

Bank "BTB" Açıq Səhmdar Cəmiyyətinin

Səhmdarlarının illik Ümumi Yığıncağının

30 iyun 2017-ci il tarixli

SÜY-003-2017 sayılı Protokolu ilə təsdiq edilmişdir.

## Bank "BTB" Açıq Səhmdar Cəmiyyəti

2016-cı il üzrə

### İLLİK HESABAT

1. Emitentin tam və qısdadılmış adı, vergi ödəyicisinin eyniləşdirmə nömrəsi (VÖEN), dövlət qeydiyyatının tarixi və nömrəsi:	Emitentin tam adı: Bank "BTB" Açıq Səhmdar Cəmiyyəti; Emitentin qısdadılmış adı: Bank "BTB" ASC Dövlət qeydiyyat tarixi: 24.02.2010 Dövlət qeydiyyat nömrəsi (VÖEN): 1302164881
2. Emitentin hüquqi ünvanı və olduğu yer:	Ünvan: AZ1025, Azərbaycan Respublikası, Bakı şəhəri, Xətai rayonu, Yusif Səfərov, ev 27
3. Emitentin adında dəyişikliklər olduqda, emitentin bütün əvvəlki adları, habelə onların qeydiyyatı alındığı tarixlər, emitent digər hüquqi şəxsin bölünməsi və ya tərkibindən ayrılması şəklinə yenidən təşkil yolu ilə yaradılıqda, yenidən təşkilin forması, həmin hüquqi şəxsin adı, emitent hüquqi şəxslərin birləşməsi və ya çevrilmə şəklinə yenidən təşkil yolu ilə yaradılıqda, yenidən təşkilin forması, həmin hüquqi şəxslərin adları:	Olmayıb
4. Emitentin hesabat dövrü ərzində yaranmış və ləğv edilmiş filialları və nümayəndəliklərinin adı, olduqları yer və qeydiyyatları haqqında məlumatlar:	Yoxdur
5. Emitentin hesabat dövrü ərzində yaranmış və ya ləğv edilmiş hər bir törəmə cəmiyyətinin adı, təşkilatı-hüquqi forması, hüquqi ünvanı, qeydiyyatı haqqında məlumatlar, nizamnamə kapitalında emitentin payı, hüquqi şəxsin emitentin törəmə cəmiyyəti hesab olunması üçün əsas olan müqavilənin bağlanma tarixi və qüvvədə olma müddəti;	Yoxdur
6. Emitent şirkətlər qrupunun bir hissəsi olduğu təqdirdə qrupun (emitent daxil olmaqla iqtisadiyyatın müxtəlif sahələrində fəaliyyət göstərən bir və ya daha artıq törəmə təşkilatı olan qrupdur) adı:	Deyil
7. Emitentin məşğul olduğu fəaliyyət istiqamətləri:	Bank fəaliyyəti
8. Emitent lisenziya və ya icazəyə malik olduqda, onlar üzrə fəaliyyət növləri və qüvvədə olma müddətləri:	19 mart 2010-cu il tarixli 254 sayılı bank fəaliyyətinin həyata keçirilməsi üçün Bank lisenziyası. Fəaliyyət növləri: Öz hesabına və ya müştərilərin hesabına qiymətli metalların və qiymətli daşların satın alınması və satılması, qiymətli metalların əmanətə cəlb edilməsi və

	<p>yerləşdirilməsi, habelə qiymətli metallarla digər əməliyyatların aparılması istisna olmaqla milli və xarici valyutada fiziki və hüquqi şəxslərdən depozitlərin və ya digər qaytarılan vəsaitlərin cəlb edilməsi, öz adından və öz hesabına kreditlərin verilməsi, habelə müştərilərin tapşırığı ilə köçürmə və hesablama-kassa əməliyyatlarının məcmu halda həyata keçirilməsi və "Banklar haqqında" Azərbaycan Respublikası Qanunu ilə nəzərdə tutulmuş digər fəaliyyət növlərinin həyata keçirilməsi.</p> <p>Lisensiya müddətsizdir.</p>
9.Emitentin təklif etdiyi məhsullar və xidmətlər:	Kreditlərin verilməsi, Əmanətlərin cəlb olunması, hesablama kassa əməliyyatları və digər bank əməliyyatları.
10.Emitentin işçilərinin sayı və onun rüblük dinamika:	<p>İşçi sayı:</p> <p>2016-cı ilin martın sonu-271</p> <p>2016-cı ilin iyunun sonu-276</p> <p>2016-cı ilin sentyabr sonuna-302</p> <p>2016-cı ilin dekabr sonuna-311</p>
11.Emitentin idarəetmə orqanları haqqında məlumat: direktorlar şurası (müşahidə şurası) (olduqda), icra orqanı, audit komitəsi (olduqda), onların üzvlərinin adı, soyadı, atasının adı;	<p><b>Müşahidə Surası:</b></p> <p>Rza İsmayıl oğlu Sadiq (sədr)</p> <p>Asim Ramiz oğlu Salamov</p> <p>Əliş Talış oğlu Tağıyev</p> <p><b>İdarə Heyəti:</b></p> <p>Samir Nəriman oğlu Qocayev (sədr)</p> <p>Rüfət Teyyub oğlu Abbasov</p> <p>Erqin Rizigar oğlu Quliyev</p> <p>Vüsal İlqar oğlu Şahverdiyev</p> <p>Roma Sədiyevic Əliyev</p> <p><b>Audit Komitəsi:</b></p> <p>Hümbətov İkrəm Müzəffər oğlu(sədr)</p> <p>Dalqıclı Həmid Rafiq oğlu</p> <p>Abdullayev Rövşən Müslüm oğlu</p>
12.Emitentin fiziki və hüquqi şəxs olan səhmdarlarının (payçılarının) ayrı-ayılıqda sayı;	3(üç) fiziki şəxs adı səhm sahibi.
13.Emitentin nizamnamə kapitalının beş faizi və daha artıq həcmdə səsli səhmlərinə (paylara) malik olan şəxslər (fiziki şəxsin soyadı, adı, atasının adı; hüquqi şəxsin adı, olduğu yer və VÖEN-i), onların hər birinə məxsus olan səhmlərin sayı (səhmlərin hər növü üzrə ayrı-ayrılıqda göstərilir) və emitentin nizamnamə kapitalında payı;	<p>1.Mehdiyeva Nigar İsmayıl qızı, 39 000 ədəd adi adlı sənədsiz səhm;</p> <p>Emitentin Nizamnamə kapitalında 75% malikdir.</p> <p>2.Sadiq Rza İsmayıl oğlu, 9 880 ədəd adi adlı sənədsiz səhm;</p> <p>Emitentin Nizamnamə kapitalında 19% malikdir.</p> <p>3.Mahmudova Tükəzban Ağa qızı, 3 120 ədəd adi adlı sənədsiz səhm;</p> <p>Emitentin Nizamnamə kapitalında 6% malikdir.</p>
14.Nizamnamə kapitalında emitentin payı beş faizdən az olmayan hüquqi şəxslər (hüquqi şəxsin adı, olduğu yer, VÖEN-i, nizamnamə kapitalında emitentin payı);	Yoxdur
15.Emitentin səhmdarlarının (payçılarının) hesabat dövrü ərzində keçirilmiş yığıncaqları barədə məlumat:	



15.1. Yığıncağın keçirilmə tarixi və yeri (ünvanı);	<p>1. 02 fevral 2016-cı il tarixində Bakı şəhəri, Y. Səfərov küçəsi 27 ünvanında keçirilən Səhmdarların Növbədənənar ümumi yığıncağı;</p> <p>2. 22 fevral 2016-cı il tarixində Bakı şəhəri, Y. Səfərov küçəsi 27 ünvanında keçirilən Səhmdarların Növbədənənar ümumi yığıncağı;</p> <p>3. 05 may 2016-cı il tarixində Bakı şəhəri, Y. Səfərov küçəsi 27 ünvanında keçirilən Səhmdarların Növbəti illik ümumi yığıncağı;</p> <p>4. 25 iyul 2016-cı il tarixində Bakı şəhəri, Y. Səfərov küçəsi 27 ünvanında keçirilən Səhmdarların Növbədənənar ümumi yığıncağı;</p> <p>5. 29 dekabr 2016-cı il tarixində Bakı şəhəri, Y. Səfərov küçəsi 27 ünvanında keçirilən Səhmdarların Növbədənənar ümumi yığıncağı.</p>
15.2. Ümumi yığıncaqda qəbul edilmiş qərarlar;	<p>02 fevral 2016-cı il tarixində keçirilmiş Səhmdarların Növbədənənar ümumi yığıncağında qəbul edilmiş qərarlar:</p> <p><b>1. Bank "BTB" ASC-nin faizli təmin edilməmiş istiqrazların emissiyası haqqında.</b></p> <p><b>2. Bank "BTB" ASC-nin Nizamnaməsinin yeni redaksiyada hazırlanması və dövlət qeydiyyatına alınması haqqında.</b></p> <p>22 fevral 2016-cı il tarixində keçirilmiş Səhmdarların Növbədənənar ümumi yığıncağında qəbul edilmiş qərarlar:</p> <p><b>1. Bank "BTB" ASC-nin "Gənclik-1" şöbəsinin hüquqi ünvanının dəyişdirilməsi haqqında.</b></p> <p>05 may 2016-cı il tarixində keçirilmiş Səhmdarların Növbəti illik ümumi yığıncağında qəbul edilmiş qərarlar:</p> <p><b>1. Bank "BTB" ASC-nin 2015-ci il üzrə maliyyə hesabatlarının təsdiq edilməsi haqqında.</b></p> <p><b>2. Bank "BTB" ASC-nin Audit Komitəsinin 2015-ci il fəaliyyətinə dair hesabatının təsdiq edilməsi haqqında.</b></p> <p>25 iyul 2016-cı il tarixində keçirilmiş Səhmdarların Növbədənənar ümumi yığıncağında qəbul edilmiş qərarlar:</p> <p><b>1. Bəzi bankların ipoteka portfelinin Bank "BTB" ASC-ə təhkim edilməsi haqqında.</b></p> <p>29 dekabr 2016-cı il tarixində keçirilmiş Səhmdarların Növbədənənar ümumi yığıncağında qəbul edilmiş qərarlar:</p> <p><b>1. Bank "BTB" ASC-nin Audit Komitəsinin tərkibi haqqında.</b></p>
16. emitentin dövriyyədə olan investisiya qiymətli kağızlarının buraxılışları haqqında məlumat (investisiya qiymətli kağızların hər buraxılışı ayrı-ayrılıqda göstərilir);	<p>12 000 ədəd adi səhm</p> <p>1 600 ədəd adi səhm</p> <p>31240 ədəd adi səhm</p> <p>5 160 ədəd adi səhm</p> <p>2 000 ədəd adi səhm</p> <p>17 000 ədəd istiqraz</p>
16.1. investisiya qiymətli kağızın növü və forması:	<p>12 000 ədəd sənədsiz adlı adi səhm</p> <p>1 600 ədəd sənədsiz adlı adi səhm</p> <p>31240 ədəd sənədsiz adlı adi səhm</p> <p>5 160 ədəd sənədsiz adlı adi səhm</p> <p>2 000 ədəd sənədsiz adlı adi səhm</p> <p>17 000 ədəd sənədsiz adlı faizli təmin edilməmiş istiqraz</p>
16.2. investisiya qiymətli kağızlar buraxılışının dövlət	12 000 ədəd adi səhm

qeydiyyat nömrəsi və qeydiyyat tarixi:	dövlət qeydiyyat nömrəsi: AZ1001009443 qeydiyyat tarixi: 21 dekabr 2011-ci il 1 600 ədəd adi səhm dövlət qeydiyyat nömrəsi: AZ1001009443 qeydiyyat tarixi: 04 may 2012-ci il 31240 ədəd adi səhm dövlət qeydiyyat nömrəsi: AZ1001009443 5 160 ədəd adi səhm dövlət qeydiyyat nömrəsi: AZ1001009443 qeydiyyat tarixi: 18 mart 2015-ci il 2 000 ədəd adi səhm dövlət qeydiyyat nömrəsi: AZ1001009443 qeydiyyat tarixi: 30 noyabr 2015-ci il 17 000 ədəd istiqraz dövlət qeydiyyat nömrəsi: AZ2001009441 qeydiyyat tarixi: 23 fevral 2016-cı il
16.3.investisiya qiymətli kağızların miqdarı və nominal dəyəri:	12 000 ədəd sənədsiz adlı adi səhm bir səhmin nominal dəyəri: 1000 manat 1 600 ədəd sənədsiz adlı adi səhm bir səhmin nominal dəyəri: 1000 manat 31240 ədəd sənədsiz adlı adi səhm bir səhmin nominal dəyəri: 1000 manat 5 160 ədəd sənədsiz adlı adi səhm bir səhmin nominal dəyəri: 1000 manat 2 000 ədəd sənədsiz adlı adi səhm bir səhmin nominal dəyəri: 1000 manat 17 000 ədəd sənədsiz adlı faizli təmin edilməmiş istiqraz bir istiqrazın nominal dəyəri: 500 ABŞ dolları
16.4.investisiya qiymətli kağızlar buraxılışının məcmu nominal dəyəri:	sənədsiz adlı adi səhm: 52 000 000 AZN sənədsiz adlı faizli təmin edilməmiş istiqraz: 8 500 000 USD
16.5.hesabat ili ərzində emitent tərəfindən səhmlər üzrə ödənilmiş dividendlər haqqında məlumat (hesabat ilində səhmlərin hər növü üzrə ödənilmiş dividendlərin məbləği göstərilir):	yoxdur
16.6.fazizli istiqrazlar buraxılışı haqqında məlumatda - istiqrazlar üzrə gəlirliyin illik faiz dərəcəsi:	17000 ədəd faizli sənədsiz adlı təmin edilməmiş istiqrazın nominal dəyərindən 9 %
16.7. investisiya qiymətli kağızların yerləşdirildiyi və ya tədaviyə alındığı fond birjasının adı və olduğu yer (olduqda):	Bakı Fond Birjası. Bakı, Xətai rayonu, Babək pr, Ə.Quliyev 11/31, Babək Plaza, Blok B, 15-ci və 16-cı mərtəbələr, AZ 1025
17.emitent tərəfindən bağlanmış xüsusi əhəmiyyətli əqdlər barədə məlumatlar:  17.1. əqdin məbləği;  17.2. hesabat tarixinə əqdin ödənilməmiş hissəsi.	Əqdin ümumi məbləği: 59 467 376.92(əlli doqquz milyon dörd yüz altmış yeddi min üç yüz yetmiş altı manat 92 qəpik) manat. hesabat tarixinə əqdin ödənilməmiş hissəsi mövcud deyil
18.emitent tərəfindən aidiyyəti şəxslərlə bağlanmış əqdlər barədə məlumatlar:	aidiyyəti şəxslərlə bağlanmış əqdlərin sayı: 66 aidiyyəti şəxslərlə bağlanmış əqdlərin ümumi dəyəri: 4 823 420 AZN

18.1. bağlanmış əqdin mahiyyəti, tarixi və məbləği;	
18.2. aidiyyəti şəxs barədə məlumat və emitentlə aidiyyət əlaqəsi.	
19. illik hesabatın təsdiq edildiyi ümumi yığıncağın tarixi:	Bank "BTB" ASC-nin Səhmdarlarının 30.06.2017-ci il tarixli Növbəti İllik Ümumi Yığıncağı
20. hesabatın açıqlanma mənbəyi haqqında məlumat	Bank "BTB" ASC-nin rəsmi saytı, maliyyə bazarlarına nəzarət orqanı tərəfindən yaradılmış Məlumatların Elektron Açıqlama Sistemi və kütləvi informasiya vasitələri.

