the Directors do not anticipate any effect on its consolidated financial statements.

Amendments to IAS 36 titled ***Recoverable Amount Disclosures for Non-Financial Assets*** (issued in May 2013) - The amendments reduce the circumstances in which the recoverable amount of assets or cash-generating units is required to be disclosed, clarify the disclosures required, and introduce an explicit requirement to disclose the discount rate used in determining impairment (or reversals) where recoverable amount (based on fair value less costs of disposal) is determined using a present value technique. They are effective for annual periods beginning on or after 1 January 2014.

Amendments to IAS 39 titled ***Novation Derivatives and Continuation of Hedge Accounting*** (issued in June 2013) - The amendments permit the continuation of hedge accounting in a situation where the counterparty to a derivative designated as a hedging instrument is replaced by a new central counterparty (known as 'novation of derivatives'), as a consequence of laws or regulations, if specific conditions are met. They are effective for annual periods beginning on or after 1 January 2014. The Directors do not anticipate any effect on the Company's financial statements, in the absence of such transactions.

5 Application of New or Revised Standards and Pronouncements (Continued)

Amendments to IFRS 10, IFRS 12 and IAS 27 titled *Investment Entities* (issued in October 2012) - The amendments define "investment entities" and provide them an exemption from the consolidation of subsidiaries; instead, an investment entity is required to measure the investment in each eligible subsidiary at fair value through profit or loss in accordance with IFRS 9 / IAS 39 (the exception does not apply to subsidiaries that provide services relating to the investment entity's investment activities). An investment entity is required to account for its investment in a relevant subsidiary in the same way in its consolidated and separate financial statements, and additional disclosures are introduced. The amendments are effective for annual periods beginning on or after 1 January 2014, retrospectively with some transitional provisions. The Directors do not anticipate any effect on the Company's financial statements as the company has no any group structure.

IFRS 9 *Financial Instruments* (issued in November 2009 and amended in October 2010) - This standard introduces new requirements for the classification and measurement of financial assets and financial liabilities and for derecognition.

- IFRS 9 requires all recognised financial assets that are within the scope of IAS 39 *Financial Instruments*:

Recognition and Measurement to be subsequently measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of each accounting period. All other debt investments and equity investments are measured at their fair value at the end of each accounting period.

- The most significant effect of IFRS 9 regarding the classification and measurement of financial liabilities relates to the accounting for changes in fair value of a financial liability, that is designated as at fair value through profit or loss, attributable to changes in the credit risk of that liability. Specifically, under IFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognized in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Currently, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss is recognized in profit or loss.
- The derecognition provisions are carried over almost unchanged from IAS 39. IFRS 9 is effective for annual periods beginning on or after 1 January 2015, by which time it will include requirements and guidance on impairment and hedge accounting. The Directors anticipate that IFRS 9 will be adopted in the Company's financial statements when it becomes mandatory and that the application of the new standard might have a significant impact on amounts reported in respect of the Company's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

IFRIC 21 *Levies* (issued in May 2013) - The interpretation provides guidance on when to recognise a liability for a levy imposed by a government. The obligating event for the recognition of a liability is the activity that triggers the payment of the levy in accordance with the relevant legislation. It also provides guidance on recognition of a liability to pay levies: the liability is recognized either progressively if the obligating event occurs over a period of time, or when the minimum threshold is reached if an obligation is triggered on reaching that minimum threshold. The interpretation is effective for annual periods beginning on or after 1 January 2014 and is not expected to impact the Company's financial statements.

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

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6 Cash and Cash Equivalents

	2013	2012
Cash on hand	3,122,404	2,396,185
Cash balances with the CBAR (other than mandatory reserve deposits)	25,473	18,785
Mandatory cash balances with CBAR	1,200,296	1,062,160
Correspondent accounts and overnight placements with other banks		
- Republic of Azerbaijan	115,713	78,218
- Other countries	452,033	3,051,453
Total cash and cash equivalents	**4,915,919**	**6,606,801**

Cash balances with the CBAR represent balances on the correspondent accounts of the Bank with the CBAR, which are used by the Bank to perform settlements with other banks within the Republic of Azerbaijan. These accounts are non-interest bearing.

The analysis by credit quality of cash and cash equivalents at 31 December 2013 is as follows:

	Cash on hand	Cash balances with the CBAR	Correspondent accounts and overnight placements with other banks	Total
Current and not impaired				
- Cash on hand	3,122,404	-	-	**3,122,404**
- Government of the Republic of Azerbaijan	-	1,225,769	-	**1,225,769**
- Top 15 Azerbaijani banks	-	-	107,869	**107,869**
- Other Azerbaijani banks	-	-	7,845	**7,845**
- OECD banks	-	-	3,785	**3,785**
- Non-OECD banks	-	-	448,247	**448,247**
Total current and not impaired	**3,122,404**	**1,225,769**	**567,746**	**4,915,919**
Total cash and cash equivalents	**3,122,404**	**1,225,769**	**567,746**	**4,915,919**

The analysis by credit quality of cash and cash equivalents at 31 December 2012 is as follows:

	Cash on hand	Cash balances with the CBAR	Correspondent accounts and overnight placements with other banks	Total
Current and not impaired				
- Cash on hand	2,396,185	-	-	**2,396,185**
- Government of the Republic of Azerbaijan	-	1,080,945	-	**1,080,945**
- Top 15 Azerbaijani banks	-	-	38,107	**38,107**
- Other Azerbaijani banks	-	-	40,111	**40,111**
- OECD banks	-	-	25,057	**25,057**
- Non-OECD banks	-	-	3,026,396	**3,026,396**
Total current and not impaired	**2,396,185**	**1,080,945**	**3,129,671**	**6,606,801**
Total cash and cash equivalents	**2,396,185**	**1,080,945**	**3,129,671**	**6,606,801**

6 Cash and Cash Equivalents (Continued)

The analysis by credit quality of cash and cash equivalents at 31 December 2013 is as follows:

	Cash balances with the CBAR, including mandatory reserves	Correspondent Accounts and overnight placements	Total
Current and not impaired			
- Central Bank of the Republic of Azerbaijan	1,225,769	-	**1,225,769**
- A- to A+ rated	-	449,482	**449,482**
- Lower than A- rated	-	118,314	**118,314**
Total cash and cash equivalents, excluding cash on hand	**1,225,769**	**567,746**	**1,793,515**

The analysis by credit quality of cash and cash equivalents at 31 December 2012 is as follows:

	Cash balances with the CBAR, including mandatory reserves	Correspondent Accounts and overnight placements	Total
Current and not impaired			
- Central Bank of the Republic of Azerbaijan	1,080,945	-	**1,080,945**
- A- to A+ rated	-	3,051,453	**3,051,453**
- Lower than A- rated	-	78,218	**78,218**
Total cash and cash equivalents, excluding cash on hand	**1,080,945**	**3,129,671**	**4,210,616**

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7 Due from Other Banks

	31 December 2013	31 December 2012
Long-term placements with other banks	2,500	2,500
Short-term loans to banks	-	-
Accrued interest receivable	50	50
Total due from other banks	**2,550**	**2,550**

On 21 October 2010 the Bank signed a loan agreement with Bank Standard OJSC in the amount of AZN 2,500 with maturity date of 21 October 2015. The deposit bears market interest rate. The outstanding amount of this deposit as at 31 December 2013 is AZN 2,550.

An analysis by credit quality of amounts due from other banks outstanding at 31 December 2013 is as follows:

	Long-term placements with other banks
Neither past due nor impaired	
- Rated Azerbaijani banks:	
Moody's Caa1 with a stable outlook	-
Moody's B1 with a stable outlook	2,550
Fitch/B- with a negative outlook	-
Other unrated Azerbaijani banks	-
Total due from other banks	**2,550**

An analysis by credit quality of amounts due from other banks outstanding at 31 December 2012 is as follows:

	Long-term placements with other banks
Neither past due nor impaired	
- Rated Azerbaijani banks:	
Moody's Caa1 with a stable outlook	-
Moody's B1 with a stable outlook	2,550
Fitch/B- with a negative outlook	-
Other unrated Azerbaijani banks	-
Total due from other banks	**2,550**

Management of the Bank did not determine any objective evidence of impairment of the balances due from other banks and therefore, no provision for impairment was recorded at 31 December 2013.

Amounts due from other banks are not collateralized.