**Bank "BTB" ASC-nin İdarə Heyətinin sədri**

**E.S. Rzayev**

**Baş mühasib**

**Y.O. Pasternak**

**Bank BTB OJSC**

**Financial Statements**  
**for the year ended 31 December 2016**



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## **Independent Auditors' Report**

To the Shareholders and Supervisory Board of Bank BTB Open Joint-Stock Company

### ***Opinion***

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

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

### ***Basis for Opinion***

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

### ***Emphasis of Matter***

We draw attention to the fact that the corresponding figures presented, excluding the adjustments described in notes 2(e) and 2(f) to the financial statements, are based on the financial statements of the Bank as at and for the year ended 31 December 2015, which were audited by other auditors whose report dated 19 April 2016 expressed an unmodified opinion on those statements. As part of our audit of the 2016 financial statements, we audited the adjustments described in notes 2(e) and 2(f) to the financial statements that were applied to restate and reclassify the 2015 financial statements. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review or apply any procedures to the 2015 financial statements of the Bank other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2015 financial statements taken as a whole. Our opinion is not qualified in respect of this matter.





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

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

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

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

### ***Auditors' Responsibilities for the Audit of the Financial Statements***

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

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

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



- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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


  
Ekaterina Tatarinova  
KPMG Audit Azerbaijan LLC  
Baku, Azerbaijan  
4 July 2017



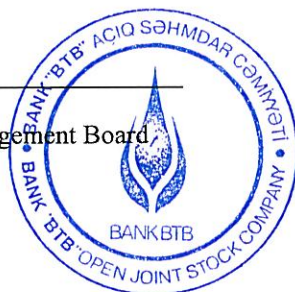
**Bank BTB Open Joint-Stock Company**  
**Statement of Profit or Loss and Other Comprehensive Income**  
**for the year ended 31 December 2016**

		2016	2015
		AZN'000	AZN'000 (restated)
Interest income	4	14,695	18,449
Interest expense	4	(9,148)	(8,863)
<b>Net interest income</b>		<b>5,547</b>	<b>9,586</b>
Fee and commission income	5	1,275	902
Fee and commission expense	6	(252)	(271)
<b>Net fee and commission income</b>		<b>1,023</b>	<b>631</b>
Net gain on trading in foreign currencies		1,154	538
Net foreign exchange gain (loss)		210	(1,967)
Other operating income		688	9
<b>Operating income</b>		<b>8,622</b>	<b>8,797</b>
Impairment losses	7	(9,836)	(3,210)
Personnel expenses	8	(5,526)	(6,018)
Other general administrative expenses	9	(4,720)	(3,841)
<b>Loss before income tax</b>		<b>(11,460)</b>	<b>(4,272)</b>
Income tax (expense) benefit	10	(781)	854
<b>Loss for the year</b>		<b>(12,241)</b>	<b>(3,418)</b>
Other comprehensive income, net of income tax		-	-
<b>Total comprehensive loss for the year</b>		<b>(12,241)</b>	<b>(3,418)</b>

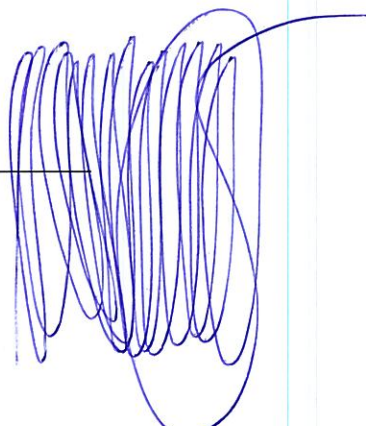
The financial statements as set out on pages 6 to 67 were approved by management on 4 July 2017 and were signed on its behalf by:



Mr. Emil Rzayev  
Chairman of the Management Board



Mr. Vusal Shahverdiyev  
Chief Financial Officer



**Bank BTB Open Joint-Stock Company**  
Statement of Financial Position as at 31 December 2016

		2016	2015	2014
		AZN'000	AZN'000	AZN'000
	Notes		(restated)	(reclassified)
<b>ASSETS</b>				
Cash and cash equivalents	11	21,230	9,536	3,025
Due from banks	12	39,435	47,120	3
Loans to customers	13	127,872	100,387	100,356
Investment property	14	13,581	-	-
Property, equipment and intangible assets	15	35,245	48,923	37,263
Deferred tax assets	10	-	781	-
Other financial assets	16	790	170	628
Other assets	16	1,117	1,564	126
<b>Total assets</b>		<b>239,270</b>	<b>208,481</b>	<b>141,401</b>
<b>LIABILITIES</b>				
Deposits and balances from banks	17	5,756	25,095	19,392
Current accounts and deposits from customers	18	80,939	96,693	67,922
Subordinated borrowings	19	15,122	-	-
Other borrowed funds	19	100,402	37,849	3,909
Other financial liabilities		-	107	154
Other liabilities		555	-	86
<b>Total liabilities</b>		<b>202,774</b>	<b>159,744</b>	<b>91,463</b>
<b>EQUITY</b>				
Share capital	20	52,000	52,000	44,840
(Accumulated deficits)/retained earnings		(15,504)	(3,263)	5,098
<b>Total equity</b>		<b>36,496</b>	<b>48,737</b>	<b>49,938</b>
<b>Total liabilities and equity</b>		<b>239,270</b>	<b>208,481</b>	<b>141,401</b>

*E. Rzayev*  
Mr. Emil Rzayev  
Chairman of the Management Board



*[Signature]*  
Mr. Vusal Shahverdiyev  
Chief Financial Officer

The statement of financial position is to be read in conjunction with the notes to, and forming part of, the financial statements.



**Bank BTB Open Joint-Stock Company**  
Statement of Cash Flows for the year ended 31 December 2016

	2016	2015
Notes	AZN'000	AZN'000 (restated)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Interest receipts	13,443	18,259
Interest payments	(9,917)	(7,894)
Fee and commission receipts	1,275	902
Fee and commission payments	(252)	(271)
Net receipts from foreign exchange	1,154	538
Other income receipts	688	9
Personnel expenses payments	(5,526)	(6,018)
General administrative expenses payments	(2,943)	(2,573)
<b>(Increase) decrease in operating assets</b>		
Due from banks	12,100	(31,760)
Loans to customers	32,009	24,670
Other assets	(385)	500
<b>Increase (decrease) in operating liabilities</b>		
Deposits and balances from banks	(20,741)	8,407
Current accounts and deposits from customers	(24,075)	(12,390)
Other liabilities	198	(90)
<b>Net cash flows used in operating activities before income tax paid</b>	<b>(2,972)</b>	<b>(7,711)</b>
Income tax paid	-	(466)
<b>Cash flows used in operations</b>	<b>(2,972)</b>	<b>(8,177)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Net purchases of premises, equipment and intangible assets	(1,222)	(13,811)
<b>Cash flows used in investing activities</b>	<b>(1,222)</b>	<b>(13,811)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Receipts of other borrowed funds	4,532	24,896
Repayment of other borrowed funds	(4,166)	(3,734)
Receipts of subordinated borrowings	13,982	-
Receipts from issuance of share capital	-	2,217
<b>Cash flows from financing activities</b>	<b>14,348</b>	<b>23,379</b>
<b>Net increase in cash and cash equivalents</b>	<b>10,154</b>	<b>1,391</b>
Effect of changes in exchange rates on cash and cash equivalents	1,540	5,120
Cash and cash equivalents as at the beginning of the year	9,536	3,025
<b>Cash and cash equivalents as at the end of the year</b>	<b>11 21,230</b>	<b>9,536</b>

Mr. Emil Rzayev  
Chairman of the Management Board

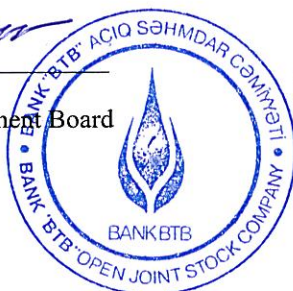


Mr. Vusal Shahverdiyev  
Chief Financial Officer

**Bank BTB Open Joint-Stock Company**  
**Statement of Changes in Equity for the year ended 31 December 2016**

	Share capital AZN'000	Retained earnings/ (Accumulated deficits) AZN'000	Total equity AZN'000
<b>Balance as at 1 January 2015</b>	44,840	5,098	49,938
<b>Total comprehensive loss</b>			
Loss for the year (Restated)	-	(3,418)	(3,418)
<b>Total comprehensive loss for the year (Restated)</b>	-	(3,418)	(3,418)
Issue of ordinary shares	2,217	-	2,217
Statutory capitalized retained earnings	4,943	(4,943)	-
<b>Balance as at 31 December 2015 (Restated)</b>	52,000	(3,263)	48,737
 <b>Balance as at 1 January 2016 (Restated)</b>	 52,000	 (3,263)	 48,737
<b>Total comprehensive loss</b>			
Loss for the year	-	(12,241)	(12,241)
<b>Total comprehensive loss for the year</b>	-	(12,241)	(12,241)
<b>Balance as at 31 December 2016</b>	52,000	(15,504)	36,496

*E. Rzayev*  
 Mr. Emil Rzayev  
 Chairman of the Management Board



*[Signature]*  
 Mr. Vusal Shahverdiyev  
 Chief Financial Officer

# 1 Background

## (a) Organization and operations

These financial statements comprise the financial statements of Bank BTB Open Joint-Stock Company (the Bank).

The Bank has started operations under a full banking license No 254 issued by the Central Bank of the Republic of Azerbaijan (the “CBAR”) since March 19, 2010. The Bank’s activities are regulated by the Financial Markets Supervisory Authority (the “FIMSA”) of the Republic of Azerbaijan. The Bank’s primary business consists of banking services: payments and money transfers, trading with foreign currencies, originating loans and other commercial activities. The Bank’s registered office is 27 Yusif Safarov street, Baku, the Republic of Azerbaijan.

The Bank has 10 branches (2015: 10) and 7 divisions (2015: nil). The majority of its assets and liabilities are located in the Republic of Azerbaijan.

The Bank is owned by :

	31 December 2016, %	31 December 2015, %
<b>Shareholder</b>		
Mrs. Nigar Mehdiyeva	75.00	75.00
Mr. Rza Sadiq	19.00	19.00
Mrs. Tukazban Mahmudova	6.00	6.00
<b>Total</b>	<b>100</b>	<b>100</b>

The Bank is ultimately controlled by a single individual, Mrs. Nigar Mehdiyeva.

## (b) Business environment

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

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

# 2 Basis of preparation

## (a) Statement of compliance

The accompanying financial statements are prepared in accordance with International Financial Reporting Standards (IFRS).

## (b) Basis of measurement

The financial statements are prepared on the historical cost basis.

**(c) Going concern and liquidity gap**

Management have prepared these financial statements on a going concern basis. In making this judgment, management have considered current intentions, the profitability of operations and access to financial resources.

During the year ended at 31 December 2016, the Bank incurred a net loss in the amount of AZN 12,241 thousand (2015: AZN 3,418 thousand). The key factors of the negative financial results were because of increase in the loan impairment provisions as well as decrease of net interest income due to temporary slowdown in lending operations during 2015 and 2016.

As disclosed in note 28 to these financial statements, subsequent to the end of reporting period in the General Meeting of Shareholders on 18 May 2017 it was decided to increase share capital of the Bank in an amount of AZN 25,000 thousand by issuing 10,000 ordinary shares with par value of AZN 1,000 and 15,000 preference shares with par value of AZN 1,000. Increase in the capital is expected to take place during 2017.

As set out in the contractual maturity table in note 21, as at 31 December 2016 the Bank had a negative cumulative liquidity gap of AZN 8,297 thousand in the period up to twelve months.

Management believes that although current accounts balance of AZN 7,206 thousand as at 31 December 2016 is included under on demand category in maturity table, apparently not all of these amounts will be withdrawn in period of one month. Past experience demonstrates that current account balances have not decreased below AZN 5,385 thousand for the period of last five years. Apart from this, the Bank signed overdraft agreement with CBAR in amount of AZN 6,000 thousand with maturity date of 2022 in order to manage liquidity risk.

Subsequent to 31 December 2016, the Bank prolonged term deposits originally maturing during period from January to May 2017 for the total amount of AZN 15,000 thousand for a contractual maturity of one year and more.

Management has considered these factors in evaluating the Bank's ability to continue as a going concern and believes the Bank will be able to meet all of its financial obligations and there is no material uncertainty regarding the ability of the Bank to continue as a going concern.

**(d) Functional and presentation currency**

The functional currency of the Bank is the Azerbaijani Manat ("AZN") as, being the national currency of the Republic of Azerbaijan, it reflects the economic substance of the majority of underlying events and circumstances relevant to them.

At 31 December 2016, the principal rate of exchange used for translating foreign currency balances was USD 1 = AZN 1.7707 and EUR 1 = AZN 1.8644 (31 December 2015: USD 1 = AZN 1.5594 and EUR 1 = AZN 1.7046).

The AZN is also the presentation currency for the purposes of these financial statements.

Financial information presented in AZN is rounded to the nearest thousand, unless otherwise stated.

**(e) Restatement of financial statements**

In course of preparation of these financial statements management of the Bank has identified a number of errors in the prior period financial statements of the Bank.



The following adjustments have been made by the Bank in course of preparation of the financial statements for the year ended 31 December 2016:

AZN'000	31 December 2015 (as previously reported)	Adjustment	31 December 2015 (restated)
<b>Statement of financial position</b>			
Loans to customers	102,614	(2,227)	100,387
Deferred tax assets	336	445	781
Accumulated deficits	(1,481)	(1,782)	(3,263)
<b>Statement of profit or loss and other comprehensive income</b>			
Interest income	18,810	(361)	18,449
Impairment losses	(1,344)	(1,866)	(3,210)
Income tax benefit	409	445	854
<b>Statement of changes in equity</b>			
Loss for the year	(1,636)	(1,782)	(3,418)

**(f) Changes in presentation of comparative figures**

As at 31 December 2015 and 2014 comparative information is reclassified to conform to changes in presentation in the current year as described below in order to give a clearer presentation of the business and its operations:

Due from banks amounting AZN 47,118 thousand (31 December 2014: nil), previously presented as cash and cash equivalents, is reclassified to due from banks.

Current income tax assets amounting AZN 539 thousand (31 December 2014: nil), previously presented as a separate line item, is reclassified to other assets.

Deposits and balances from banks amounting AZN 19,900 thousand (31 December 2014: AZN 12,246 thousand), previously presented as other borrowed funds, is reclassified to deposits and balances from banks.

Impairment losses amounting AZN 1,344 thousand (2014: AZN 2,339 thousand), previously presented as provision for loan impairment, is reclassified to impairment losses.

AZN 1,429 thousand, previously presented as single line of net loss on foreign exchange operations is reclassified to net gain on trading in foreign currencies amounting AZN 538 thousand and net foreign exchange loss amounting AZN 1,967.