8 Loans and Advances to Customers

	2013	2012
Corporate loans	43,922,067	41,408,319
Loans to individuals - car purchase	22,573,116	18,823,410
Loans to individuals - consumer loans	29,675,980	16,591,345
Loans to individuals - real estate	1,117,249	3,961,902
Loans to individuals - mortgage	2,467,018	1,031,792
Loans to individuals - plastic cards	1,366,456	603,609
Loans to individuals - loans to employees	237,421	172,790
Loans to individuals - working capital	-	21,906
Less: Provision for loan impairment	(4,349,913)	(2,043,597)
Total loans and advances to customers	**97,009,394**	**80,571,476**

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

	2013		2012	
	Amount	%	Amount	%
Individuals				
Car purchase	22,573,116	22.27%	18,823,410	22.78%
Consumer loans	29,675,980	29.28%	16,591,345	20.08%
Real estate	1,117,249	1.10%	3,961,902	4.80%
Mortgage	2,467,018	2.43%	1,031,792	1.25%
Plastic card	1,366,456	1.35%	603,609	0.73%
Loans to employees	237,421	0.23%	172,790	0.21%
Working capital	-	-	21,906	0.03%
Total individuals	**57,437,240**	**56.66%**	**41,206,754**	**49.88%**
Manufacturing	17,327,383	17.10%	15,933,331	19.29%
Other non-manufacturing	13,750,842	13.39%	11,821,849	14.31%
Trade and services	3,911,613	3.86%	9,972,075	12.07%
Construction	9,112,229	8.99%	3,681,064	4.46%
Total corporate loans	**43,922,067**	**43.34%**	**41,408,319**	**50.12%**
Total loans and advances to customers (before impairment)	**101,359,307**	**100%**	**82,615,073**	**100%**

At 31 December 2013, the Bank's top 30 borrowers had an aggregated loan amount of AZN 46,410,816 or 46% (2012: AZN 51,204,296 or 62%) of the gross loan portfolio. There is 1 (2012: 16) local borrower, with the outstanding loan balance over 10% of total equity of the Bank as at 31 December 2013. Bank's total exposure to this borrower as at 31 December 2013 amounted to AZN 6,874,632 (2012: AZN 44,356,593).

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8 Loans and Advances to Customers (Continued)

The movement in the provision for loan impairment during 2013 is as follows:

	Corporate loans	Car purchase	Consumer loans	Real estate	Mortgage loans	Plastic card	Loans to employees	Working capital	Total
Provision for loan impairment at 1 January 2013	**(1,882,243)**	**(44,970)**	**(92,051)**	**(8,752)**	**–**	**(15,581)**	**–**	**–**	**(2,043,597)**
Written off during the year	-	-	2,909	-	-	-	-	-	2,909
Provision for loan impairment during the year	(730,809)	(731,492)	(724,387)	(25,295)	(50,116)	(42,217)	(4,909)	-	(2,309,225)
Provision for loan impairment at 31 December 2013	**(2,613,053)**	**(776,461)**	**(813,529)**	**(34,047)**	**(50,116)**	**(57,798)**	**(4,909)–**	**–**	**(4,349,913)**

The movement in the provision for loan impairment during 2012 is as follows:

	Corporate loans	Car purchase	Consumer loans	Real estate	Mortgage loans	Plastic card	Loans to employees	Working capital	Total
Provision for loan impairment at 1 January 2012	**(362,409)**	**(5,010)**	**(750)**	**(380)**	**–**	**–**	**–**	**–**	**(368,549)**
Provision for loan impairment during the year	(1,519,834)	(39,960)	(91,301)	(8,372)	-	(15,581)	-	-	(1,675,048)
Provision for loan impairment at 31 December 2012	**(1,882,243)**	**(44,970)**	**(92,051)**	**(8,752)**	**–**	**(15,581)**	**–**	**–**	**(2,043,597)**

Information about collateral at 31 December 2013 is as follows:

	Corporate loans	Car purchase	Consumer loans	Real estate	Mortgage loans	Plastic card	Loans to employees	Working capital	Total
Unsecured loans	25,622,243	58,911	19,434,068	99,435	-	1,182,849	-	-	**46,397,506**
Loans collateralized by:									
-residential real estate	9,122,090	3,400	7,256,983	626,294	2,467,018	-	237,421	-	**19,713,206**
-deposit	-	-	2,609,340	207,097	-	183,607	-	-	**3,000,044**
-movable property	9,177,734	22,510,805	375,589	184,423	-	-	-	-	**32,248,551**
-other assets	-	-	-	-	-	-	-	-	**–**
Total loans and advances to customers	**43,922,067**	**22,573,116**	**29,675,980**	**1,117,249**	**2,467,018**	**1,366,456**	**237,421**	**–**	**101,359,307**

Information about collateral at 31 December 2012 is as follows:

	Corporate loans	Car purchase	Consumer loans	Real estate	Mortgage loans	Plastic card	Loans to employees	Working capital	Total
Unsecured loans	27,437,828	1,953	3,139,333	2,539,617	-	579,709	8,453	21,906	**33,728,799**
Loans collateralized by:									
-residential real estate	3,700,598	24,641	12,013,703	793,377	1,031,792	-	164,337	-	**17,728,448**
-deposit	-	7,698	1,088,275	541,656	-	14,801	-	-	**1,652,430**
-movable property	10,269,893	18,789,118	350,034	87,252	-	9,099	-	-	**29,505,396**
-other assets	-	-	-	-	-	-	-	-	**–**
Total loans and advances to customers	**41,408,319**	**18,823,410**	**16,591,345**	**3,961,902**	**1,031,792**	**603,609**	**172,790**	**21,906**	**82,615,073**

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8 Loans and Advances to Customers (Continued)

The analysis by credit quality of loans at 31 December 2013 is as follows:

	Corporate loans	Car purchase	Consumer loans	Real estate	Mortgage loans	Plastic card	Loans to employees	Working capital	Total
Current and not impaired									
Large borrowers with credit history over two years	2,996,406								**2,996,406**
Large new borrowers	25,369,862		-	-	-	-	-	-	**25,369,862**
Loans to medium size entities	3,039,245	86,012	-	-	-	-	-	-	**3,125,257**
Loans to small entities	98,651	42,297	-	-	-	-	-	-	**140,948**
Loans to individuals - new customers	-	13,002,693	24,009,310	782,529	1,452,539	1,120,995	237,421	-	**40,605,487**
Loans to individuals- customers with credit history of more than one year	-	7,367,538	4,474,901	200,406	1,014,479	53,976	-	-	**13,111,300**
Loans renegotiated in 2013	358,333	30,824	165,518	8,010	-	153,213	-	-	**715,898**
Total current and not impaired	**31,862,497**	**20,529,364**	**28,649,729**	**990,945**	**2,467,018**	**1,328,184**	**237,421**	**–**	**86,065,158**
Past due but not impaired									
Less than 30 days overdue	7,900,301	1,907,767	689,909	126,304	-	4,902	-	-	**10,629,183**
30 to 90 days overdue	145,667	4,059	440	-	-	-	-	-	**150,166**
90 to 180 days overdue	351,597	3,003	431	-	-	-	-	-	**355,031**
180 to 360 days overdue	3,656,925	24,997	256,984	-	-	499	-	-	**3,939,405**
Total past due but not impaired	**12,054,490**	**1,939,826**	**947,764**	**126,304**	**–**	**5,401**		**–**	**15,073,785**
Loans individually determined to be impaired (gross)	5,080	103,926	78,487	-	-	32,871	-	-	**220,364**
Total individually impaired loans (gross)	**5,080**	**103,926**	**78,487**	**–**	**–**	**32,871**	**–**	**–**	**220,364**
Gross carrying values of loans	**43,922,067**	**22,573,116**	**29,675,980**	**1,117,249**	**2,467,018**	**1,366,456**	**237,421**	**–**	**101,359,307**
Less impairment provisions	(2,613,053)	(776,461)	(813,529)	(34,047)	(50,116)	(57,798)	(4,909)	-	**(4,349,913)**
Total loans and advances to customers	**41,309,014**	**21,796,654**	**28,862,451**	**1,083,202**	**2,416,902**	**1,308,659**	**232,512**	**–**	**97,009,394**

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8 Loans and Advances to Customers (Continued)

The analysis by credit quality of loans at 31 December 2012 is as follows:

	Corporate loans	Car purchase	Consumer loans	Real estate	Mortgage loans	Plastic card	Loans to employees	Working capital	Total
Current and not impaired									
Large new borrowers	32,190,923	-	-	-	-	-	-	-	**32,190,923**
Loans to medium size entities	3,439,568	162,877	-	-	-	-	-	-	**3,602,445**
Loans to small entities	33,478	-	-	-	-	-	-	-	**33,478**
Loans to individuals - new customers	-	16,140,848	14,432,601	1,209,686	915,478	519,997	172,790	-	**33,391,400**
Loans to individuals- customers with credit history of more than one year	-	2,485,747	2,087,271	118,681	116,314	-	-	21,906	**4,829,919**
Loans renegotiated in 2012	5,673,634	-	-	93,919	-	33,217	-	-	**5,800,770**
Total current and not impaired	**41,337,603**	**18,789,42**	**16,519,82**	**1,422,26**	**1,031,792**	**553,24**	**172,790**	**21,906**	**79,848,935**
Past due but not impaired									
Less than 30 days overdue	-	-	3,467	2,539,616	-	33,234	-	-	**2,576,317**
30 to 90 days overdue	70,716	-	19,995	-	-	1,301	-	-	**92,012**
90 to 180 days overdue	-	-	2,560	-	-	9,077	-	-	**11,637**
180 to 360 days overdue	-	-	6,684	-	-	6,783	-	-	**13,467**
Total past due but not impaired	**70,716**	**–**	**32,706**	**2,539,616**	**–**	**50,395**	**–**	**–**	**2,693,433**
Loans individually determined to be impaired (gross)	-	33,938	38,767	-	-	-	-	-	**72,705**
Total individually impaired loans (gross)	**–**	**33,938**	**38,767**	**–**	**–**	**–**	**–**	**–**	**72,705**
Gross carrying values of loans	**41,408,319**	**18,823,410**	**16,591,345**	**3,961,902**	**1,031,792**	**603,609**	**172,790**	**21,906**	**82,615,073**
Less impairment provisions	(1,882,243)	(44,970)	(92,051)	(8,752)	-	(15,581)	-	-	**(2,043,597)**
Total loans and advances to customers	**39,526,076**	**18,778,440**	**16,499,294**	**3,953,150**	**1,031,792**	**588,028**	**172,790**	**21,906**	**80,571,476**

The Bank applied the portfolio provisioning methodology prescribed by IAS 39, Financial Instruments: Recognition and Measurement, and created portfolio provisions for impairment losses that were incurred but have not been specifically identified with any individual loan by the balance sheet date. The Bank's policy is to classify each loan as "current and not impaired" until a specific objective evidence of impairment of the loan is identified. The impairment provisions may exceed the total gross amount of individually impaired loans as a result of this policy and the portfolio impairment methodology.

The primary factors that the Bank considers whether a loan is impaired is its overdue status and realizability of related collateral, if any. As a result, the Bank presents above an ageing analysis of loans that are individually determined to be impaired. Current and not impaired, but renegotiated loans represent the carrying amount of loans that would otherwise be past due or impaired whose terms have been renegotiated. Past due but not impaired loans represent collateralized loans where the fair value of collateral covers the overdue interest and principal repayments. The amount reported as past due but not impaired is the whole balance of such loans, not only the individual installments that are past due.

9 Premises, Equipment and Intangible Assets

	Premises	Furniture and Fixtures	Computers and Communication Equipment	Motor Vehicles	Total premises and equipment	Computer software licenses	Construction in Progress	Total
Cost at 1 January 2012		**634,121**	**399,010**	**212,600**	**1,245,731**	**48,739**		**1,294,470**
Accumulated depreciation/amortization		**(84,482)**	**(77,974)**	**(22,358)**	**(184,814)**	**(4,602)**		**(189,416)**
Additions		269,057	114,648	294,300	678,005	153,470		831,475
Disposals/Sales		-	-	-	-	-		-
Depreciation/amortization charge		(182,616)	(107,193)	(58,690)	(348,499)	(13,071)		(361,570)
Cost at 31 December 2012		**903,178**	**513,658**	**506,900**	**1,923,736**	**202,209**		**2,125,945**
Accumulated depreciation/amortization		**(267,098)**	**(185,167)**	**(81,048)**	**(533,313)**	**(17,673)**		**(550,986)**
Net Book amount at 1 January 2013		**636,080**	**328,491**	**425,852**	**1,390,423**	**184,536**		**1,574,959**
Additions	2,875,000	207,425	122,707	596,788	3,801,920	-	28,000,000	31,801,920
Disposals/Sales	-	-	-	-	-	-		-
Depreciation/amortization charge	(165,472)	(259,192)	(145,125)	(196,330)	(766,118)	(20,221)	-	(786,339)
Cost at 31 December 2013	**2,875,000**	**1,110,603**	**636,365**	**1,103,688**	**5,725,656**	**202,209**	**28,000,000**	**33,927,865**
Accumulated depreciation/amortization	**(165,472)**	**(526,290)**	**(330,292)**	**(277,378)**	**(1,299,431)**	**(37,894)**	**–**	**(1,337,325)**
Net Book amount at 31 December 2013	**2,709,528**	**584,313**	**306,073**	**826,310**	**4,426,225**	**164,315**	**28,000,000**	**32,590,540**

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10 Other Financial Assets

	2013	**2012**
Credit and debit cards receivables	15,372	48,641
Settlements with payment system operators	1,738	393
Other financial assets	28,987	41,332
Total other financial assets	**46,097**	**90,366**

The analysis by credit quality of other financial receivables outstanding at 31 December 2013 is as follows:

	Settlements with payment system operators	**Amounts in the course of settlement**	**Guarantee deposits placed**	**Other**	**Total**
Current and not impaired					
- Top 5 money transfer entities	1,738	-	-	-	1,738
- Top 5 card issuing companies	-	15,372	-	-	15,372
- Other companies	-	-	-	28,987	28,987
Total other financial assets	**1,738**	**15,372**	**–**	**28,987**	**46,097**

The analysis by credit quality of other financial receivables outstanding at 31 December 2012 is as follows:

	Settlements with payment system operators	**Amounts in the course of settlement**	**Guarantee deposits placed**	**Other**	**Total**
Current and not impaired					
- Top 5 money transfer entities	393	-	-	-	393
- Top 5 card issuing companies	-	48,641	-	-	48,641
- Other companies	-	-	-	41,332	41,332
Total other financial assets	**393**	**48,641**	**–**	**41,332**	**90,366**

The primary factors that the Bank considers whether a receivable is impaired is its overdue status and realisability of related collateral, if any.

Refer to Note 28 for the disclosure of the fair value of each class of other financial assets.

11 Other Assets

	2013	**2012**
Prepayments for purchase of intangible assets and equipment	26,950	12,581
Total other assets	**26,950**	**12,581**

As at 31 December 2013, prepayments of AZN 26,950 (2012: AZN 12,581) represent prepayments for purchase of accounting software, furniture and computer and equipments.

12 Due to Other Banks

	2013	2012
Correspondent accounts and overnight placements of other banks	8,267,105	4,079,816
Total due to other banks	**8,267,105**	**4,079,816**

13 Customer Accounts

	2013	2012
State and public organizations		
- Current/settlement accounts	4,371	9,769
- Term deposits	811,508	1,369,386
Other legal entities		
- Current/settlement accounts	4,682,779	4,992,377
- Term deposits	13,613,978	14,608,585
Individuals		
- Current/demand accounts	2,420,314	4,225,365
- Term deposits	35,152,596	32,447,097
Total customer accounts	**56,685,546**	**57,652,579**

Economic sector concentrations within customer accounts are as follows:

	31 December 2013		31 December 2012	
	Amount	%	Amount	%
Individuals	37,572,910	66.28%	36,672,462	63.61%
Insurance	15,190,731	26.80%	14,911,527	25.86%
Trade and services	3,751,842	6.62%	5,133,885	8.90%
Industry	119,625	0.21%	438,793	0.77%
Construction	35,755	0.06%	312,076	0.54%
Transportation	10,400	0.02%	170,877	0.30%
Agriculture	31	0.00%	6,316	0.01%
Other	4,252	0.01%	6,643	0.01%
Total customer accounts	**56,685,546**	**100%**	**57,652,579**	**100%**

Customer accounts comprise the amount of AZN 24,987,794 which is the amount of accounts of 25customers covering 45% of total customer accounts as of 31 December 2013 (31 December 2012: customer accounts comprised the amount of AZN 23,334,572 which is the amount of accounts of 25 customers covering 40% of total customer accounts).In this amounts to AZN 23,827,650 (2012: AZN 18,683,936), included term deposits, are a significant portion of total customer accounts.