AZN 9,859 thousand, previously presented as single line of administrative and other operating expenses is reclassified to personnel expenses amounting AZN 6,018 thousand and other general administrative expenses amounting AZN 3,841 thousand.

Other operating income amounting AZN 9 thousand, previously presented as other income, is reclassified to other operating income.

The following tables summarises the impact from the above retrospective changes on the Bank's financial statements:

31 December 2015 AZN'000	As previously reported	Reclassification amount	Financial statement caption after reclassification
<b>Statement of financial position</b>			
Cash and cash equivalents	56,654	(47,118)	9,536
Due from banks	2	47,118	47,120
Current income tax assets	539	(539)	-
Other assets	1,025	539	1,564
Deposits and balances from banks	5,195	19,900	25,095
Other borrowed funds	57,749	(19,900)	37,849

<b>31 December 2015</b> <b>AZN'000</b>	<b>As previously reported</b>	<b>Reclassification amount</b>	<b>Financial statement caption after reclassification</b>
<b>Statement of profit or loss and other comprehensive income</b>			
Provision for loan impairment	(1,344)	1,344	-
Impairment losses	-	(3,210)	(3,210)
Net loss on foreign exchange operations	(1,429)	1,429	-
Net gain on trading in foreign currencies	-	538	538
Net foreign exchange loss	-	(1,967)	(1,967)
Administrative and other operating expenses	(9,859)	9,859	-
Personnel expenses	-	(6,018)	(6,018)
Other general administrative expenses	-	(3,841)	(3,841)
Other income	9	(9)	-
Other operating income	-	9	9
 <b>31 December 2014</b> <b>AZN'000</b>	 <b>As previously reported</b>	 <b>Reclassification amount</b>	 <b>Financial statement caption after reclassification</b>
<b>Statement of financial position</b>			
Deposits and balances from banks	6,646	12,746	19,392
Other borrowed funds	16,655	(12,746)	3,909

**(g) Use of estimates and judgments**

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results could differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies is described in the following notes:

- loan impairment estimates - note 13;
- estimates of fair values of financial assets and liabilities – note 27;
- judgement on going concern - note 2 (c).

### **3 Significant accounting policies**

The accounting policies set out below are applied consistently to all periods presented in these financial statements.

**(a) Foreign currency transactions**

Transactions in foreign currencies are translated to the respective functional currencies of the Bank at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value is determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments unless the difference is due to impairment in which case foreign currency differences that have been recognised in other comprehensive income are reclassified to profit or loss.

**(b) Cash and cash equivalents**

Cash and cash equivalents include notes and coins on hand, unrestricted balances (nostro accounts) held with the CBAR and other banks, and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Bank in the management of short-term commitments. The mandatory reserve deposit with the CBAR is not considered to be a cash equivalent due to restrictions on its withdrawability. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

**(c) Financial instruments**

**(i) Classification**

*Financial instruments at fair value through profit or loss* are financial assets or liabilities that are:

- acquired or incurred principally for the purpose of selling or repurchasing in the near term
- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking
- upon initial recognition, designated as at fair value through profit or loss.

The Bank may designate financial assets and liabilities at fair value through profit or loss where either:

- the assets or liabilities are managed, evaluated and reported internally on a fair value basis
- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise or,
- the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

Management determines the appropriate classification of financial instruments in this category at the time of the initial recognition. Derivative financial instruments and financial instruments designated as at fair value through profit or loss upon initial recognition are not reclassified out of at fair value through profit or loss category. Financial assets that would have met the definition of loans and receivables may be reclassified out of the fair value through profit or loss or available-for-sale category if the Bank has an intention and ability to hold them for the foreseeable future or until maturity. Other financial instruments may be reclassified out of at fair value through profit or loss category only in rare circumstances. Rare circumstances arise from a single event that is unusual and highly unlikely to recur in the near term.

*Loans and receivables* are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the Bank:

- intends to sell immediately or in the near term
- upon initial recognition designates as at fair value through profit or loss
- upon initial recognition designates as available-for-sale or,
- may not recover substantially all of its initial investment, other than because of credit deterioration.

*Available-for-sale financial assets* are those non-derivative financial assets that are designated as available-for-sale or are not classified as loans and receivables, held-to-maturity investments or financial instruments at fair value through profit or loss.

**(ii) Recognition**

Financial assets and liabilities are recognized in the statement of financial position when the Bank becomes a party to the contractual provisions of the instrument. All regular way purchases of financial assets are accounted for at the settlement date.

**(iii) Measurement**

A financial asset or liability is initially measured at its fair value plus, in the case of a financial asset or liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or liability.

Subsequent to initial recognition, financial assets are measured at their fair values, without any deduction for transaction costs that may be incurred on sale or other disposal, except for:

- loans and receivables which are measured at amortised cost using the effective interest method
- held-to-maturity investments that are measured at amortised cost using the effective interest method
- investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured which are measured at cost.

All financial liabilities, other than those designated at fair value through profit or loss and financial liabilities that arise when a transfer of a financial asset carried at fair value does not qualify for derecognition, are measured at amortised cost.

**(iv) Amortised cost**

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.



**(v) Fair value measurement principles**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Bank measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

When there is no quoted price in an active market, the Bank uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all the factors that market participants would take into account in these circumstances.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price, i.e., the fair value of the consideration given or received. If the Bank determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument, but no later than when the valuation is supported wholly by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, the Bank measures assets and long positions at the bid price and liabilities and short positions at the ask price.

The Bank recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

**(vi) Gains and losses on subsequent measurement**

A gain or loss arising from a change in the fair value of a financial asset or liability is recognized as follows:

- a gain or loss on a financial instrument classified as at fair value through profit or loss is recognized in profit or loss

- a gain or loss on an available-for-sale financial asset is recognized as other comprehensive income in equity (except for impairment losses and foreign exchange gains and losses on debt financial instruments available-for-sale) until the asset is derecognized, at which time the cumulative gain or loss previously recognised in equity is recognized in profit or loss. Interest in relation to an available-for-sale financial asset is recognized in profit or loss using the effective interest method.

For financial assets and liabilities carried at amortised cost, a gain or loss is recognized in profit or loss when the financial asset or liability is derecognized or impaired, and through the amortization process.

**(vii) Derecognition**

The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognised as a separate asset or liability in the statement of financial position. The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

The Bank enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised.

In transactions where the Bank neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, it derecognises the asset if control over the asset is lost.

In transfers where control over the asset is retained, the Bank continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred assets.

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

The Bank writes off assets deemed to be uncollectible.

**(d) Property and equipment**

**(i) Owned assets**

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses.

Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

**(ii) Depreciation**

Depreciation is recognised so as to write off the cost or valuation of assets (other than freehold land and properties under construction) less their residual values over their useful lives, using the straightline method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period. Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use.

The estimated useful lives are as follows:

	<b>Residual value, % of historical cost</b>	<b>Rates used in the year ended 31 December 2016</b>
- buildings	30%	50 years
- furniture and equipment	-	8 years
- computers	-	4 years
- vehicles	-	8 years

**(e) Intangible assets**

Acquired intangible assets are stated at cost less accumulated amortisation and impairment losses.

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Amortisation is charged to profit or loss on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives of intangible assets are 10 years.

**(f) Investment property**

Investment properties are properties held for capital appreciation. Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at cost less accumulated depreciation and impairment losses (if any).

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

**(i) Depreciation**

Depreciation is recognised so as to write off the cost or valuation of assets less their residual values over their useful lives, using the straightline method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period. Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use.

The estimated useful lives are as follows:

	Residual value, % of historical cost	Rates used in the year ended 31 December 2016
- buildings	30%	50 years

**(g) Impairment**

The Bank assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired. If any such evidence exists, the Bank determines the amount of any impairment loss.

A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the financial asset (a loss event) and that event (or events) has had an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, breach of loan covenants or conditions, restructuring of financial asset or group of financial assets that the Bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, deterioration in the value of collateral, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers in the group, or economic conditions that correlate with defaults in the group. In addition, for an investment in an equity security available-for-sale a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

**(i) Financial assets carried at amortised cost**

Financial assets carried at amortised cost consist principally of loans and other receivables (loans and receivables). The Bank reviews its loans and receivables to assess impairment on a regular basis.

The Bank first assesses whether objective evidence of impairment exists individually for loans and receivables that are individually significant, and individually or collectively for loans and receivables that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed loan or receivable, whether significant or not, it includes the loan or receivable in a group of loans and receivables with similar credit risk characteristics and collectively assesses them for impairment. Loans and receivables that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on a loan or receivable has been incurred, the amount of the loss is measured as the difference between the carrying amount of the loan or receivable and the present value of estimated future cash flows including amounts recoverable from guarantees and collateral discounted at the loan or receivable's original effective interest rate. Contractual cash flows and historical loss experience adjusted on the basis of relevant observable data that reflect current economic conditions provide the basis for estimating expected cash flows.

In some cases the observable data required to estimate the amount of an impairment loss on a loan or receivable may be limited or no longer fully relevant to current circumstances. This may be the case when a borrower is in financial difficulties and there is little available historical data relating to similar borrowers. In such cases, the Bank uses its experience and judgment to estimate the amount of any impairment loss.

All impairment losses in respect of loans and receivables are recognized in profit or loss and are only reversed if a subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

When a loan is uncollectable, it is written off against the related allowance for loan impairment. The Bank writes off a loan balance (and any related allowances for loan losses) when management determines that the loans are uncollectible and when all necessary steps to collect the loan are completed.

**(ii) *Non-financial assets***

Other non-financial assets, other than deferred taxes, are assessed at each reporting date for any indications of impairment. The recoverable amount of non-financial assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognised when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

All impairment losses in respect of non-financial assets are recognized in profit or loss and reversed only if there has been a change in the estimates used to determine the recoverable amount. Any impairment loss reversed is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

**(h) *Provisions***

A provision is recognised in the statement of financial position when the Bank has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

**(i) *Credit related commitments***

In the normal course of business, the Bank enters into credit related commitments, comprising undrawn loan commitments, letters of credit and guarantees, and provides other forms of credit insurance.

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

A financial guarantee liability is recognised initially at fair value net of associated transaction costs, and is measured subsequently at the higher of the amount initially recognised less cumulative amortisation or the amount of provision for losses under the guarantee. Provisions for losses under financial guarantees and other credit related commitments are recognised when losses are considered probable and can be measured reliably.

Financial guarantee liabilities and provisions for other credit related commitment are included in other liabilities.

Loan commitments are not recognised, except in the following cases:

- loan commitments that the Bank designates as financial liabilities at fair value through profit or loss
- if the Bank has a past practice of selling the assets resulting from its loan commitments shortly after origination, then the loan commitments in the same class are treated as derivative instruments
- loan commitments that can be settled net in cash or by delivering or issuing another financial instrument
- commitments to provide a loan at a below-market interest rate.

**(j) Share capital**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

The ability of the Bank to declare and pay dividends is subject to the rules and regulations of Azerbaijan legislation.

Dividends in relation to ordinary shares are reflected as an appropriation of retained earnings in the period when they are declared.

**(k) Taxation**

Income tax comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items of other comprehensive income or transactions with shareholders recognised directly in equity, in which case it is recognised within other comprehensive income or directly within equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities are recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax assets and liabilities are not recognised for the following temporary differences: the initial recognition of assets or liabilities that affect neither accounting nor taxable profit.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences, unused tax losses and credits can be utilised. Deferred tax assets are reduced to the extent that taxable profit will be available against which the deductible temporary differences can be utilized.



**(l) Income and expense recognition**

Interest income and expense are recognised in profit or loss using the effective interest method.

Loan origination fees, loan servicing fees and other fees that are considered to be integral to the overall profitability of a loan, together with the related transaction costs, are deferred and amortised to interest income over the estimated life of the financial instrument using the effective interest method.

Other fees, commissions and other income and expense items are recognised in profit or loss when the corresponding service is provided.

Dividend income is recognised in profit or loss on the date that the dividend is declared.

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

**(m) New standards and interpretations not yet adopted**

A number of new standards, amendments to standards and interpretations are not yet effective as at 31 December 2016, and are not applied in preparing these financial statements. Of these pronouncements, potentially the following will have an impact on the financial position and performance. The Bank plans to adopt these pronouncements when they become effective:

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

**Classification - Financial assets**

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

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

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

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

### **Impairment - Financial assets and contract assets**

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

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

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

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

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

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

### **Classification - Financial liabilities**

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

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

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

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

### **Hedge accounting**

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

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

## Disclosures

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

## Transition

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

- The Bank plans to take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 generally will be recognised in retained earnings and reserves as at 1 January 2018.
- New hedge accounting requirements should generally be applied prospectively. However, the Bank may elect to apply the expected change in accounting for the forward element of forward contracts retrospectively. The Bank has not made a decision in relation to this election.

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

- The determination of the business model within which a financial asset is held.
- The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.
- The designation of certain investments in equity instruments not held for trading as at FVOCI.
- IFRS 15 *Revenue from Contracts with Customers* establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and IFRIC 13 *Customer Loyalty Programmes*. The core principle of the new standard is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new standard results in enhanced disclosures about revenue, provides guidance for transactions that were not previously addressed comprehensively and improves guidance for multiple-element arrangements. IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The Bank does not intend to adopt this standard early. The Bank has not yet analysed the likely impact of this new standard on its financial position or performance.
- IFRS 16 *Leases* replaces the existing lease accounting guidance in IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. It eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting. Lessor accounting remains similar to current practice – i.e. lessors continue to classify leases as finance and operating leases. IFRS 16 is effective for annual reporting periods beginning on or after 1 January 2019, early adoption is permitted if IFRS 15 *Revenue from Contracts with Customers* is also adopted. The Bank does not intend to adopt this standard early. The Bank has not yet analysed the likely impact of this new standard on its financial position or performance.

## 4 Net interest income

	2016 AZN'000	2015 AZN'000
<b>Interest income</b>		
Loans to customers	14,434	18,223
Due from banks	255	171
Securities	6	55
	<b>14,695</b>	<b>18,449</b>
<b>Interest expense</b>		
Current accounts and deposits from customers	4,208	5,785
Other borrowed funds	2,809	1,375
Deposits and balances from banks	1,149	1,703
Subordinated borrowings	982	-
	<b>9,148</b>	<b>8,863</b>
	<b>5,547</b>	<b>9,586</b>

Included within various line items under interest income for the year ended 31 December 2016 is a total of AZN 5,846 thousand (2015: AZN 2,193 thousand) accrued on impaired financial assets.