The balance amount of customer accounts is their fair values as of 31 December 2013 and 31 December 2012. The fair value of customer accounts is AZN 56,685,546 as of 31 December 2013 (2012: AZN 57,652,579).

Refer to Note 28 for the disclosure of the fair value of each class of customer accounts. The interest rate analysis of customer accounts is disclosed in Note 25. The information on related party balances is disclosed in Note 29.

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14 Other Borrowed funds

	2013	2012
Resident Funds borrowed from banks and other:		
-Central Bank of Azerbaijan Republic ("CBAR")	15,000,000	11,000,000
-Azerbaijan Mortgage Fund	2,405,414	727,606
-Resident banks of Azerbaijan Republic	4,000,000	-
Accrued interest payable	20,461	4,573
Total other borrowed funds	**21,425,875**	**11,732,179**

As at December 31, 2013, the loans from banks and financial institutions include the loans received from "CBAR" in the amount equivalent to AZN 15,000,000 (2012: AZN 11,000,000) at an average interest rate of 6% per annum and with maturity date in September 2022, Azerbaijan Mortgage Fund under the CBAR in the amount equivalent to AZN 2,405,414 (2012: AZN 727,606) at an interest rate of 4% and 8% per annum and with maturity date in December 2038, Bank VTB AZN 2,000,000 at an interest rate of 9% per annum and with maturity date in March 2014 and Xalq Bank AZN 2,000,000 at an interest rate of 12% per annum and with maturity date in August 2014. There are no financial covenants with regard to the borrowing.

15 Other Financial Liabilities

Other financial liabilities comprise the following:

	2013	2012
Debit or credit cards payables	26,573	26,583
Settlements on money transfer	47,321	10,209
Amounts payable for the received services	-	-
Other financial liabilities	6,594	42,695
Total other financial liabilities	**80,488**	**79,487**

Refer to Note 28 for disclosure of the fair value of each class of other financial liabilities.

16 Other Liabilities

Other liabilities comprise the following:

	2013	2012
Deferred income from sale of plastic cards	852	8,317
Other liabilities	4,178	1,913
Total other liabilities	**5,030**	**10,230**

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

17 Share Capital

At 31 December 2013 and 31 December 2012 the number of registered and paid ordinary shares amounted to 44,840 and 13,600 with a nominal value of AZN 1000 per share. At 31 December 2013 and 31 December 2012 the Bank's share capital respectively comprised the following number of shares with a value of AZN 1000 per share:

	Number of outstanding shares	Ordinary shares	Share premium	Preference shares	Total
At 31 December 2011	**–**	**12,000,000**	**–**	**–**	**12,000,000**
New shares issued	-	1,600,000	-	-	1,600,000
At 31 December 2012	**–**	**13,600,000**	**–**	**–**	**13,600,000**
New shares issued	-	31,240,000	-	-	31,240,000
At 31 December 2013	**–**	**44,840,000**	**–**	**–**	**44,840,000**

At 31 December 2013 all shares of the Bank were announced, issued and paid.

In consistency with the requirements of the CBAR the minimum total capital of commercial banks operating in the country from the date of January 1, 2015 is AZN 50 million. During the year 2013, the Bank increase the share capital AZN 31,240,000 (31,240 with a nominal value of AZN 1000 per share).

18 Interest Income and Expense

	2013	2012
Interest income		
Loans and advances to customers	15,968,703	9,228,012
Correspondent accounts and placement with other banks	50	55,416
Other	133,572	171,402
Total interest income	**16,120,325**	**9,454,830**
Interest expense		
Interest expense on banks and other financial institutions	(2,804,233)	(1,549,498)
Interest expense on customer accounts	(4,068,064)	(2,211,071)
Total interest expense	**(6,872,297)**	**(3,760,569)**
Net interest income	**9,248,028**	**5,694,261**

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19 Fee and Commission Income and Expense

	2013	2012
Fee and commission income		
- Cash collection	1,451,302	1,458,109
- Settlement transactions	309,542	433,303
- Foreign exchange operations	18,768	271,363
- Plastic cards operations	217,993	201,177
- Letters of credit and guarantee letters	64,139	66,902
Total fee and commission income	**2,061,744**	**2,430,854**
Fee and commission expense		
- Settlement transactions	(78,545)	(103,968)
- Cash collection	(150,780)	(7,870)
- Plastic cards operations	(4,627)	(3,032)
- Other	(34)	(49,470)
Total fee and commission expense	**(233,986)**	**(164,340)**
Net fee and commission income	**1,827,758**	**2,266,514**

20 Income from Foreign Currency Operations

Gain on foreign exchange operations - less losses was as follows:

	2013	2012
Dealing operations, net	503,071	394,590
Revaluation of foreign currency balances, net	2,238	7,267
Total gain on foreign exchange operations – less losses	**505,309**	**401,857**

21 Administrative and Other Expenses

	Note	2013	2012
Staff costs		(3,589,418)	(2,581,368)
Payroll taxes and social security cost		(786,986)	(575,967)
Rent expenses		(832,252)	(681,689)
Depreciation and amortization of premises and equipment	9	(786,339)	(371,786)
Security services		(264,040)	(186,178)
Communication expense		(209,252)	(164,118)
Repair and maintenance expenses		(78,496)	(99,731)
Professional services		(152,317)	(82,535)
Cheques and Other Valuables		(133,923)	(80,298)
Deposit Insurance Fund		(111,040)	-
Stationery and other office supplies		(66,026)	(34,835)
Advertising and marketing		(44,628)	(17,179)
Utilities		(22,016)	(16,791)
Membership fees		(17,484)	(14,357)
Entertainment Expenses		(47,448)	(13,512)
Taxes, other than income tax		(26,026)	(11,584)
Business trip		(2,216)	(3,330)
Other		(30,204)	(16,484)
Total administrative and other operating expenses		**(7,200,111)**	**(4,951,742)**

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22 Income Taxes

Income tax expense comprises the following:

	2013	2012
Current tax	(489,335)	(409,487)
Deferred tax	12,760	102,714
Income tax expense for the year	**(476,575)**	**(306,773)**

The income tax rate applicable to the majority of the Bank's income is 20%.
Temporary differences as at 31 December 2013 comprise:

	2013	2012
Deductible temporary differences:		
Intangible asset	(1,006)	1,742
Property Plant and Equipment	(185,267)	(144,177)
Total deductible temporary differences	**(186,273)**	**(142,435)**
Taxable temporary differences:		
Due from Banks	-	50
Loans and advances to Customers	94,100	45,334
Other liabilities	102,813	171,490
Total taxable temporary differences	**196,913**	**216,874**
Net deferred taxable temporary differences	**10,640**	**74,439**
Net deferred tax liability at the statutory tax rate (20%)	2,128	14,888
Net deferred tax liabilities	**2,128**	**14,888**

The Management of the Bank prepares financial statements based on the instructions of the Central Bank of the Republic of Azerbaijan. Further adjustments are made to meet the requirements of IFRS. Such financial information differs from International Financial Reporting Standards by loan impairment provision, fixed asset depreciation and other liabilities. Such a conversion adjustment net amounted to AZN 10,640 for the year ended 31 December 2013 (AZN 74,439 for the year ended 31 December 2012).

Differences between IFRS and Azerbaijani statutory taxation regulations give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 20%.

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22 Income Taxes (Continued)

Relationships between tax expenses and accounting profit for the year ended 31 December 2012 are explained as follows:

	Year ended 31-Dec-13	Year ended 31-Dec-12
Profit before income tax	2,072,299	1,739,064
Tax rate	20%	20%
Tax at the statutory tax rate	(414,460)	(347,813)
Tax effect of permanent and temporary differences	(62,115)	41,040
Current Income tax expense	**(476,575)**	**(306,773)**
Current income tax expense	(489,335)	(409,487)
Change in the deferred tax liabilities	12,760	102,714
Income tax expense	**(476,575)**	**(306,773)**

23 Earnings per Share

Basic earnings per share are calculated by dividing the profit or loss attributable to equity holders of the Bank by the weighted average number of ordinary shares in issue during the year. The Bank has no dilutive potential ordinary shares; therefore, the diluted earnings per share equal the basic earnings per share.

	31 December 2013	31 December 2012
Profit for the year attributable to ordinary shareholders	1,595,724	1,432,291
Profit for the year	**1,595,724**	**1,432,291**
Weighted average number of ordinary shares in issue	20,945	13,600
Basic and diluted earnings per ordinary share (expressed in AZN per share)	**76.19**	**105.32**

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24 Segment Analysis

The Bank prepares its segment analysis in accordance with IFRS 8, *Operating segments*, which replaced IAS 14, *Segment reporting*. Comparatives were adjusted to conform to the presentation of current period amounts.

Following the management approach of IFRS 8, operating segments are reported in accordance with the internal reporting provided to the Board of Directors (the chief operating decision-maker), which is responsible for allocating resources to the reportable segments and assesses its performance. All operating segments used by the Bank meet the definition of a reportable segment under IFRS 8.

The Bank is organised on a basis of following operating segments:

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

There are no other material items of income or expense between the operating segments. Segment assets and liabilities comprise operating assets and liabilities, being the majority of the balance sheet, but excluding taxation.

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

(i) the fair value changes in available for sale securities are reported within the other comprehensive income;

(ii) funds are generally reallocated between segments at internal interest rates set by the treasury department, which are determined by reference to market interest rate benchmarks, contractual maturities for loans and observed actual maturities of customer accounts balances;

(iii) income taxes are not allocated to segments;

(iv) loan provisions are recognized based on management judgment and availability of information rather than based on the incurred loss model prescribed in IAS 39;

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24 Segment Analysis (Continued)

Segment information for the reportable operating segments of the Bank for the years ended 31 December 2013 is set out below:

	Note	"Corporate Banking"	"Retail Banking"	"Shared Services"	Total
External Revenue					
Net Interest Income		675,979	6,178,315	84,509	6,938,803
Net Non Interest Income		944,241	883,517	505,849	2,333,607
Total Segment Revenue		**1,620,220**	**7,061,832**	**659,020**	**9,272,410**
Administrative expenses		(1,728,758)	(3,792,493)	(1,678,860)	(7,200,111)
Segment Results		**(108,538)**	**3,269,339**	**(1,088,503)**	**2,072,299**
Income Tax Expense		(83,275)	(362,958)	(30,343)	(476,575)
Profit for the Period		**(191,813)**	**2,906,382**	**(1,118,845)**	**1,595,724**
Segment Assets		41,904,782	55,700,380	36,986,288	134,591,450
Unallocated Assets		-	-	-	-
Total Assets		**41,904,782**	**55,700,380**	**36,986,288**	**134,591,450**
Segment Liabilities		48,805,614	37,572,911	87,646	86,466,172
Unallocated Liabilities		-	-	-	-
Total Liabilities		**48,805,614**	**37,572,911**	**85,518**	**86,466,172**
Impairment losses on financial assets		(983,326)	(1,325,899)	-	(2,309,225)
Depreciation and amortization		-	-	(786,769)	(786,769)

Segment information for the reportable operating segments of the Bank for the years ended 31 December 2012 is set out below:

	Note	"Corporate Banking"	"Retail Banking"	"Shared Services"	Total
External Revenue					
Net Interest Income		1,002,841	3,016,372	-	4,019,213
Net Non Interest Income		1,228,656	1,037,858	405,08	2,671,593
Total Segment Revenue		**2,231,497**	**4,054,230**	**405,079**	**6,690,806**
Administrative expenses		(1,134,472)	(2,745,177)	(1,072,093)	(4,951,742)
Segment Results		**1,097,025**	**1,309,053**	**(667,014)**	**1,739,064**
Income Tax Expense		(102,314)	(185,886)	(18,573)	(306,773)
Profit for the Period		**994,771**	**1,123,167**	**(685,587)**	**1,432,291**
Segment Assets		43,739,242	41,045,400	4,074,091	88,858,733
Unallocated Assets		-	-	-	-
Total Assets		**43,739,242**	**41,045,400**	**4,074,091**	**88,858,733**
Segment Liabilities		52,499,345	20,980,117	89,717	73,569,179
Unallocated Liabilities		-	-	-	-
Total Liabilities		**52,499,345**	**20,980,117**	**89,717**	**73,569,179**
Impairment losses on financial assets		(821,731)	(853,317)	-	(1,675,048)
Depreciation and amortization		-	-	(361,570)	(361,570)

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24 Segment Analysis (Continued)

Allocation of segment assets and liabilities into operating segments for the year ended 31 December 2013:

	Corporate	Retail	Shared	Total:
ASSETS:				
Cash and Balances with CBAR	593,218	-	3,122,405	3,715,623
Mandatory cash balances with CBAR	-	-	1,200,296	1,200,296
Due from Banks	2,550	-	-	2,550
Loans to Customers	41,309,014	55,700,380	-	97,009,394
PPE	-	-	32,426,225	32,426,225
Intangible Assets	-	-	164,315	164,315
Other financial assets	-	-	46,097	46,097
Other Assets	-	-	26,950	26,950
Total Assets	**41,904,782**	**55,700,380**	**36,986,288**	**134,591,450**
LIABILITIES:				
Due to banks	8,267,105	-	-	8,267,105
Customers Accounts	19,112,634	37,572,911	-	56,685,546
Borrowings	21,425,875	-	-	21,425,875
Deferred Tax Liability	-	-	2,128	2,128
Other financial liabilities	-	-	80,488	80,488
Other Liabilities	-	-	5,030	5,030
Total liabilities	**48,805,614**	**37,572,911**	**87,646**	**86,466,172**
Net Balance Sheet Position	**(6,900,832)**	**18,127,469**	**36,898,642**	**48,125,278**

Allocation of segment assets and liabilities into operating segments for the year ended 31 December 2012:

	Corporate	Retail	Shared	Total:
ASSETS:				
Cash and Balances with CBAR	3,148,456	-	2,396,185	5,544,641
Mandatory cash balances with CBAR	-	-	1,062,160	1,062,160
Due from Banks	2,550	-	-	2,550
Loans to Customers	39,526,076	41,045,400	-	80,571,476
PPE	-	-	1,390,423	1,390,423
Intangible Assets	-	-	184,536	184,536
Other financial assets	-	-	90,366	90,366
Other Assets	-	-	12,581	12,581
Total Assets	**42,677,082**	**41,045,400**	**5,136,251**	**88,858,733**
LIABILITIES:				
Due to banks	4,079,816	-	-	4,079,816
Customers Accounts	36,672,462	20,980,117	-	57,652,579
Borrowings	11,732,179	-	-	11,732,179
Deferred Tax Liability	-	-	14,888	14,888
Other financial liabilities	-	-	79,487	79,487
Other Liabilities	-	-	10,230	10,230
Total liabilities	**52,484,457**	**20,980,117**	**104,605**	**73,569,179**
Net Balance Sheet Position	**(9,807,375)**	**20,065,283**	**5,031,646**	**15,289,554**

Geographical information

Revenues are attributed to the Republic of Azerbaijan and, allocated on the basis of the customer's location. All non-current assets of the Bank other than financial instruments are located in the territory of the Republic of Azerbaijan.

25 Financial Risk Management

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

Credit risk. The Bank takes on exposure to credit risk which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Exposure to credit risk arises as a result of the Bank's lending and other transactions with counterparties giving rise to financial assets.

The Bank's maximum exposure to credit risk is reflected in the carrying amounts of financial assets on the consolidated statement of financial position. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant. For guarantees and commitments to extend credit, the maximum exposure to credit risk is the amount of the commitment.

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

Loan applications originated by the relevant client relationship managers are passed on to the relevant credit committee for approval of credit limit. Exposure to credit risk is also managed, in part, by obtaining collateral and corporate and personal guarantees.

In order to monitor credit risk exposures, regular reports are produced by the credit department's officers based on a structured analysis focusing on the customer's business and financial performance. Any significant exposures against customers with deteriorating creditworthiness are reported to and reviewed by the Board of Directors. The Bank does not use formalised internal credit ratings to monitor exposures to credit risk. Management monitors and follows up on past due balances.