## 5 Fee and commission income

	2016 AZN'000	2015 AZN'000
Cash withdrawal	437	429
Foreign exchange	407	125
Plastic card operations	310	247
Settlements	20	55
Other	101	46
	<b>1,275</b>	<b>902</b>

## 6 Fee and commission expense

	2016 AZN'000	2015 AZN'000
Cash withdrawal	149	207
Settlements	85	33
Plastic card operations	9	12
Other	9	19
	<b>252</b>	<b>271</b>

## 7 Impairment losses

	2016 AZN'000	2015 AZN'000
Charge for impairment of loans to customers	9,782	3,210
Charge for impairment of due from banks	54	-
	<b>9,836</b>	<b>3,210</b>

## 8 Personnel expenses

	<b>2016</b> <b>AZN'000</b>	<b>2015</b> <b>AZN'000</b>
Employee compensation	4,528	4,934
Payments to Social Security Fund	998	1,084
	<b>5,526</b>	<b>6,018</b>

## 9 Other general administrative expenses

	<b>2016</b> <b>AZN'000</b>	<b>2015</b> <b>AZN'000</b>
Depreciation and amortization expense	1,495	1,185
Rent expense	793	951
Communication expense	369	307
Professional service fees	360	186
Taxes other than income tax	308	28
Security expense	257	264
Fees paid to Deposit Insurance Fund	239	158
Expenses related to cheques and other valuables	230	131
Advertising expense	187	156
Utility expense	93	69
Other operating expenses	389	406
	<b>4,720</b>	<b>3,841</b>

## 10 Income tax expense (benefit)

	<b>2016</b> <b>AZN'000</b>	<b>2015</b> <b>AZN'000</b>
Movement in deferred tax assets and liabilities due to origination and reversal of temporary differences	(2,293)	(854)
Unrecognized deferred tax assets	3,074	-
<b>Total income tax expense (benefit)</b>	<b>781</b>	<b>(854)</b>

In 2016, the applicable tax rate for current and deferred tax is 20% (2015: 20%).

### Reconciliation of effective tax rate for the year ended 31 December:

	<b>2016</b> <b>AZN'000</b>	<b>%</b>	<b>2015</b> <b>AZN'000</b>	<b>%</b>
Loss before income tax	(11,460)		(4,272)	
Income tax at the applicable tax rate	(2,293)	(20.0)	(854)	(20.0)
Unrecognised deferred tax assets	3,074	26.8	-	-
	<b>781</b>	<b>6.8</b>	<b>(854)</b>	<b>(20.0)</b>

### Deferred tax assets and liabilities

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to net deferred tax assets as at



31 December 2016 and 2015. These deferred tax assets are not recognised in these financial statements for the year ended 31 December 2016 (31 December 2015: deferred tax assets are recognised). Future tax benefits will only be realised if profits will be available against which unused tax losses can be utilised and there are no changes to the law and regulations that adversely affect the Bank's ability to claim deductions in future periods. These future tax benefits are not recognised due to uncertainties concerning their realisation. The Bank recognized income tax expense for the period ending at 31 December 2016 (2015: income tax benefit).

The deductible temporary differences do not expire under current tax legislation. The tax loss carry-forwards expire in 2021.

Movements in temporary differences during the years ended 31 December 2016 and 2015 are presented as follows:

<b>2016</b>			
<b>AZN'000</b>	<b>1 January 2016</b>	<b>Recognised in profit or loss</b>	<b>31 December 2016</b>
Tax loss carry-forwards	940	3,256	4,196
Loans to customers	492	(445)	47
Intangible assets	-	2	2
Other liabilities	(5)	-	(5)
Property and equipment	(646)	(520)	(1,166)
Unrecognised deferred tax assets	-	(3,074)	(3,074)
	<b>781</b>	<b>(781)</b>	<b>-</b>

<b>2015</b>			
<b>AZN'000</b>	<b>1 January 2015</b>	<b>Recognised in profit or loss</b>	<b>31 December 2015</b>
Tax loss carry-forwards	-	940	940
Loans to customers	(42)	534	492
Intangible assets	(6)	6	-
Other liabilities	(4)	(1)	(5)
Property and equipment	(21)	(625)	(646)
	<b>(73)</b>	<b>854</b>	<b>781</b>

## 11 Cash and cash equivalents

	<b>2016</b>	<b>2015</b>
	<b>AZN'000</b>	<b>AZN'000</b>
<b>Cash on hand</b>	9,249	2,959
<b>Nostro accounts with the CBAR</b>	8,895	5,688
<b>Nostro accounts with other banks</b>		
- rated from BBB- to BBB+	2,712	541
- rated from BB- to BB+	333	201
- rated from B- to B+	12	125
- not rated	29	22
<b>Total nostro accounts with other banks</b>	3,086	889
	<b>21,230</b>	<b>9,536</b>

No cash and cash equivalents are impaired or past due.

As at 31 December 2016, the Bank had one bank (2015: one bank), whose balances exceeded 10% of equity. The gross value of these balances as at 31 December 2016 was AZN 8,895 thousand (2015: AZN 5,688 thousand).

## 12 Due from banks

	<b>2016</b> <b>AZN'000</b>	<b>2015</b> <b>AZN'000</b>
<b>Mandatory reserve with the CBAR</b>	635	320
<b>Correspondent accounts with the CBAR</b>	36,229	46,798
<b>Loans and deposits with other banks</b>		
- rated from BBB- to BBB+	53	-
- not rated	2,572	2
<b>Total loans and deposits with other banks</b>	<b>2,625</b>	<b>2</b>
Impairment allowance	(54)	-
<b>Net due from banks</b>	<b>39,435</b>	<b>47,120</b>

As at 31 December 2016, included in due from banks was blocked correspondent account in the CBAR amounting AZN 36,229 thousand (2015: AZN 46,798 thousand).

### (a) Concentration of due from banks

As at 31 December 2016 the Bank had one bank (2015: one), whose total balances exceeded 10% of equity. The gross value of these balances as at 31 December 2016 was AZN 36,864 thousand (2015: AZN 47,118 thousand).

### (b) Analysis of movements in the impairment allowance

	<b>2016</b> <b>AZN'000</b>	<b>2015</b> <b>AZN'000</b>
Balance at the beginning of the year	-	-
Net charge	54	-
<b>Balance at the end of the year</b>	<b>54</b>	<b>-</b>

### (c) Mandatory reserve with the CBAR

The mandatory reserve deposit is a non-interest bearing deposit calculated in accordance with regulations issued by the CBAR and whose withdrawal ability is restricted. Reserves are measured in accordance with regulations issued by the CBAR and equal to 0.5% and 1% (2015: 0.5%) of the average qualifying customer accounts balances denominated in AZN and foreign currency, respectively.

## 13 Loans to customers

	2016 AZN'000	2015 AZN'000
<b>Loans to corporate customers</b>		
Loans to corporate customers	30,782	33,406
<b>Total loans to corporate customers</b>	<b>30,782</b>	<b>33,406</b>
<b>Loans to retail customers</b>		
Mortgage loans	65,553	5,396
Entrepreneurs	24,152	26,870
Consumer loans	15,914	19,721
Auto loans	5,882	15,283
Credit cards	970	1,985
Other loans to retail customers	4,264	7,589
<b>Total loans to retail customers</b>	<b>116,735</b>	<b>76,844</b>
<b>Gross loans to customers</b>	<b>147,517</b>	<b>110,250</b>
Impairment allowance	(19,645)	(9,863)
<b>Net loans to customers</b>	<b>127,872</b>	<b>100,387</b>

As at 31 December 2016, included in the loans to customers were mortgage loans purchased from liquidated banks amounting AZN 61,076 thousand (2015: no such loans).

Movements in the loan impairment allowance by classes of loans to customers for the year ended 31 December 2016 are as follows:

	Loans to corporate customers AZN'000	Loans to retail customers AZN'000	Total AZN'000
Balance at the beginning of the year	263	9,600	9,863
Net charge	261	9,521	9,782
<b>Balance at the end of the year</b>	<b>524</b>	<b>19,121</b>	<b>19,645</b>

Movements in the loan impairment allowance by classes of loans to customers for the year ended 31 December 2015 are as follows:

	Loans to corporate customers AZN'000	Loans to individual customers AZN'000	Total AZN'000
Balance at the beginning of the year	5,558	1,095	6,653
Net (recovery) charge	(5,295)	8,505	3,210
<b>Balance at the end of the year</b>	<b>263</b>	<b>9,600</b>	<b>9,863</b>

The following table provides information by types of loan products as at 31 December 2016:

	<b>Gross amount AZN'000</b>	<b>Impairment allowance AZN'000</b>	<b>Carrying amount AZN'000</b>
<b>Loans to corporate customers:</b>			
Loans to corporate customers	30,782	(524)	30,258
<b>Loans to retail customers:</b>			
Mortgage loans	65,553	(509)	65,044
Entrepreneurs	24,152	(12,353)	11,799
Consumer loans	15,914	(3,712)	12,202
Auto loans	5,882	(1,167)	4,715
Credit cards	970	(3)	967
Other loans to retail customers	4,264	(1,377)	2,887
<b>Total loans to customers</b>	<b>147,517</b>	<b>(19,645)</b>	<b>127,872</b>

The following table provides information by types of loan products as at 31 December 2015:

	<b>Gross amount AZN'000</b>	<b>Impairment allowance AZN'000</b>	<b>Carrying amount AZN'000</b>
<b>Loans to corporate customers:</b>			
Loans to corporate customers	33,406	(263)	33,143
<b>Loans to retail customers:</b>			
Mortgage loans	5,396	-	5,396
Entrepreneurs	26,870	(6,246)	20,624
Consumer loans	19,721	(1,996)	17,725
Auto loans	15,283	(1,268)	14,015
Credit cards	1,985	-	1,985
Other loans to retail customers	7,589	(90)	7,499
<b>Total loans to customers</b>	<b>110,250</b>	<b>(9,863)</b>	<b>100,387</b>

**(a) Credit quality of loans to customers**

The following table provides information on the credit quality of loans to customers as at 31 December 2016:

	<b>Gross loans AZN'000</b>	<b>Impairment allowance AZN'000</b>	<b>Net loans AZN'000</b>	<b>Impairment allowance to gross loans, %</b>
<b>Loans to corporate customers</b>				
Current loans without signs of impairment	22,808	107	22,701	0.47
Past due but not impaired loans				
- overdue less than 30 days	14	-	14	-
- overdue 30-89 days	158	27	131	17.09
Total past due but not impaired loans	172	27	145	15.70
Impaired loans				
- not overdue	511	-	511	-
- overdue 180-360 days	7,266	370	6,896	5.09
- overdue more than 360 days	25	20	5	80.00
Total impaired loans	7,802	390	7,412	5.00
<b>Total loans to corporate customers</b>	<b>30,782</b>	<b>524</b>	<b>30,258</b>	<b>1.70</b>
<b>Loans to retail customers</b>				
<b>Mortgage loans</b>				
Current loans without signs of impairment	62,771	331	62,440	0.53
Past due but not impaired loans				
- overdue less than 30 days	1,611	79	1,532	4.90
- overdue 30-89 days	1,106	99	1,007	8.95
Total past due but not impaired loans	2,717	178	2,539	6.55
Impaired loans				
- overdue 90-179 days	65	-	65	-
Total impaired loans	65	-	65	-
<b>Total mortgage loans</b>	<b>65,553</b>	<b>509</b>	<b>65,044</b>	<b>0.78</b>

	<b>Gross loans AZN'000</b>	<b>Impairment allowance AZN'000</b>	<b>Net loans AZN'000</b>	<b>Impairment allowance to gross loans, %</b>
<b>Loans to entrepreneurs</b>				
Current loans without signs of impairment	8,773	329	8,444	3.75
Past due but not impaired loans				
- overdue less than 30 days	613	153	460	24.96
- overdue 30-89 days	784	417	367	53.19
Total past due but not impaired loans	1,397	570	827	40.80
Impaired loans				
- overdue 90-179 days	1,260	1,021	239	81.03
- overdue 180-360 days	5,386	4,403	983	81.75
- overdue more than 360 days	7,336	6,030	1,306	82.20
Total impaired loans	13,982	11,454	2,528	81.92
<b>Total loans to entrepreneurs</b>	<b>24,152</b>	<b>12,353</b>	<b>11,799</b>	<b>51.15</b>
<b>Consumer loans</b>				
Current loans without signs of impairment	10,188	100	10,088	0.98
Past due but not impaired loans				
- overdue less than 30 days	655	65	590	9.92
- overdue 30-89 days	261	96	165	36.78
Total past due but not impaired loans	916	161	755	17.58
Impaired loans				
- not overdue	224	30	194	13.39
- overdue 90-179 days	461	319	142	69.20
- overdue 180-360 days	1,701	1,297	404	76.25
- overdue more than 360 days	2,424	1,805	619	74.46
Total impaired loans	4,810	3,451	1,359	71.75
<b>Total consumer loans</b>	<b>15,914</b>	<b>3,712</b>	<b>12,202</b>	<b>23.33</b>
<b>Auto loans</b>				
Current loans without signs of impairment	2,875	23	2,852	0.80
Past due but not impaired loans				
- overdue less than 30 days	915	45	870	4.92
- overdue 30-89 days	804	115	689	14.30
Total past due but not impaired loans	1,719	160	1,559	9.31
Impaired loans				
- overdue 90-179 days	274	138	136	50.36
- overdue 180-360 days	121	101	20	83.47
- overdue more than 360 days	893	745	148	83.43
Total impaired loans	1,288	984	304	76.40
<b>Total auto loans</b>	<b>5,882</b>	<b>1,167</b>	<b>4,715</b>	<b>19.84</b>



	<b>Gross loans AZN'000</b>	<b>Impairment allowance AZN'000</b>	<b>Net loans AZN'000</b>	<b>Impairment allowance to gross loans, %</b>
<b>Credit cards</b>				
Current loans without signs of impairment	961	-	961	-
Past due but not impaired loans				
- overdue 30-89 days	9	3	6	33.33
Total past due but not impaired loans	9	3	6	33.33
<b>Total credit cards</b>	<b>970</b>	<b>3</b>	<b>967</b>	<b>0.31</b>
<b>Other loans to retail customers</b>				
Current loans without signs of impairment	463	16	447	3.46
Past due but not impaired loans				
- overdue less than 30 days	145	28	117	19.31
- overdue 30-89 days	2,982	802	2,180	26.89
Total past due but not impaired loans	3,127	830	2,297	26.54
Impaired loans				
- overdue 90-179 days	86	41	45	47.67
- overdue 180-360 days	88	73	15	82.95
- overdue more than 360 days	500	417	83	83.40
Total impaired loans	674	531	143	78.78
<b>Total other loans to retail customers</b>	<b>4,264</b>	<b>1,377</b>	<b>2,887</b>	<b>32.29</b>
<b>Total loans to retail customers</b>	<b>116,735</b>	<b>19,121</b>	<b>97,614</b>	<b>16.38</b>
<b>Total loans to customers</b>	<b>147,517</b>	<b>19,645</b>	<b>127,872</b>	<b>13.32</b>

The following table provides summary of information on the credit quality of loans to customers as at 31 December 2016:

	<b>Gross loans AZN'000</b>	<b>Impairment allowance AZN'000</b>	<b>Net loans AZN'000</b>	<b>Impairment allowance to gross loans, %</b>
Current loans without signs of impairment	108,839	906	107,933	0.83
Past due but not impaired loans				
- overdue less than 30 days	3,953	370	3,583	9.36
- overdue 30-89 days	6,104	1,559	4,545	25.54
Total past due but not impaired loans	10,057	1,929	8,128	19.18
Impaired loans				
- not overdue	735	30	705	4.08
- overdue 90-179 days	2,146	1,519	627	70.78
- overdue 180-360 days	14,562	6,244	8,318	42.88
- overdue more than 360 days	11,178	9,017	2,161	80.67
Total impaired loans	28,621	16,810	11,811	58.73
<b>Total loans to customers</b>	<b>147,517</b>	<b>19,645</b>	<b>127,872</b>	<b>13.32</b>

The following table provides information on the credit quality of loans to customers as at 31 December 2015:

	<b>Gross loans AZN'000</b>	<b>Impairment allowance AZN'000</b>	<b>Net loans AZN'000</b>	<b>Impairment allowance to gross loans, %</b>
<b>Loans to corporate customers</b>				
Current loans without signs of impairment	25,431	13	25,418	0.05
Past due but not impaired loans				
- overdue less than 30 days	6,259	231	6,028	3.69
- overdue 30-89 days	1,694	-	1,694	-
Total past due but not impaired loans	7,953	231	7,722	2.90
Impaired loans				
- overdue more than 360 days	22	19	3	86.36
Total impaired loans	22	19	3	86.36
<b>Total loans to corporate customers</b>	<b>33,406</b>	<b>263</b>	<b>33,143</b>	<b>0.79</b>
<b>Loans to retail customers</b>				
<b>Mortgage loans</b>				
Current loans without signs of impairment	5,338	-	5,338	-
Past due but not impaired loans				
- overdue less than 30 days	58	-	58	-
Total past due but not impaired loans	58	-	58	-
<b>Total mortgage loans</b>	<b>5,396</b>	<b>-</b>	<b>5,396</b>	<b>-</b>
<b>Loans to entrepreneurs</b>				
Current loans without signs of impairment	16,009	465	15,544	2.90
Past due but not impaired loans				
- overdue less than 30 days	4,279	908	3,371	21.22
- overdue 30-89 days	1,694	872	822	51.48
Total past due but not impaired loans	5,973	1,780	4,193	29.80
Impaired loans				
- overdue 90-179 days	1,280	1,023	257	79.92
- overdue 180-360 days	2,478	2,045	433	82.53
- overdue more than 360 days	1,130	933	197	82.57
Total impaired loans	4,888	4,001	887	81.85
<b>Total loans to entrepreneurs</b>	<b>26,870</b>	<b>6,246</b>	<b>20,624</b>	<b>23.25</b>

	<b>Gross loans AZN'000</b>	<b>Impairment allowance AZN'000</b>	<b>Net loans AZN'000</b>	<b>Impairment allowance to gross loans, %</b>
<b>Consumer loans</b>				
Current loans without signs of impairment	15,353	74	15,279	0.48
Past due but not impaired loans				
- overdue less than 30 days	1,325	87	1,238	6.57
- overdue 30-89 days	643	212	431	32.97
Total past due but not impaired loans	1,968	299	1,669	15.19
Impaired loans				
- not overdue	211	40	171	18.96
- overdue 90-179 days	726	377	349	51.93
- overdue 180-360 days	755	623	132	82.52
- overdue more than 360 days	708	583	125	82.34
Total impaired loans	2,400	1,623	777	67.63
<b>Total consumer loans</b>	<b>19,721</b>	<b>1,996</b>	<b>17,725</b>	<b>10.12</b>
<b>Auto loans</b>				
Current loans without signs of impairment	11,419	78	11,341	0.68
Past due but not impaired loans				
- overdue less than 30 days	1,748	104	1,644	5.95
- overdue 30-89 days	1,055	255	800	24.17
Total past due but not impaired loans	2,803	359	2,444	12.81
Impaired loans				
- overdue 90-179 days	264	178	86	67.42
- overdue 180-360 days	282	233	49	82.62
- overdue more than 360 days	515	420	95	81.55
Total impaired loans	1,061	831	230	78.32
<b>Total auto loans</b>	<b>15,283</b>	<b>1,268</b>	<b>14,015</b>	<b>8.30</b>
<b>Credit cards</b>				
Current loans without signs of impairment	1,983	-	1,983	-
Impaired loans				
- overdue 90-179 days	2	-	2	-
Total impaired loans	2	-	2	-
<b>Total credit cards</b>	<b>1,985</b>	<b>-</b>	<b>1,985</b>	<b>-</b>

	<b>Gross loans AZN'000</b>	<b>Impairment allowance AZN'000</b>	<b>Net loans AZN'000</b>	<b>Impairment allowance to gross loans, %</b>
<b>Other loans to retail customers</b>				
Current loans without signs of impairment	6,310	-	6,310	-
Past due but not impaired loans				
- overdue less than 30 days	617	-	617	-
- overdue 30-89 days	512	-	512	-
Total past due but not impaired loans	1,129	-	1,129	-
Impaired loans				
- overdue 90-179 days	41	-	41	-
- overdue more than 360 days	109	90	19	82.57
Total impaired loans	150	90	60	60.00
<b>Total other loans to retail customers</b>	<b>7,589</b>	<b>90</b>	<b>7,499</b>	<b>1.19</b>
<b>Total loans to retail customers</b>	<b>76,844</b>	<b>9,600</b>	<b>67,244</b>	<b>12.49</b>
<b>Total loans to customers</b>	<b>110,250</b>	<b>9,863</b>	<b>100,387</b>	<b>8.95</b>

The following table provides summary of information on the credit quality of loans to customers as at 31 December 2015:

	<b>Gross loans AZN'000</b>	<b>Impairment allowance AZN'000</b>	<b>Net loans AZN'000</b>	<b>Impairment allowance to gross loans, %</b>
Current loans without signs of impairment	81,843	630	81,213	0.77
Past due but not impaired loans				
- overdue less than 30 days	14,286	1,330	12,956	9.31
- overdue 30-89 days	5,598	1,339	4,259	23.92
Total past due but not impaired loans	19,884	2,669	17,215	13.42
Impaired loans				
- not overdue	211	40	171	18.96
- overdue 90-179 days	2,313	1,578	735	68.22
- overdue 180-360 days	3,515	2,901	614	82.53
- overdue more than 360 days	2,484	2,045	439	82.33
Total impaired loans	8,523	6,564	1,959	77.02
<b>Total loans to customers</b>	<b>110,250</b>	<b>9,863</b>	<b>100,387</b>	<b>8.95</b>

As at 31 December 2016, included in the loan portfolio were renegotiated loans to corporate and retail customers that would otherwise be past due or impaired of AZN 1,016 thousand and AZN 9,155 thousand, respectively (2015: AZN 1,616 thousand and AZN 1,172 thousand, respectively). Such restructuring activity is aimed at managing customer relationships and maximising collection opportunities. Renegotiated loans are included in the category of assets without individual signs of impairment in the tables above, unless the borrower fails to comply with the renegotiated terms.

As at 31 December 2016, included in significant loans of over AZN 300 thousand with signs of impairment in the total gross amount of AZN 39,602 thousand was accrued overdue interest in the amount of AZN 491 thousand (2015: AZN 45,682 thousand with included accrued overdue interest in the amount of AZN 145 thousand).

**(b) Key assumptions and judgments for estimating the loan impairment**

Loan impairment results from one or more events that occurred after the initial recognition of the loan and that have an impact on the estimated future cash flows associated with the loan, and that can be reliably estimated. Loans without individual signs of impairment do not have objective evidence of impairment that can be directly attributed to them.

In determining the impairment allowance for significant loans to customers, management considers the following key factors:

- overdue payments under the loan agreement;
- significant difficulties in the financial conditions of the borrower;
- deterioration in business environment, negative changes in the borrower's markets.

The Bank estimates loan impairment for significant loans with signs of impairment based on an individual review of each loan and estimation of its future cash flows. This estimate of future cash flows is dependent on factors such as the estimated value of underlying collateral and delay of 12 to 36 months in obtaining proceeds from the foreclosure of collateral. The Bank then calculates the net present value of these cash flows using a discount rate which equates to the original effective interest rate of the loan, in order to determine the required amount of loan loss provision.

For the remaining portfolio of loans with signs of impairment which are not individually significant, and for loans without individual signs of impairment, the Bank calculates collective provisions for impairment based on the historic loss migration pattern for the past 24 months. This collective provision reflects the Bank's estimate of the impairment losses inherent in the portfolio which have been incurred but which have not been specifically identified at the reporting date. The key areas of uncertainty and assumptions used in the calculation of the collective provision relate to the expected loss development period, and the extent to which loss rates experienced in previous reporting periods will continue in future periods.

Changes in these estimates could affect the loan impairment provision. For example, to the extent that the net present value of the estimated cash flows differs by one percent, the impairment allowance on loans to customers as at 31 December 2016 would be AZN 1,279 thousand lower/higher (2015: AZN 1,004 thousand lower/higher).

**(c) Analysis of collateral and other credit enhancements**

Loans to corporate customers are subject to individual credit appraisal. The general creditworthiness of a corporate customer tends to be the most relevant indicator of credit quality of the loan extended to it. However, collateral provides additional security and the Bank generally requests corporate borrowers to provide it.

The following tables provide information on collateral and other credit enhancements securing loans to corporate customers, net of impairment, by types of collateral:

	<b>2016</b> <b>AZN'000</b>	<b>2015</b> <b>AZN'000</b>
Loans without individual signs of impairment		
Real estate	13,774	8,586
Cash and deposits	5,746	4,694
Equipment	506	5,159
Banking guarantees and sureties received from legal entities (unrated)	-	2,023
No collateral or other credit enhancement	2,675	4,956
Total loans without individual signs of impairment	<u>22,701</u>	<u>25,418</u>
Overdue or impaired loans		
Real estate	1,512	690
Banking guarantees and sureties received from legal entities (unrated)	-	60
No collateral or other credit enhancement	6,045	6,975
Total overdue or impaired loans	<u>7,557</u>	<u>7,725</u>
<b>Total loans to corporate customers</b>	<b><u>30,258</u></b>	<b><u>33,143</u></b>

The following tables provide information on real estate collateral securing mortgage loans, net of impairment:

	<b>2016</b> <b>AZN'000</b>	<b>2015</b> <b>AZN'000</b>
Loans without individual signs of impairment	62,440	5,338
Impaired loans	2,604	58
<b>Total mortgage loans</b>	<b><u>65,044</u></b>	<b><u>5,396</u></b>

Mortgage loans are secured by the underlying housing real estate. The Bank's policy is to issue mortgage loans with a loan-to-value ratio of a maximum of 70%.



The following tables provide information on collateral and other credit enhancements securing loans to entrepreneurs, net of impairment, by types of collateral:

	<b>2016</b> <b>AZN'000</b>	<b>2015</b> <b>AZN'000</b>
Loans without individual signs of impairment		
Real estate	7,627	5,862
Equipments	111	
Banking guarantees and sureties received from legal entities (unrated)	-	1,161
No collateral or other credit enhancement	706	8,521
Total loans without individual signs of impairment	8,444	15,544
Overdue or impaired loans		
Real estate	948	1,484
No collateral or other credit enhancement	2,407	3,596
Total overdue or impaired loans	3,355	5,080
<b>Total loans to entrepreneurs</b>	<b>11,799</b>	<b>20,624</b>

The following tables provide information on collateral and other credit enhancements securing consumer loans, net of impairment, by types of collateral:

	<b>2016</b> <b>AZN'000</b>	<b>2015</b> <b>AZN'000</b>
Loans without individual signs of impairment		
Real estate	3,841	7,186
Cash and deposits	3,674	3,355
Equipments	69	282
Precious metals	5	-
No collateral or other credit enhancement	2,499	4,456
Total loans without individual signs of impairment	10,088	15,279
Overdue or impaired loans		
Real estate	1,236	840
Cash and deposits	46	50
Equipments	4	73
No collateral or other credit enhancement	828	1,483
Total overdue or impaired loans	2,114	2,446
<b>Total consumer loans</b>	<b>12,202</b>	<b>17,725</b>

The following tables provide information on collateral and other credit enhancements securing credit cards, net of impairment, by types of collateral:

	2016 AZN'000	2015 AZN'000
Loans without individual signs of impairment		
Cash and deposits	228	594
Real estate	9	-
Equipments	-	12
No collateral or other credit enhancement	724	1,377
Total loans without individual signs of impairment	961	1,983
Overdue or impaired loans		
No collateral or other credit enhancement	6	2
Total overdue or impaired loans	6	2
<b>Total credit cards</b>	<b>967</b>	<b>1,985</b>

The tables above exclude overcollateralization.

Auto loans are secured by the underlying cars. The Bank's policy is to issue auto loans with a loan-to-value ratio of a maximum of 50%. Other loans to retail customers comprise loans whose purpose is home repair and construction and those loans are also secured by underlying real estate property.

Fair value of collateral was assessed at the loan inception date and it was not updated for further changes for all loans of the Bank. Information on valuation of collateral is based on when this estimate was made, if any.

For loans secured by multiple types of collateral, collateral that is most relevant for impairment assessment is disclosed. Sureties received from individuals, such as shareholders of SME borrowers, are not considered for impairment assessment purposes. Accordingly, such loans and unsecured portions of partially secured exposures are presented as loans without collateral or other credit enhancement.

The recoverability of loans which are neither past due nor impaired is primarily dependent on the creditworthiness of the borrowers rather than the value of collateral, and the Bank does not necessarily update the valuation of collateral as at each reporting date.

For certain mortgage loans the Bank updates the appraised values of collateral obtained at inception of the loan to the current values considering the approximate changes in property values. For other mortgage loans, the fair value of collateral was estimated at inception of the loans and was not adjusted for subsequent changes to the reporting date.

#### ***Repossessed collateral***

During the year ended 31 December 2016, the Bank did not obtain any assets by taking possession of collateral for loans to customers (2015: nil).

**(d) Industry and geographical analysis of the loan portfolio**

Loans to customers were issued primarily to customers located within the Republic of Azerbaijan who operate in the following economic sectors:

	<b>2016</b>	<b>2015</b>
	<b>AZN'000</b>	<b>AZN'000</b>
Loans to corporate customers		
- trade and services	22,706	29,461
- agriculture	3,181	-
- construction	2,868	3,505
- transportation and communication	543	338
- health	240	-
- other	1,244	102
Loans to retail customers	116,735	76,844
<b>Gross loans to customers</b>	<b>147,517</b>	<b>110,250</b>
Impairment allowance	(19,645)	(9,863)
<b>Net loans to customers</b>	<b>127,872</b>	<b>100,387</b>

**(e) Significant credit exposures**

As at 31 December 2016 the Bank has one borrower (2015: one borrower) whose loan balance exceeds 10% of equity. The gross value of this loan as at 31 December 2016 is AZN 5,746 thousand (2015: AZN 5,080 thousand).

**(f) Loan maturities**

The maturity of the loan portfolio is presented in note 21, which shows the remaining period from the reporting date to the contractual maturity of the loans. Due to the short-term nature of the loans issued by the Bank, it is likely that many of the loans will be prolonged at maturity. Accordingly, the effective maturity of the loan portfolio may be significantly longer than the term based on contractual terms.

## 14 Investment property

Investment property is comprised of 3 floors, 1510 square-meters of total area, of Head office of the Bank rented out. The Bank transferred aforementioned property into investment property to rent out under lease agreements to collect rental income.

The following table provides the reconciliation between the carrying amounts of investment property at the beginning and end of the period:

	<b>Investment property AZN'000</b>
<b>Cost</b>	
Balance at 1 January 2016	-
Transfer from property, equipment and intangible assets	13,867
<b>Balance at 31 December 2016</b>	<b>13,867</b>
<b>Depreciation</b>	
Balance at 1 January 2016	-
Transfer from property, equipment and intangible assets	(105)
Depreciation charge	(181)
<b>Balance at 31 December 2016</b>	<b>(286)</b>
<b>Carrying amount</b>	
<b>At 31 December 2016</b>	<b>13,581</b>

As at 31 December 2016, investment property was carried at initial cost. Management believes that the fair value of investment property as at 31 December 2016 approximated its cost.