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

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

Credit risk exposures relating to on-balance sheet assets are as follows:

	2013	2012
Loans and advances to customers:		
Loans to individuals:		
- Car purchase	21,796,655	18,778,440
- Consumer loans	28,862,451	16,499,294
- Real estate	1,083,201	3,953,150
- Mortgage	2,416,902	1,031,792
- Plastic card	1,308,659	588,028
- Loans to employees	232,511	172,790
- Working capital	-	21,906
Loans to corporate entities:		
- Large new borrowers	32,001,334	30,871,505
- Loans to medium size entities	5,942,318	3,421,858
- Loans to small entities	188,962	33,478
- Others	3,176,400	5,199,235
Due from Banks		
Deposits from banks	2,550	2,550
TOTAL	**97,011,944**	**80,574,026**

25 Financial Risk Management (Continued)

Credit risk exposures relating to off-balance sheet items are as follows:

	Maximum exposure 2013	**Maximum exposure 2012**
Financial guarantees	5,568,731	6,362,694
Loan commitments and other credit related obligations	6,858,699	4,475,611
Total	**12,427,430**	**10,838,305**

The above table represents a worse-case scenario of credit risk exposure to the Bank at 31 December 2013, without taking account of any collateral held or other credit enhancements attached. For on-balance-sheet assets, the exposures set out above are based on net carrying amounts as reported in the statement of financial position.

The appraisal of the collateral value provided to secure a loan is conducted by independent qualified companies and by the Bank's professional staff depending on type of collateral and amount of credit granted.

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

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

Currency risk. The Bank takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Management Board sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. The Bank does not deal in any derivative instruments for speculative or hedging purposes. Such instruments are not commonly used in Azerbaijan.

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

Exposure to foreign exchange risk faced by the Bank is also limited by the CBAR normative requirements, which place a 10% of capital limit on open positions in any single foreign currency and a 20% open limit on all foreign currencies.

The table below summarizes the Bank's exposure to foreign currency exchange rate risk at the balance sheet date:

		At 31 December 2013	
	Monetary financial assets	**Monetary financial liabilities**	**Position**
Azerbaijani Manats	88,151,271	73,676,852	14,474,419
US Dollars	13,718,619	12,230,197	1,488,422
Euros	82,833	556,859	(474,026)
GBP	3,691	46	3,645
Other	17,547	90	17,457
Total	**101,973,960**	**86,464,044**	**15,509,916**

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25 Financial Risk Management (Continued)

	At 31 December 2012		
	Monetary financial assets	Monetary financial liabilities	Position
Azerbaijani Manats	77,726,875	64,862,180	12,864,695
US Dollars	9,009,854	8,542,754	467,100
Euros	505,029	138,103	366,926
GBP	9,145	925	8,220
Other	20,290	99	20,191
Total	**87,271,193**	**73,544,061**	**13,727,132**

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

The following table presents sensitivities of profit and loss and equity to reasonably possible changes in exchange rates applied at the balance sheet date, with all other variables held constant:

	31 December 2013 impact on profit or loss	31 December 2012 impact on profit or loss
US Dollars strengthening by 2%	29,778	9,342
US Dollars weakening by 2%	(29,778)	(9,342)
Euro strengthening by 10%	47,403	36,693
Euro weakening by 10%	(47,403)	(36,693)
	–	–

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

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

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

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

	2013			2012		
In % p.a..	AZN	USD	EUR	AZN	USD	EUR
Assets						
Loans and advances to customers	4%-40%	12%-36%	15%-25%	7%-36%	12%-35%	15%-25%
Liabilities						
Due to other banks	6%	-	-	6%	-	-
Term deposits of customers	4%-14%	4%-14%	12%	5.5%-14%	4%-14%	-
Other borrowed funds	2%-9%	-	-	4%-6%	-	-

25 Financial Risk Management (Continued)

Geographical risk concentrations. The geographical concentration of the Bank's financial assets and liabilities at 31 December 2013 is set out below:

	Azerbaijan Republic	Other CIS countries	OECD countries	Non-OECD countries	Total
ASSETS					
Cash and cash equivalents	3,263,591	448,247	3,785	-	3,715,623
Mandatory cash balances with CBAR	1,200,296	-	-	-	1,200,296
Due from banks	2,550	-	-	-	2,550
Loans to customers	93,071,450	319,874	3,618,070	-	97,009,394
Other financial assets	44,359	1,738	-	-	46,097
TOTAL ASSETS	**97,582,246**	**769,859**	**3,621,855**	**-**	**101,973,960**
LIABILITIES					
Due to Banks	8,267,105	-	-	-	8,267,105
Customer accounts	49,429,401	6,138,303	600,807	517,035	56,685,546
Other borrowed funds	21,425,875	-	-	-	21,425,875
Other financial liabilities	79,564	924	-	-	80,488
Other liabilities	5,030	-	-	-	5,030
TOTAL LIABILITIES	**79,206,975**	**6,139,227**	**600,807**	**517,035**	**86,464,044**
NET POSITION	**50,992,761**	**(5,369,368)**	**3,021,048**	**(517,035)**	**48,127,406**

Geographical risk concentrations. The geographical concentration of the Bank's financial assets and liabilities at 31 December 2012 is set out below:

	Azerbaijan Republic	Other CIS countries	OECD countries	Non-OECD countries	Total
ASSETS					
Cash and cash equivalents	2,493,189	3,026,396	25,056	-	5,544,641
Mandatory cash balances with CBAR	1,062,160	-	-	-	1,062,160
Due from banks	2,550	-	-	-	2,550
Loans to customers	80,134,875	426,183	10,418	-	80,571,476
Other financial assets	89,973	393	-	-	90,366
TOTAL ASSETS	**83,782,747**	**3,452,972**	**35,474**	**-**	**87,271,193**
LIABILITIES					
Due to Banks	4,079,816	-	-	-	4,079,816
Customer accounts	56,014,199	435,213	1,130,106	73,061	57,652,579
Other borrowed funds	11,732,179	-	-	-	11,732,179
Other financial liabilities	79,455	32	-	-	79,487
Other liabilities	10,230	-	-	-	10,230
TOTAL LIABILITIES	**71,915,879**	**435,245**	**1,130,106**	**73,061**	**73,554,291**
NET POSITION	**11,866,868**	**3,017,727**	**(1,094,632)**	**(73,061)**	**13,716,902**

25 Financial Risk Management (Continued)

Other risk concentrations. Management monitors and discloses concentrations of credit risk by obtaining reports listing the exposures to borrowers with aggregated loan balances in excess of 10% of net assets. The Bank discloses any such concentrations within the respective notes in its financial statements..

Liquidity risk. Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations arising from its financial obligations. It refers to the availability of sufficient funds to meet deposit withdrawals and other financial commitments associated with financial instruments as they actually fall due. Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of financial institutions. In order to manage liquidity risk, the Bank performs daily monitoring of future expected cash flows on clients' and banking operations, which is part of the assets/liabilities management process.

The Management Board and Supervisory Board set limits on the minimum proportion of maturing funds available to meet deposit withdrawals and on the minimum level of interbank and other borrowing facilities that should be in place to cover withdrawals under both normal and stressed conditions. They also set parameters for the risk diversification of the liability base. The Bank seeks to maintain a stable funding base comprising primarily amounts due to other banks, corporate and retail customer deposits and debt securities and invest the funds in diversified portfolios of liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements. The liquidity management of the Bank requires considering the level of liquid assets necessary to settle obligations as they fall due; maintaining access to a range of funding sources; maintaining funding contingency plans and monitoring balance sheet liquidity ratios against regulatory requirements. The Bank calculates its instant liquidity ratio at a required minimum of thirty percent on a monthly basis in accordance with the requirement of the Central Bank of Azerbaijan. As at 31 December 2013, the actual ratio was 140% (2012: 69%). The day-to-day liquidity management is performed by the Treasury Department within a comprehensive framework set by the Assets and Liabilities Committee, and monitored independently by the Board Management. The Bank monitors and reports liquidity risk daily, paying particular attention to ensuring that there are optimal levels of cash and cash equivalent instruments to fund increases in assets, unexpected decreases in liabilities, as well as meeting legal requirements, while optimizing the cost of carrying any excess liquidity.

To manage liquidity risk, the Bank performs daily monitoring of future expected cash flows on clients' and banking operations, which forms part of the asset and liability management process. The Bank also has to comply with minimum levels of liquidity required by the CBAR.

The CBAR has in place minimum levels of liquidity required. As of 31 December, 2013, Management considers that the Bank was in compliance with all these covenants.