Rental income and direct operating expenses arising from investment property were as follows:

	<b>2016 AZN'000</b>	<b>2015 AZN'000</b>
Rental income	214	-
Expense arising from lease of property	(44)	-
<b>Net gain from investment property</b>	<b>170</b>	<b>-</b>

## 15 Property, equipment and intangible assets

AZN'000	Buildings	Computers and communication equipment	Furniture and fixtures	Vehicles	Total property and equipment	Computer software	Total property, equipment and intangible assets
<b>Cost</b>							
Balance at 1 January 2016	47,030	802	2,729	1,481	52,042	292	52,334
Additions	-	69	1,043	309	1,421	98	1,519
Disposals	-	-	(3)	(402)	(405)	-	(405)
Transfer to investment property	(13,867)	-	-	-	(13,867)	-	(13,867)
<b>Balance at 31 December 2016</b>	<b>33,163</b>	<b>871</b>	<b>3,769</b>	<b>1,388</b>	<b>39,191</b>	<b>390</b>	<b>39,581</b>
<b>Depreciation and amortisation</b>							
Balance at 1 January 2016	(806)	(584)	(1,148)	(786)	(3,324)	(87)	(3,411)
Depreciation and amortisation for the year	(483)	(206)	(438)	(150)	(1,277)	(37)	(1,314)
Disposals	-	-	2	282	284	-	284
Transfer to investment property	105	-	-	-	105	-	105
<b>Balance at 31 December 2016</b>	<b>(1,184)</b>	<b>(790)</b>	<b>(1,584)</b>	<b>(654)</b>	<b>(4,212)</b>	<b>(124)</b>	<b>(4,336)</b>
<b>Carrying amount</b>							
<b>At 31 December 2016</b>	<b>31,979</b>	<b>81</b>	<b>2,185</b>	<b>734</b>	<b>34,979</b>	<b>266</b>	<b>35,245</b>

**Bank BTB Open Joint-Stock Company**  
*Notes to, and forming part of, the financial statements for the year ended 31 December 2016*

<b>AZN'000</b>	<b>Buildings</b>	<b>Computers and communication equipment</b>	<b>Furniture and fixtures</b>	<b>Vehicles</b>	<b>Construction in progress</b>	<b>Total property and equipment</b>	<b>Computer software</b>	<b>Total property, equipment and intangible assets</b>
<b>Cost</b>								
Balance at 1 January 2015	2,875	684	1,225	1,366	33,152	39,302	250	39,552
Additions	355	118	154	292	11,998	12,917	42	12,959
Disposals	-	-	-	(177)	-	(177)	-	(177)
Transfer	43,800	-	1,350	-	(45,150)	-	-	-
<b>Balance at 31 December 2015</b>	<b>47,030</b>	<b>802</b>	<b>2,729</b>	<b>1,481</b>	<b>-</b>	<b>52,042</b>	<b>292</b>	<b>52,334</b>
<b>Depreciation and amortisation</b>								
Balance at 1 January 2015	(367)	(488)	(811)	(564)	-	(2,230)	(59)	(2,289)
Depreciation and amortisation for the year	(439)	(97)	(337)	(284)	-	(1,157)	(28)	(1,185)
Disposals	-	1	-	62	-	63	-	63
<b>Balance at 31 December 2015</b>	<b>(806)</b>	<b>(584)</b>	<b>(1,148)</b>	<b>(786)</b>	<b>-</b>	<b>(3,324)</b>	<b>(87)</b>	<b>(3,411)</b>
<b>Carrying amount</b>								
<b>At 31 December 2015</b>	<b>46,224</b>	<b>218</b>	<b>1,581</b>	<b>695</b>	<b>-</b>	<b>48,718</b>	<b>205</b>	<b>48,923</b>
<b>At 1 January 2015</b>	<b>2,508</b>	<b>196</b>	<b>414</b>	<b>802</b>	<b>33,152</b>	<b>37,072</b>	<b>191</b>	<b>37,263</b>

As at 31 December 2016 and 2015 included in property and equipment were fully depreciated assets of AZN 2,146 thousand and AZN 1,157 thousand, respectively.

Buildings owned by the Bank are carried at cost.

## 16 Other assets

	2016 AZN'000	2015 AZN'000
Due from payment systems	610	107
Credit and debit cards receivables	170	51
Other receivables	10	12
<b>Total other financial assets</b>	<b>790</b>	<b>170</b>
Prepayments for property and equipment	601	898
Advances paid to tax authorities	338	539
Deferred expenses	80	57
Other	98	70
<b>Total other non-financial assets</b>	<b>1,117</b>	<b>1,564</b>
	<b>1,907</b>	<b>1,734</b>

As at 31 December 2016 and 2015, the Bank did not have overdue other assets.

## 17 Deposits and balances from banks

	2016 AZN'000	2015 AZN'000
Term placements of banks	5,756	19,900
Correspondent accounts and overnight placements of banks	-	5,195
	<b>5,756</b>	<b>25,095</b>

As at 31 December 2016 the Bank had one bank (2015: two banks), whose balance exceeded 10% of equity. The gross value of this balance as at 31 December 2016 was AZN 5,756 thousand (2015: AZN 12,056 thousand).

## 18 Current accounts and deposits from customers

	2016 AZN'000	2015 AZN'000
<b>Current accounts and demand deposits</b>		
- Retail	5,876	9,326
- Corporate	1,726	1,568
<b>Term deposits</b>		
- Retail	58,973	72,299
- Corporate	14,364	13,500
	<b>80,939</b>	<b>96,693</b>

As at 31 December 2016, the Bank had 4 customers (2015: 2 customers), whose balances exceeded 10% of equity. The total amount of these balances as at 31 December 2016 are AZN 21,946 thousand (2015: AZN 13,314 thousand).

As at 31 December 2016, the Bank maintained customer deposit balances of AZN 9,694 thousand (2015: AZN 12,524 thousand) that serve as collateral for loans and unrecognized credit instruments granted by the Bank.



## 19 Other borrowed funds and subordinated borrowings

	2016 AZN'000	2015 AZN'000
<b>Subordinated borrowings</b>	<b>15,122</b>	<b>-</b>
<b>Other borrowed funds</b>		
Mortgage Fund of the Republic of Azerbaijan	65,095	4,506
Central Bank of the Republic of Azerbaijan	30,930	33,003
Other	4,377	340
<b>Total other borrowed funds</b>	<b>100,402</b>	<b>37,849</b>
	<b>115,524</b>	<b>37,849</b>

As at 31 December 2016, other borrowed funds comprise loans received from financial institutions maturing in between 2017 and 2045 and carry an annual interest rate of 1-4%.

As at 31 December 2016, subordinated borrowings comprise loans received from related parties maturing on 12 March 2023 and carry an annual interest rate of 9%. In case of bankruptcy, the repayment of the subordinated borrowings will be made after repayment in full of all other liabilities of the Bank.

## 20 Share capital

The authorised, issued and outstanding share capital comprises 52,000 ordinary shares (31 December 2015: 52,000). All shares have a nominal value of AZN 1,000 per share. During 2016 no shares (2015: 7,160) were issued for cash.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at annual and general meetings of the Bank.

## 21 Risk management, corporate governance and internal control

Management of risk is fundamental to the business of banking and is an essential element of the Bank's operations. The major risks faced by the Bank are those related to market risk, credit risk and liquidity risk.

### (a) Corporate governance framework

The Bank is established as an open joint-stock company in accordance with Azerbaijani law. The supreme governing body of the Bank is the General Shareholders' meeting that is called for annual or extraordinary meetings. The General Shareholders' meeting makes strategic decisions on the Bank's operations.

The General Shareholders' meeting elects the Supervisory Board. The Supervisory Board is responsible for overall governance of the Bank's activities.

Azerbaijani legislation and the charter of the Bank establish lists of decisions that are exclusively approved by the General Shareholders' meeting and that are approved by the Supervisory Board.

As at 31 December 2016 the Supervisory Board includes:

Rza Sadiq – Chairman of the Supervisory Board

Alish Tagiyev – Member of the Supervisory Board

Asim Salamov – Member of the Supervisory Board

During the year ended 31 December 2016 no changes occurred in composition of the Supervisory Board.

General activities of the Bank are managed by the collective executive body of the Bank. The General Shareholders' meeting elects the Management Board. The executive body of the Bank is responsible for implementation of decisions of the General Shareholders' meeting and the Supervisory Board of the Bank. Executive body of the Bank reports to the Supervisory Board of the Bank and to the General Shareholders' meeting.

As at 31 December 2016 the Management Board includes:

Samir Gojayev - Chairman of the Management Board

Rufat Abbasov – Deputy Chairman of the Management Board

Ergin Guliyev - Member of the Management Board

Vusal Shahverdiyev - Member of the Management Board

Roma Aliyev - Member of the Management Board

During the year ended 31 December 2016 no changes occurred in composition of the Management Board.

**(b) Internal control policies and procedures**

The Supervisory Board and the Management Board have responsibility for the development, implementation and maintaining of internal controls in the Bank that are commensurate with the scale and nature of operations.

The purpose of internal controls is to ensure:

- proper and comprehensive risk assessment and management
- proper business and accounting and financial reporting functions, including proper authorization, processing and recording of transactions
- completeness, accuracy and timeliness of accounting records, managerial information, regulatory reports, etc.
- reliability of IT-systems, data and systems integrity and protection
- prevention of fraudulent or illegal activities, including misappropriation of assets
- compliance with laws and regulations.

Management is responsible for identifying and assessing risks, designing controls and monitoring their effectiveness. Management monitors the effectiveness of the Bank's internal controls and periodically implements additional controls or modifies existing controls as considered necessary.

The Bank developed a system of standards, policies and procedures to ensure effective operations and compliance with relevant legal and regulatory requirements, including the following areas:

- requirements for appropriate segregation of duties, including the independent authorization of transactions
- requirements for the recording, reconciliation and monitoring of transactions
- compliance with regulatory and other legal requirements
- documentation of controls and procedures
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified
- requirements for the reporting of operational losses and proposed remedial action

- development of contingency plans
- training and professional development
- ethical and business standards and
- risk mitigation, including insurance where this is effective.

There is a hierarchy of requirements for authorization of transactions depending on their size and complexity. A significant portion of operations are automated and the Bank put in place a system of automated controls.

The main functions of Internal Audit service include the following:

- audit and efficiency assessment of the system of internal control as a whole, fulfillment of the decisions of key management structures
- audit of efficiency of methodology of assessment of banking risks and risk management procedures, regulated by internal documents in credit organisation (methods, programmes, rules and procedures for banking operations and transactions, and for the management of banking risks)
- audit of reliability of internal control system over automated information systems
- audit and testing of fairness, completeness and timeliness of accounting and reporting function and the reliability (including the trustworthiness, fullness and objectivity) of the collection and submission of financial information
- audit of applicable methods of safekeeping the credit organisation's property
- assessment of economic reasonability and efficiency of operations and other deals
- audit of internal control processes and procedures
- audit of internal control service and risk management service.

Compliance with the Bank's standards is supported by a program of periodic reviews undertaken by Internal Audit. The Internal Audit function is independent from management and reports directly to the Audit Committee and the Supervisory Board. The results of Internal Audit reviews are discussed with relevant business process managers, with summaries submitted to the Audit Committee and the Supervisory Board and senior management of the Bank.

The internal control system in the Bank comprises:

- the Supervisory Board and its committees,
- the Chief Executive officer and the Management Board
- the Chief Accountant
- the risk management function
- the security function, including IT-security
- the human resource function
- the Internal Audit service
- other employees, divisions and functions that are responsible for compliance with the established standards, policies and procedures, including:
  - heads of branches and heads of business-units
  - business processes managers
  - division responsible for compliance with anti-money laundering requirements

- the legal officer – an employee responsible for compliance with the legal and regulatory requirements
- other employees with control responsibilities

Management believes that the Bank complies with the FIMSA requirements related to risk management and internal control systems, including requirements related to the Internal Audit function, and that risk management and internal control systems are appropriate for the scale, nature and complexity of operations.

**(c) Risk management policies and procedures**

The risk management policies aim to identify, analyse and manage the risks faced by the Bank, to set appropriate risk limits and controls, and to continuously monitor risk levels and adherence to limits. Risk management policies and procedures are reviewed regularly to reflect changes in market conditions, products and services offered and emerging best practice.

The Supervisory Board has overall responsibility for the oversight of the risk management framework, overseeing the management of key risks and reviewing its risk management policies and procedures as well as approving significantly large exposures.

The Management Board is responsible for monitoring and implementing risk mitigation measures, and ensuring that the Bank operates within established risk parameters.

The Head of the Risk Department is responsible for the overall risk management and compliance functions, ensuring the implementation of common principles and methods for identifying, measuring, managing and reporting both financial and non-financial risks. He reports directly to the responsible member of the Management Board.

Credit, market and liquidity risks both at the portfolio and transactional levels are managed and controlled through a system of Credit Committees and an Asset and Liability Management Committee (ALCO). In order to facilitate efficient and effective decision-making, the Bank established a hierarchy of Credit Committees depending on the type and amount of the exposure.

Both external and internal risk factors are identified and managed throughout the organisation. Particular attention is given to identifying the full range of risk factors and determination of the level of assurance over the current risk mitigation procedures. Apart from the standard credit and market risk analysis, the Risk Department monitors financial and non-financial risks by holding regular meetings with operational units in order to obtain expert judgments in their areas of expertise.

**(d) Market risk**

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises currency risk, interest rate risk and other price risks. Market risk arises from open positions in interest rate and equity financial instruments, which are exposed to general and specific market movements and changes in the level of volatility of market prices and foreign currency rates.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, whilst optimizing the return on risk.

Overall authority for market risk is vested in the ALCO, which is chaired by the Chairman of the Management Board. Market risk limits are approved by ALCO based on recommendations of the Risk Department.

The Bank manages its market risk by setting open position limits in relation to financial instruments, interest rate maturity and currency positions and stop-loss limits. These are monitored on a regular basis and reviewed and approved by the Supervisory Board.