25 Financial Risk Management (Continued)

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS as at 31 DECEMBER 2013
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25 Financial Risk Management (Continued)

The contractual maturity analysis of balance sheet at 31 December 2013 is as follows:

	Weighted average effective interest rate	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Maturity undefined	31 December 2013 Total
ASSETS							
Due from banks	2%	4	8	38	2,700	-	2,750
Loans to customers	16.63%	11,654,047	20,053,825	47,239,599	30,814,949	5,680,421	115,442,842
Total interest bearing assets		**11,654,051**	**20,053,833**	**47,239,637**	**30,817,649**	**5,680,421**	**115,445,592**
Cash and balances with CBAR		3,715,623	-	-	-	1,200,296	4,915,919
Other Financial Assets		46,097	-	-	-	-	46,097
Total Assets		**15,415,741**	**20,053,833**	**47,239,637**	**30,817,649**	**6,880,717**	**120,407,608**
LIABILITIES							
Due to banks	6%	41,336	82,671	372,020	10,747,237	-	11,243,264
Customer accounts	11.01%	2,402,289	5,076,488	36,930,685	10,202,030	-	54,611,492
Other borrowed funds	6.98%	222,024	2,235,625	2,903,397	4,299,005	24,004,704	33,664,755
Total interest bearing liabilities		**2,655,649**	**7,394,784**	**40,206,102**	**25,248,272**	**24,004,704**	**99,519,511**
Customer Accounts		7,107,464	-	-	-	-	7,107,464
Other Financial Liabilities		80,488	-	-	-	-	80,488
Other liabilities		5,030	-	-	-	-	5,030
Total Liabilities		**9,858,631**	**7,394,784**	**40,206,102**	**25,248,272**	**24,004,704**	**106,712,493**
Liquidity gap		5,557,139	12,659,049	7,033,535	5,569,377	(17,123,986)	13,695,115
Interest sensitivity gap		1,655,599	2,615,023	3,564,899	3,056,432	(730,874)	
Cumulative interest		1,655,599	4,270,622	7,835,521	10,891,953	10,161,079	

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25 Financial Risk Management (Continued)

The contractual maturity analysis of balance sheet at 31 December 2012 is as follows:

	Weighted average effective interest rate	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Maturity undefined	31 December 2013 Total
ASSETS							
Due from banks	2%	4	8	38	2,750	-	2,800
Loans to customers	14.8%	10,859,411	13,753,397	38,623,543	28,062,664	1,942,891	93,241,906
Total interest bearing assets		**10,859,415**	**13,753,405**	**38,623,581**	**28,065,414**	**1,942,891**	**93,244,706**
Cash and balances with CBAR		5,544,641	-	-	-	1,062,160	6,606,801
Other Financial Assets		90,366	-	-	-	-	90,366
Total Assets		**16,494,422**	**13,753,405**	**38,623,581**	**28,065,414**	**3,005,051**	**99,941,873**
LIABILITIES							
Due to banks	6%	20,399	40,798	183,592	5,303,761	-	5,548,550
Customer accounts	10.6%	2,189,779	7,248,590	36,943,125	6,114,923	-	52,496,417
Other borrowed funds	5.9%	62,309	115,472	519,624	14,498,935	-	15,196,340
Total interest bearing liabilities		**2,272,487**	**7,404,860**	**37,646,341**	**25,917,619**	**–**	**73,241,307**
Customer Accounts		10,070,082	-	-	-	-	10,070,082
Other Financial Liabilities		79,487	-	-	-	-	79,487
Other liabilities		10,230	-	-	-	-	10,230
Total Liabilities		**12,432,079**	**7,404,860**	**37,646,341**	**25,917,619**	**–**	**83,391,899**
Liquidity gap		4,071,343	6,348,545	977,240	2,147,795	3,005,051	16,549,974
Interest sensitivity gap		1,370,176	1,257,892	1,758,641	2,331,435	287,548	
Cumulative interest		1,370,176	2,628,068	4,386,708	6,718,143	7,005,691	

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25 Financial Risk Management (Continued)

The Bank does not use the undiscounted maturity analysis to manage liquidity. Instead, the Bank monitors maturities, which may be summarized as follows at 31 December 2013:

	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Maturity undefined	31 December 2013 Total
ASSETS						
Due from banks	50	-	-	2,500	-	2,550
Loans to customers	10,.031,894	18,288,472	41,010,005	24,196,662	3,482,361	97,009,394
Total interest bearing assets	**10,031,944**	**18,288,472**	**41,010,005**	**24,199,162**	**3,482,361**	**97,011,944**
Cash and balances with CBAR	3,715,623	-	-	-	1,200,296	4,915,919
Other Financial Assets	46,097	-	-	-	-	46,097
Total Assets	**13,793,664**	**18,288,472**	**41,010,005**	**22,199,162**	**4,682,657**	**101,973,960**
LIABILITIES						
Due to Banks	-	-	-	8,267,105	-	8,267,105
Customer accounts	1,960,593	4,241,288	34,554,755	8,821,446	-	49,578,082
Other borrowed funds	28,996	2,017,071	2,076,819	409,699	16,893,290	21,425,875
Total interest bearing liabilities	**1,989,589**	**6,258,359**	**36,631,574**	**17,498,250**	**16,893,290**	**79,271,062**
Customer accounts	7,107,464	-	-	-	-	7,107,464
Other Financial Liabilities	80,488	-	-	-	-	80,488
Other liability	5,030	-	-	-	-	5,030
Total Liabilities	**9,182,571**	**6,258,359**	**36,631,574**	**17,498,250**	**16,893,290**	**86,464,044**
Liquidity gap	**4,611,093**	**12,030,113**	**4,378,431**	**6,700,912**	**(12,210,633)**	**15,509,916**

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25 Financial Risk Management (Continued)

The Bank does not use the undiscounted maturity analysis to manage liquidity. Instead, the Bank monitors maturities, which may be summarized as follows at 31 December 2012:

	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Maturity undefined	31 December 2013 Total
ASSETS						
Due from banks	50	-	-	2,500	-	2,550
Loans to customers	10,207,059	12,573,667	34,243,962	22,623,980	922,850	80,571,476
Total interest bearing assets	**10,207,109**	**12,573,667**	**34,243,920**	**22,626,480**	**922,850**	**80,574,068**
Cash and balances with CBAR	5,544,641	-	-	-	1,062,160	6,606,801
Other Financial Assets	90,366	-	-	-	-	90,366
Total Assets	**15,842,116**	**12,573,667**	**34,243,920**	**22,626,480**	**1,985,010**	**87,271,235**
LIABILITIES						
Due to Banks	-	-	-	4,079,816	-	4,079,816
Customer accounts	1,775,850	6,212,430	34,246,658	5,347,559	-	47,582,497
Other borrowed funds	4,573	-	-	11,727,606	-	11,732,179
Total interest bearing liabilities	**1,780,423**	**6,212,430**	**34,246,658**	**21,154,981**	**–**	**63,394,492**
Customer accounts	10,070,082	-	-	-	-	10,070,082
Other Financial Liabilities	79,487	-	-	-	-	79,487
Other liability	10,230	-	-	-	-	10,230
Total Liabilities	**11,931,015**	**6,212,430**	**34,246,658**	**21,154,981**	**–**	**73,545,084**
Liquidity gap	**3,911,101**	**6,361,237**	**(2,738)**	**1,471,499**	**1,985,010**	**13,726,109**

The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Bank. It is unusual for banks ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Bank and its exposure to changes in interest and exchange rates.

Management considers that the current favorable macroeconomic environment for financial institutions operating in Azerbaijan, positive cash flows, the profitability of operations and access to foreign financial resources as required significantly decrease the risk of losses arising from current liquidity mismatches.

Diversification of these deposits by number and type of depositors, and the past experience of the Bank would indicate that these customer accounts provide a long-term and stable source of funding for the Bank. Customer accounts are classified in the above analysis based on contractual maturities. However, in accordance with Azerbaijani Civil Code, individuals have a right to withdraw their deposits prior to maturity if they forfeit their right to accrued interest.

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

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26 Management of Capital

The Bank's objectives when managing capital are to comply with the capital requirements set by the CBAR, to safeguard the Bank's ability to continue as a going concern and to maintain a sufficient capital base to achieve a capital adequacy ratio of at least 12%. Compliance with capital adequacy ratios set by the Central Bank of Azerbaijan is monitored monthly with reports outlining their calculation reviewed and signed by the Bank's Chief Executive Officer, Chief Accountant, Chief of Audit Department, Head of Audit Committee and the Head of Supervisory Board. Other objectives of capital management are evaluated annually.

Under the current capital requirements set by the CBAR banks have to: (a) hold the minimum level of share capital of AZN 10,000,000; (b) maintain a ratio of regulatory capital to risk weighted assets ("statutory capital ratio") at or above a prescribed minimum of 12% and (c) maintain a ratio of tier-1 capital to the risk-weighted assets (the 'Tier-1 capital ratio') at or above the prescribed minimum of 6%.