**(i) Interest rate risk**

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

**Interest rate gap analysis**

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

AZN '000	Less than 1 month	1-3 months	3-12 months	1-5 years	More than 5 years	Non- interest bearing	Carrying amount
<b>31 December 2016</b>							
<b>ASSETS</b>							
Cash and cash equivalents	-	-	-	-	-	21,230	21,230
Due from banks	2	-	2,544	-	-	36,889	39,435
Loans to customers	9,631	7,272	15,928	31,483	63,558	-	127,872
Other financial assets	-	-	-	-	-	790	790
	<b>9,633</b>	<b>7,272</b>	<b>18,472</b>	<b>31,483</b>	<b>63,558</b>	<b>58,909</b>	<b>189,327</b>
<b>LIABILITIES</b>							
Deposits and balances from banks	1	-	5,755	-	-	-	5,756
Current accounts and deposits from customers	7,385	8,354	39,743	17,855	-	7,602	80,939
Other borrowed funds	415	395	32,862	10,269	56,461	-	100,402
Subordinated borrowings	71	-	-	-	15,051	-	15,122
	<b>7,872</b>	<b>8,749</b>	<b>78,360</b>	<b>28,124</b>	<b>71,512</b>	<b>7,602</b>	<b>202,219</b>
	<b>1,761</b>	<b>(1,477)</b>	<b>(59,888)</b>	<b>3,359</b>	<b>(7,954)</b>	<b>51,307</b>	<b>(12,892)</b>

AZN '000	Less than 1 month	1-3 months	3-12 months	1-5 years	More than 5 years	Non- interest bearing	Carrying amount
<b>31 December 2015</b>							
<b>ASSETS</b>							
Cash and cash equivalents	-	-	-	-	-	9,536	9,536
Due from banks	2	-	16	-	-	47,102	47,120
Loans to customers	7,338	10,214	26,833	38,542	17,460	-	100,387
Other financial assets	-	-	-	-	-	170	170
	<b>7,340</b>	<b>10,214</b>	<b>26,849</b>	<b>38,542</b>	<b>17,460</b>	<b>56,808</b>	<b>157,213</b>
<b>LIABILITIES</b>							
Deposits and balances from banks	329	4,679	14,892	-	-	5,195	25,095
Current accounts and deposits from customers	6,384	20,836	39,037	19,542	-	10,894	96,693
Other borrowed funds	112	112	33,177	842	3,606	-	37,849
Other financial liabilities	-	-	-	-	-	107	107
	<b>6,825</b>	<b>25,627</b>	<b>87,106</b>	<b>20,384</b>	<b>3,606</b>	<b>16,196</b>	<b>159,744</b>
	<b>515</b>	<b>(15,413)</b>	<b>(60,257)</b>	<b>18,158</b>	<b>13,854</b>	<b>40,612</b>	<b>(2,531)</b>

Interest rate gaps are managed principally through refinancing of interest bearing liabilities maturing in respective maturity bands with liabilities at equal or lower interest rates.

#### *Average effective interest rates*

The table below displays average effective interest rates for interest bearing assets and liabilities as at 31 December 2016 and 2015. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	2016			2015		
	Average effective interest rate, %			Average effective interest rate, %		
	AZN	USD	EUR	AZN	USD	EUR
<b>Interest bearing assets</b>						
Due from banks	-	6.00%	-	2.00%	-	-
Loans to customers	10.84%	17.81%	18.45%	15.36%	17.75%	22.67%
<b>Interest bearing liabilities</b>						
Deposits and balances from banks	-	5.42%	-	1.24%	6.15%	-
Current accounts and deposits from customers	8.74%	7.12%	-	11.61%	10.85%	7.93%
Other borrowed funds	3.00%	-	-	3.78%	-	-
Subordinated borrowings	-	9.00%	-	-	-	-

### **Interest rate sensitivity analysis**

The management of interest rate risk based on interest rate gap analysis, is supplemented by monitoring the sensitivity of financial assets and liabilities. An analysis of sensitivity of net profit or loss and equity (net of taxes) to changes in interest rates (repricing risk), based on a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves and positions of interest-bearing assets and liabilities existing as at 31 December 2016 and 2015 is as follows:

	<b>2016</b> <b>AZN'000</b>	<b>2015</b> <b>AZN'000</b>
100 bp parallel fall	23,503	32,959
100 bp parallel rise	(23,503)	(32,959)

### **(ii) Currency risk**

The Bank has assets and liabilities denominated in several foreign currencies.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign currency exchange rates. Although the Bank hedges its exposure to currency risk, such activities do not qualify as hedging relationships in accordance with IFRS.

The following table shows the foreign currency exposure structure of financial assets and liabilities as at 31 December 2016:

	<b>AZN</b> <b>AZN'000</b>	<b>USD</b> <b>AZN'000</b>	<b>EUR</b> <b>AZN'000</b>	<b>Other</b> <b>currencies</b> <b>AZN'000</b>	<b>Total</b> <b>AZN'000</b>
<b>ASSETS</b>					
Cash and cash equivalents	6,185	13,597	917	531	21,230
Due from banks	58	39,377	-	-	39,435
Loans to customers	103,862	23,646	364	-	127,872
Other financial assets	645	119	1	25	790
<b>Total financial assets</b>	<b>110,750</b>	<b>76,739</b>	<b>1,282</b>	<b>556</b>	<b>189,327</b>
<b>LIABILITIES</b>					
Deposits and balances from banks	-	5,756	-	-	5,756
Current accounts and deposits from customers	16,744	63,250	777	168	80,939
Other borrowed funds	100,402	-	-	-	100,402
Subordinated borrowings	-	15,122	-	-	15,122
<b>Total financial liabilities</b>	<b>117,146</b>	<b>84,128</b>	<b>777</b>	<b>168</b>	<b>202,219</b>
<b>Net position</b>	<b>(6,396)</b>	<b>(7,389)</b>	<b>505</b>	<b>388</b>	



The following table shows the currency structure of financial assets and liabilities as at 31 December 2015:

	<b>AZN</b>	<b>USD</b>	<b>EUR</b>	<b>Other</b>	<b>Total</b>
	<b>AZN'000</b>	<b>AZN'000</b>	<b>AZN'000</b>	<b>currencies</b>	<b>AZN'000</b>
				<b>AZN'000</b>	
<b>ASSETS</b>					
Cash and cash equivalents	1,025	7,205	1,291	15	9,536
Due from banks	3	47,117	-	-	47,120
Loans to customers	47,331	52,854	202	-	100,387
Other financial assets	113	56	1	-	170
<b>Total financial assets</b>	<b>48,472</b>	<b>107,232</b>	<b>1,494</b>	<b>15</b>	<b>157,213</b>
<b>LIABILITIES</b>					
Deposits and balances from banks	5,195	19,900	-	-	25,095
Current accounts and deposits from customers	6,577	89,391	725	-	96,693
Other borrowed funds	37,849	-	-	-	37,849
Other financial liabilities	82	21	4	-	107
<b>Total financial liabilities</b>	<b>49,703</b>	<b>109,312</b>	<b>729</b>	<b>-</b>	<b>159,744</b>
<b>Net position</b>	<b>(1,231)</b>	<b>(2,080)</b>	<b>765</b>	<b>15</b>	

The Bank manages currency position and reports for compliance purposes based on statutory amounts.

A weakening of the AZN, as indicated below, against the following currencies at 31 December 2016 and 2015, would have decreased equity and profit or loss by the amounts shown below. This analysis is on net of tax basis and is based on foreign currency exchange rate variances that the Bank considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

	<b>2016</b>	<b>2015</b>
	<b>AZN'000</b>	<b>AZN'000</b>
50% appreciation of USD against AZN	(2,956)	(832)
50% appreciation of EUR against AZN	202	306

A strengthening of the AZN against the above currencies at 31 December 2016 and 2015 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

### (iii) **Credit risk**

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Bank has policies and procedures for the management of credit exposures (both for recognised financial assets and unrecognised contractual commitments), including guidelines to limit portfolio concentration and the establishment of a Credit Committee, which actively monitors credit risk. The credit policy is reviewed and approved by the Supervisory Board.

The credit policy establishes:

- procedures for review and approval of loan credit applications;
- methodology for the credit assessment of borrowers (corporate and retail);
- methodology for the credit assessment of counterparties, issuers and insurance companies;
- methodology for the evaluation of collateral;

- credit documentation requirements;
- procedures for the ongoing monitoring of loans and other credit exposures.

Corporate loan credit applications are originated by the relevant client managers and are then passed on to the Loan Department, which is responsible for the corporate loan portfolio. Analysis reports are based on a structured analysis focusing on the customer's business and financial performance. The loan credit application and the report are then independently reviewed by the Risk Management Department and a second opinion is given accompanied by a verification that credit policy requirements are met. The Credit Committee reviews the loan credit application on the basis of submissions by the Loan Department and the Risk Department. Individual transactions are also reviewed by the Credit Supervision Department as well as Legal, Accounting and Tax Departments depending on the specific risks and pending final approval of the Credit Committee.

The Bank continuously monitors the performance of individual credit exposures and regularly reassesses the creditworthiness of its customers. The review is based on the customer's most recent financial statements and other information submitted by the borrower, or otherwise obtained by the Bank. Retail loan credit applications are reviewed by the Sales Department through the use of scoring models and application data verification procedures developed together with the Risk Management Department.

Apart from individual customer analysis, the credit portfolio is assessed by the Risk Management Department with regard to credit concentration and market risks.

The maximum exposure to credit risk is generally reflected in the carrying amounts of financial assets in the statement of financial position and unrecognised contractual commitment amounts. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

The maximum exposure to credit risk from financial assets at the reporting date is as follows:

	<b>2016</b> <b>AZN'000</b>	<b>2015</b> <b>AZN'000</b>
<b>ASSETS</b>		
Cash and cash equivalents (excluding cash on hand)	11,981	6,577
Due from banks	39,435	47,120
Loans to customers	127,872	100,387
Other financial assets	790	170
Commitments on loans and unused credit lines	4,964	2,553
Guarantees issued and similar commitments	7,024	5,426
<b>Total maximum exposure</b>	<b>192,097</b>	<b>162,233</b>

For the analysis of collateral held against loans to customers and concentration of credit risk in respect of loans to customers refer to note 13.

The maximum exposure to credit risk from unrecognised contractual commitments at the reporting date is presented in note 23.

In these financial statements ratings of financial assets and financial liabilities are disclosed in terms of Fitch ratings.

#### **(iv) Liquidity risk**

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. 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 liquidity management. It is unusual for financial institutions 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 Bank maintains liquidity management with the objective of ensuring that funds will be available at all times to honor all cash flow obligations as they become due. The liquidity policy is reviewed and approved by the Supervisory Board.

The Bank seeks to actively support a diversified and stable funding base comprising long-term and short-term loans from other banks, core corporate and retail customer deposits, accompanied by diversified portfolios of highly liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

The liquidity management policy requires:

- projecting cash flows by major currencies and considering the level of liquid assets necessary in relation thereto;
- maintaining a diverse range of funding sources;
- managing the concentration and profile of debts;
- maintaining debt financing plans;
- maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any interruption to cash flow;
- maintaining liquidity and funding contingency plans;
- monitoring liquidity ratios against regulatory requirements.

The Treasury Department receives information from business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. The Treasury Department then provides for an adequate portfolio of short-term liquid assets to be maintained, largely made up of short-term liquid trading securities, loans to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Bank as a whole.

The daily liquidity position is monitored and regular liquidity stress testing under a variety of scenarios covering both normal and more severe market conditions is performed by the Treasury Department. Under the normal market conditions, liquidity reports covering the liquidity position are presented to senior management on a weekly basis. Decisions on liquidity management are made by ALCO and implemented by the Treasury Department.

The following tables show the undiscounted cash flows on financial assets, liabilities and credit-related commitments on the basis of their earliest possible contractual maturity. The total gross outflow disclosed in the tables is the contractual, undiscounted cash flow on the financial liability or credit related commitment. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee can be called.

The maturity analysis for financial liabilities as at 31 December 2016 is as follows:

AZN'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	Total gross amount outflow	Carrying amount
<b>Non-derivative liabilities</b>							
Deposits and balances from banks	25	48	5,917	-	-	5,990	5,756
Current accounts and deposits from customers	15,531	9,098	41,862	19,953	-	86,444	80,939
Other borrowed funds	622	857	34,681	16,713	67,653	120,526	100,402
Subordinated borrowings	184	226	1,016	5,418	16,789	23,633	15,122
<b>Total financial liabilities</b>	<b>16,362</b>	<b>10,229</b>	<b>83,476</b>	<b>42,084</b>	<b>84,442</b>	<b>236,593</b>	<b>202,219</b>
<b>Credit related commitments</b>	<b>11,988</b>	-	-	-	-	<b>11,988</b>	<b>11,988</b>

The maturity analysis for financial liabilities as at 31 December 2015 is as follows:

AZN'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	Total gross amount outflow	Carrying amount
<b>Non-derivative liabilities</b>							
Deposits and balances from banks	566	4,933	15,569	1,227	5,645	27,940	25,095
Current accounts and deposits from customers	18,021	21,984	42,139	22,808	-	104,952	96,693
Other borrowed funds	206	300	33,771	1,297	4,628	40,202	37,849
Other financial liabilities	107	-	-	-	-	107	107
<b>Total financial liabilities</b>	<b>18,900</b>	<b>27,217</b>	<b>91,479</b>	<b>25,332</b>	<b>10,273</b>	<b>173,201</b>	<b>159,744</b>
<b>Credit related commitments</b>	<b>7,979</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>7,979</b>	<b>7,979</b>

In accordance with Azerbaijani legislation, individuals and legal entities can withdraw their term deposits at any time, forfeiting in most of the cases the accrued interest. These deposits are classified in accordance with their stated maturity dates. The management of the Bank does not expect that individuals and legal entities withdraw their term deposits before their stated maturity dates.

The table below shows an analysis, by contractual maturities, of the amounts recognised in the statement of financial position as at 31 December 2016:

<b>AZN'000</b>	<b>Demand and less than 1 month</b>	<b>From 1 to 3 months</b>	<b>From 3 to 12 months</b>	<b>From 1 to 5 years</b>	<b>More than 5 years</b>	<b>Overdue</b>	<b>Total</b>
Cash and cash equivalents	21,230	-	-	-	-	-	21,230
Due from banks	662	-	38,773	-	-	-	39,435
Loans to customers	9,630	7,273	15,928	22,914	63,558	8,569	127,872
Other financial assets	790	-	-	-	-	-	790
<b>Total financial assets</b>	<b>32,312</b>	<b>7,273</b>	<b>54,701</b>	<b>22,914</b>	<b>63,558</b>	<b>8,569</b>	<b>189,327</b>
Deposits and balances from banks	1	-	5,755	-	-	-	5,756
Current accounts and deposits from customers	14,987	8,354	39,743	17,855	-	-	80,939
Other borrowed funds	415	395	32,862	10,269	56,461	-	100,402
Subordinated borrowings	71	-	-	-	15,051	-	15,122
<b>Total financial liabilities</b>	<b>15,474</b>	<b>8,749</b>	<b>78,360</b>	<b>28,124</b>	<b>71,512</b>	<b>-</b>	<b>202,219</b>
<b>Net position</b>	<b>16,838</b>	<b>(1,476)</b>	<b>(23,659)</b>	<b>(5,210)</b>	<b>(7,954)</b>	<b>8,569</b>	<b>(12,892)</b>
<b>Cumulative liquidity gap</b>	<b>16,838</b>	<b>15,362</b>	<b>(8,297)</b>	<b>(13,507)</b>	<b>(21,461)</b>		

The Bank signed overdraft agreement with CBAR in amount AZN 6,000 thousand with maturity date of 2022 in order to manage liquidity risk.

Subsequent to 31 December 2016, the Bank prolonged term deposits originally maturing during period from January to May 2017 for the total amount of AZN 15,000 thousand for a contractual maturity of one year and more.