Management believes that the Bank was in compliance with the statutory capital ratio throughout 2013. The calculated positions at 31 December 2013 are set out below.

For the CBAR statutory capital adequacy purposes the amount of the cumulative capital that the Bank manages as at 31 December 2013 is AZN 49,508,967 (2012: AZN 16,053,916).

The Bank calculates its capital adequacy ratio in accordance with the requirements of the Basle Accord, as defined in the International Convergence of Capital Measurement and Capital Standards (updated April 1998) and Amendment to the Capital Accord to incorporate market risks (updated November 2005), commonly known as Basel I.

The composition of the Bank's capital calculated in accordance with CBAR's "Regulation for Calculation of Bank capital and its adequacy" is as follows:

In Azerbaijani Manats	**2013**	**2012**
Tier 1 capital	**46,327,940**	**13,641,030**
Share capital	44,840,000	13,600,000
Retained earnings	1,487,940	41,030
Deductions from Tier 1 capital		
Deductions	(164,315)	(184,536)
Total tier 1 capital	**46,163,625**	**13,456,494**
Tier 2 capital	**3,345,342**	**2,597,422**
Current year profit	1,602,909	1,446,910
Capital reserves	1,742,433	1,150,512
Total tier 2 capital	**3,345,342**	**2,597,422**
Total regulatory capital	**49,508,967**	**16,053,916**
Risk-weighted assets	139,394,676	92,040,990
Total risk-weighted assets	**139,394,676**	**92,040,990**
Total capital expressed as a percentage of risk-weighted assets ("total capital ratio")	**35,63%**	**17,44%**

The Central Bank of the Republic of Azerbaijan has constantly increased qualitative and quantitative capital requirements within the framework of the strategy aimed at further strengthening of financial stability and sustainability of the banking sector, development of the corporative governance system and protection of interests of depositors and investors built upon best practices. Currently, banks are capitalized up to a new qualitative level which led to eventual high effectiveness of the banking sector and improved financial sustainability indicators.

According to the Board decision of Central Bank of Azerbaijan Republic dated July 25, 2012, the total Share Capital of the Banks should be increased to AZN 50,000,000. Whereas Board of Central Bank of Azerbaijan Republic have amended dated 14 November 2013 that the minimum of Share Capital comes to force on January 01, 2015

Application of new capital requirements shall result in strengthened capital position of Azerbaijani banks along with high capital quality and effectiveness of financial intermediation, the sustainable banking system and further enhanced and further enhanced financial stability.

NOTES TO THE FINANCIAL STATEMENTS as at 31 DECEMBER 2013

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27 Contingencies and Commitments

Capital expenditure commitments. At 31 December 2013, the Bank had no significant contractual capital expenditure commitments in respect of premises and equipment, or in any other areas.

Operating lease commitments. At 31 December 2013, the Bank had no significant operating lease commitments.

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

Tax legislation. Azerbaijani tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management used its best interpretation of such legislation as applied to the transactions and activity of the Bank.

The Bank has the following outstanding credit related commitments:

	2013	2012
Guarantees issued	5,568,731	6,362,694
Undrawn credit lines	6,858,699	4,475,611
Total credit related commitments	**12,427,430**	**10,838,305**

The total outstanding contractual amount of un-drawn credit lines, letters of credit, and guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded.

Credit related commitments are denominated in currencies as follows:

	2013	2012
Azerbaijani Manats	12,427,430	10,838,305
Total	**12,427,430**	**10,838,305**

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28 Fair Value of Financial Instruments

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price.

The estimated fair values of financial instruments have been determined by the Bank using available market information, where it exists, and appropriate valuation methodologies. However, judgment is necessarily required to interpret market data to determine the estimated fair value. The Azerbaijan Republic continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions and therefore not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

Fair values of financial instruments carried at amortized cost. At 31 December 2013, fair values of financial instruments carried at amortized cost are as follows:

	2013		2012	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
FINANCIAL ASSETS				
Cash and cash equivalents	4,915,919	4,915,919	6,606,801	6,606,801
Due from other banks and financial institutions	2,550	2,550	2,550	2,550
Loans to customers	97,009,394	97,009,394	80,571,476	80,571,476
Other financial assets	46,097	46,097	90,366	90,366
TOTAL FINANCIAL ASSETS CARRIED AT AMORTISED COST	**101,973,960**	**101,973,960**	**87,271,193**	**87,271,193**

	2013		2012	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
FINANCIAL LIABILITIES				
Due to other banks	8,267,105	8,267,105	4,079,816	4,079,816
Customer accounts	56,685,546	56,685,546	57,652,579	57,652,579
Other borrowed funds	21,425,875	21,425,875	11,732,179	11,732,179
Other financial liabilities	80,488	80,488	79,487	79,487
TOTAL FINANCIAL LIABILITIES CARRIED AT AMORTISED COST	**86,459,014**	**86,459,014**	**73,544,061**	**73,544,061**

Management applies judgment in categorizing financial instruments using the fair value hierarchy. If a fair value measurement uses observable inputs that require significant adjustment, that measurement is a Level 3 measurement. Significance of a valuation input is assessed against the fair value measurement in its entirety.

28 Fair Value of Financial Instruments (Continued)

The methods and assumptions applied in determining fair values.

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price. Where quoted market prices are not available, the Bank used valuation techniques. The fair value of floating rate instruments that are not quoted in an active market was estimated to be equal to their carrying amount. The fair value of unquoted fixed interest rate instruments was estimated based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity.

Discount rates used depend on currency, maturity of the instrument and credit risk of the counterparty and were as follows:

	31 December 2013	31 December 2012
Due from other banks		
Short-term placements with other banks	1% to 3% p.a.	2% to 14% p.a.
Loans and advances to customers		
Corporate loans	8% to 22% p.a.	8% to 22% p.a.
Loans to individuals	4% to 40% p.a.	7% to 36% p.a.
Customer accounts		
- Term deposits of individuals	4% to 14% p.a.	5.5% to 14% p.a.
Other borrowed funds		
- Term borrowings from companies/government agencies	2% to 9% p.a.	6% to 14% p.a.

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29 Related Party Transactions

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

At 31 December 2013 and 31 December 2012, the outstanding balances with related parties were as follows:

	31-Dec-13		**31-Dec-12**	
	Related party balances	**Total category as per financial statements caption**	**Related party balances**	**Total category as per financial statements caption**
Loans to customers		**101,359,307**		**80,571,476**
- entities with joint control or significant influence over the entity	-		3,751	
- key management personnel of the entity or its parent	282,417		227,647	
Allowance for impairment losses		**(4,349,913)**		**(2,043,597)**
- entities with joint control or significant influence over the entity	(573)		(71)	
- key management personnel of the entity or its parent	(10,534)		(4,589)	
Customer accounts		**56,685,546**		**57,652,579**
- entities with joint control or significant influence over the entity	49,473		1,155,504	
- key management personnel of the entity or its parent	2,273,889		4,815,421	
Interest income		**16,120,325**		**9,454,830**
- entities with joint control or significant influence over the entity	-		709	
- key management personnel of the entity or its parent	41,286		11,171	
Interest expense		**(6,872,297)**		**(3,760,569)**
- entities with joint control or significant influence over the entity	(2,967)		(80,645)	
- key management personnel of the entity or its parent	(272,283)		(192,089)	
Provision for impairment losses		**(2,309,225)**		**(1,675,048)**
- entities with joint control or significant influence over the entity	-		-	
- key management personnel of the entity or its parent	(5,896)		(4,429)	
Fee and commission income		**2,061,744**		**2,430,854**
- entities with joint control or significant influence over the entity	302		303	
- key management personnel of the entity or its parent	673		3,005	
Operating expenses		**(7,200,111)**		**(4,951,742)**
- entities with joint control or significant influence over the entity	-		-	
- key management personnel of the entity or its parent	(709,647)		(850,403)	

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29 Related Party Transactions (Continued)

Key management compensation is presented below:

	2013	2012
Short-term benefits - salaries and bonuses	823,897	697,052
Total	**823,897**	**697,052**

During the year ended 31 December 2013, the remuneration of members of the key management, being the members of the Board of Directors, comprised salaries and performance related short-term bonuses amounting to AZN 823,897 (2012: AZN 697,052).

The Bank was ultimately controlled by Ms N. Mehdiyeva 75% of bank shares as of 31 December 2013.

30 Events after the Reporting Period

No significant transactions have been identified for disclosure after the balance sheet date.