The table below shows an analysis, by contractual maturities, of the amounts recognised in the statement of financial position as at 31 December 2015:

<b>AZN'000</b>	<b>Demand and less than 1 month</b>	<b>From 1 to 3 months</b>	<b>From 3 to 12 months</b>	<b>From 1 to 5 years</b>	<b>More than 5 years</b>	<b>Overdue</b>	<b>Total</b>
Cash and cash equivalents	9,536	-	-	-	-	-	9,536
Due from banks	322		40,435		6,363		47,120
Loans to customers	7,338	10,214	26,833	23,748	17,460	14,794	100,387
Other financial assets	170	-	-	-	-	-	170
<b>Total financial assets</b>	<b>17,366</b>	<b>10,214</b>	<b>67,268</b>	<b>23,748</b>	<b>23,823</b>	<b>14,794</b>	<b>157,213</b>
Deposits and balances from banks	414	4,679	14,892	-	5,110	-	25,095
Current accounts and deposits from customers	17,278	20,836	39,037	19,542	-	-	96,693
Other borrowed funds	112	113	33,177	842	3,605	-	37,849
Other financial liabilities	107	-	-	-	-	-	107
<b>Total financial liabilities</b>	<b>17,911</b>	<b>25,628</b>	<b>87,106</b>	<b>20,384</b>	<b>8,715</b>	<b>-</b>	<b>159,744</b>
<b>Net position</b>	<b>(545)</b>	<b>(15,414)</b>	<b>(19,838)</b>	<b>3,364</b>	<b>15,108</b>	<b>14,794</b>	<b>(2,531)</b>
<b>Cumulative liquidity gap</b>	<b>(545)</b>	<b>(15,959)</b>	<b>(35,797)</b>	<b>(32,433)</b>	<b>(17,325)</b>		

The key measure used by the Bank for managing liquidity risk is the liquidity ratio stipulated by FIMSA.

The Bank calculates this mandatory liquidity ratio on a daily basis in accordance with the requirement of the FIMSA. This ratio is represented by the instant liquidity ratio, which is calculated as the ratio of highly liquid assets to liabilities payable on demand.

The Bank was in compliance with these ratios as at 31 December 2016 and 2015. The following table shows the mandatory liquidity ratios calculated as at 31 December 2016 and 2015 (*unaudited*).

	<u>Requirement</u>	<u>2016, %</u>	<u>2015, %</u>
<b>Instant liquidity ratio</b>	Not less than 30%	110.88	64.74

**(v) Operational risk**

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks, such as those arising from legal and regulatory requirements and generally accepted standards of corporate behavior. Operational risks arise from all of the Bank's operations.

The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness and innovation. In all cases, the Bank policy requires compliance with all applicable legal and regulatory requirements.

The Bank manages operational risk by establishing internal controls that management determines to be necessary in each area of its operations.

## **22 Capital management**

The FIMSA sets and monitors capital requirements for the Bank.

The Bank defines as capital those items defined by statutory regulation as capital for credit institutions. Under the current capital requirements set by the FIMSA, banks have to maintain a ratio of capital to risk weighted assets (statutory capital ratio) above the prescribed minimum level and maintain a minimum level of total statutory capital of AZN 50,000 thousand (2015: AZN 50,000 thousand). As at 31 December 2016, the statutory capital ratio was 10% (2015: 12%). The Bank was in compliance with the statutory capital requirement of AZN 50,000 thousand and with the statutory capital ratio as at 31 December 2016 and 2015 (*unaudited*).

The Bank maintains capital adequacy at the level appropriate to the nature and volume of its operations.

The Bank provides the FIMSA with information on mandatory ratios in accordance with set form. Risk Department controls on a daily basis compliance with capital adequacy ratios.

In case values of capital adequacy ratios become close to limits set by the FIMSA and the Bank's internal policy this information is communicated to the Supervisory Board.

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

	<b>2016</b> <b>AZN'000</b>	<b>2015</b> <b>AZN'000</b>
<b>Tier 1 capital</b>		
Share capital	52,000	52,000
Accumulated deficit	(15,504)	(3,263)
<b>Total tier 1 capital</b>	<b>36,496</b>	<b>48,737</b>
<b>Tier 2 capital</b>		
Subordinated borrowings	15,122	-
<b>Total tier 2 capital</b>	<b>15,122</b>	<b>-</b>
<b>Total capital</b>	<b>51,618</b>	<b>48,737</b>
<b>Risk-weighted assets</b>		
On-balance	130,907	137,016
Off-balance	5,994	3,990
<b>Total risk-weighted assets</b>	<b>136,901</b>	<b>141,006</b>
<b>Total capital expressed as a percentage of risk-weighted assets (total capital ratio)</b>	<b>37.70%</b>	<b>34.56%</b>
<b>Total tier 1 capital expressed as a percentage of risk-weighted assets (tier 1 capital ratio)</b>	<b>26.66%</b>	<b>34.56%</b>



### ***Reconciliation of total statutory capital to IFRS equity***

The following unaudited supplementary information is intended to provide additional information to users of the financial statements of the Bank for the year ended 31 December 2016 and is not required under International Financial Reporting Standards (IFRS).

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

	<b>31 December 2016 AZN'000 (unaudited)</b>	<b>31 December 2015 AZN'000 (unaudited)</b>
<b>Total statutory capital</b>	<b>53,408</b>	<b>51,098</b>
Reconciliation of total statutory capital and IFRS equity:		
- (accumulated deficit)/retained earnings	(1,653)	155
- current year profit/(loss)	906	(1,808)
- loan loss allowance	3,598	(3,241)
- net interest income	(60)	1,586
- other income	(1,187)	(405)
- net fee and commission income	(122)	(602)
- income tax (expense)/benefit	(781)	854
- other general administrative expenses	(542)	-
- differences arising from deductions	265	205
- intangible assets	265	205
- general allowances	(1,379)	(912)
- subordinated borrowings	(15,051)	-
<b>Total IFRS equity</b>	<b>36,496</b>	<b>48,737</b>

## **23 Credit related commitments**

The Bank has outstanding credit related commitments to extend loans. These credit related commitments take the form of approved loans and credit card limits and overdraft facilities.

The Bank provides financial guarantees to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to five years.

The Bank applies the same credit risk management policies and procedures when granting credit commitments, financial guarantees as it does for granting loans to customers.

The contractual amounts of credit related commitments are set out in the following table by category. The amounts reflected in the table for credit related commitments assume that amounts are fully advanced. The amounts reflected in the table for guarantees represent the maximum accounting loss that would be recognised at the reporting date if counterparties failed completely to perform as contracted.

	<b>2016</b> <b>AZN'000</b>	<b>2015</b> <b>AZN'000</b>
<b>Contracted amount</b>		
Guarantees	4,964	2,553
Undrawn credit lines	7,024	5,426
	<b>11,988</b>	<b>7,979</b>

The total outstanding contractual credit related commitments above do not necessarily represent future cash requirements, as these credit related commitments may expire or terminate without being funded. The majority of loan and credit line commitments do not represent an unconditional credit related commitment by the Bank.

## 24 Operating leases

### Leases as lessee

The Bank leases a number of premises and equipment under operating leases. The leases typically run for an initial period of five to ten years, with an option to renew the lease after that date. Lease payments are usually increased annually to reflect market rentals. None of the leases includes contingent rentals. The Bank does not have any non-cancellable leases.

## 25 Contingencies

### (a) Insurance

The insurance industry in the Republic of Azerbaijan is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Bank does not have full coverage for its premises and equipment, business interruption, or third party liability in respect of property or environmental damage arising from accidents on its property or relating to operations. Until the Bank obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on operations and financial position.

### (b) Litigation

In the ordinary course of business, the Bank is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial position or the results of future operations.

### (c) Taxation contingencies

The taxation system in the Azerbaijan Republic continues to evolve and is characterized by frequent changes in legislation, official pronouncements and court decisions, which are sometimes contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities who have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Azerbaijan Republic suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation.

These circumstances may create tax risks in the Azerbaijan Republic that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Azerbaijani tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on the financial position, if the authorities were successful in enforcing their interpretations, could be significant.

## 26 Related party transactions

### (a) Control relationships

The Bank is controlled by Ms. Nigar Mehdiyeva.

### (b) Transactions with the members of the Supervisory Board and the Management Board

Total remuneration included in personnel expenses for the years ended 31 December 2016 and 2015 is as follows:

	2016 AZN'000	2015 AZN'000
Short term employee benefits	604	739
	<b>604</b>	<b>739</b>

These amounts include cash benefits in respect of the members of the Supervisory Board and the Management Board.

The outstanding balances and average effective interest rates as at 31 December 2016 and 2015 for transactions with the members of the Supervisory Board and the Management Board are as follows:

	2016 AZN'000	Average effective interest rate, %	2015 AZN'000	Average effective interest rate, %
<b>Statement of financial position</b>				
Loans issued (gross)	154	15.61%	524	12.00%
Loan impairment allowance	3	-	1	-
Current accounts	39	-	-	-
Term deposits	34	3.00%	5,973	8.00%

Amounts included in profit or loss in relation to transactions with the members of the Supervisory Board and the Management Board for the year ended 31 December are as follows:

	2016 AZN'000	2015 AZN'000
<b>Profit or loss</b>		
Interest income	24	87
Interest expense	216	-
Impairment losses	(2)	-

**(c) Transactions with other related parties**

The outstanding balances and the related average effective interest rates as at 31 December 2016 and related profit or loss amounts of transactions for the year ended 31 December 2016 with other related parties are as follows:

	Ultimate controlling parties and their close family members and entities under control		Other shareholders		Other related parties		Total
	AZN'000	Average interest rate, %	AZN'000	Average interest rate, %	AZN'000	Average interest rate, %	AZN'000
<b>Statement of financial position</b>							
<b>ASSETS</b>							
Loans to customers							
Principal balance	11	20.00%	3,215	8.00%	15	12.00%	3,241
Impairment allowance	-	-	(42)	-	-	-	(42)
<b>LIABILITIES</b>							
Customer accounts	-	-	111	0.00%	65	0.00%	176
Term deposits	-	-	6,330	8.00%	1,639	10.48%	7,969
Subordinated borrowings	6,398	9.00%	-	-	8,653	9.00%	15,051
<b>Profit or loss</b>							
Interest income	2	-	1	-	2	-	5
Interest expense	576	-	461	-	928	-	1,965

The outstanding balances and the related average effective interest rates as at 31 December 2015 and related profit or loss amounts of transactions for the year ended 31 December 2015 with other related parties are as follows:

	Ultimate controlling parties and their close family members and entities under control		Other shareholders		Other related parties		Total
	AZN'000	Average interest rate, %	AZN'000	Average interest rate, %	AZN'000	Average interest rate, %	AZN'000
<b>Statement of financial position</b>							
<b>LIABILITIES</b>							
Customer accounts	-	-	-	-	1	0.00%	1
<b>Profit or loss</b>							
Interest income	2	-	1	-	3	-	6
Interest expense	307	-	114	-	625	-	1,046

Other related parties include family members of key management personnel of the Bank.

The majority of balances resulting from transactions with related parties mature within one year. Transactions with related parties are not secured.

## 27 Financial assets and liabilities: fair values and accounting classifications

### (a) Accounting classifications and fair values

The table below sets out the carrying amounts and fair values of financial assets and financial liabilities as at 31 December 2016:

AZN '000	Loans and receivables	Other amortised cost	Total carrying amount	Fair value
Cash and cash equivalents	21,230	-	21,230	21,230
Due from banks	39,435	-	39,435	39,435
Loans to customers	127,872	-	127,872	101,902
Other financial assets	790	-	790	790
	<b>189,327</b>	<b>-</b>	<b>189,327</b>	<b>163,357</b>
Deposits and balances from banks	-	5,756	5,756	5,131
Current accounts and deposits from customers	-	80,939	80,939	82,624
Other borrowed funds	-	100,402	100,402	98,354
Subordinated borrowings	-	15,122	15,122	16,328
	<b>-</b>	<b>202,219</b>	<b>202,219</b>	<b>202,437</b>

The table below sets out the carrying amounts and fair values of financial assets and financial liabilities as at 31 December 2015:

AZN '000	Loans and receivables	Other amortised cost	Total carrying amount	Fair value
Cash and cash equivalents	9,536	-	9,536	9,536
Due from banks	47,120	-	47,120	47,104
Loans to customers	100,387	-	100,387	97,639
Other financial assets	170	-	170	170
	<b>157,213</b>	<b>-</b>	<b>157,213</b>	<b>154,449</b>
Deposits and balances from banks	-	25,095	25,095	23,692
Current accounts and deposits from customers	-	96,693	96,693	97,634
Other borrowed funds	-	37,849	37,849	37,794
Other financial liabilities	-	107	107	107
	<b>-</b>	<b>159,744</b>	<b>159,744</b>	<b>159,227</b>

The estimates of fair value are intended to approximate the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. However given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realisable in an immediate sale of the assets or transfer of liabilities.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments the Bank determines fair values using other valuation techniques.

The objective of valuation techniques is to arrive at a fair value determination that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations.

The Bank uses widely recognised valuation models for determining the fair value of common and more simple financial instruments, like currency swaps that use only observable market data and require little management judgment and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange traded derivatives and simple over the counter derivatives like interest rate swaps.

For more complex instruments, the Bank uses proprietary valuation models. Some or all of the significant inputs into these models may not be observable in the market, and are derived from market prices or rates or are estimated based on assumptions. Example of instruments involving significant unobservable inputs include certain loans and securities for which there is no active market, certain over the counter structured derivatives, and retained interests in securitisations.

The following assumptions are used by management to estimate the fair values of financial instruments as at 31 December 2016:

- discount rates of 5.59%-8.55% (2015: 8.78%-20.72%) and 5.59%-16.04% (2015: 5.89%-6.71%) are used for discounting future cash flows from due from banks and loans to customers, respectively.
- discount rates of 4.66%-6.5% (2015: 8.25%-8.33%) are used for discounting future cash flows from current accounts and deposits from customers.
- discount rate of 5.42%-10.86% (2015: 5.60%-5.65%) are used for discounting future cash flows from due to banks and other borrowed funds and subordinated borrowings.

**(b) Fair value hierarchy**

The Bank measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

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

The following table analyses the fair value of financial instruments not measured at fair value, by the level in the fair value hierarchy into which each fair value measurement is categorised as at 31 December 2016:

AZN'000	Level 2	Level 3	Total fair values	Total carrying amount
<b>ASSETS</b>				
Cash and cash equivalents	21,230	-	21,230	21,230
Due from banks	39,435	-	39,435	39,435
Loans to customers	-	101,902	101,902	127,872
Other financial assets	790	-	790	790
<b>LIABILITIES</b>				
Deposits and balances from banks	5,131	-	5,131	5,756
Current accounts and deposits from customers	82,624	-	82,624	80,939
Other borrowed funds	-	98,354	98,354	100,402
Subordinated borrowings	-	16,328	16,328	15,122

The following table analyses the fair value of financial instruments not measured at fair value, by the level in the fair value hierarchy into which each fair value measurement is categorised as at 31 December 2015:

AZN'000	Level 2	Level 3	Total fair values	Total carrying amount
<b>ASSETS</b>				
Cash and cash equivalents	9,536	-	9,536	9,536
Due from banks	47,104	-	47,104	47,120
Loans to customers	-	97,639	97,639	100,387
Other financial assets	170	-	170	170
<b>LIABILITIES</b>				
Deposits and balances from banks	23,692	-	23,692	25,095
Current accounts and deposits from customers	97,634	-	97,634	96,693
Other borrowed funds	-	37,794	37,794	37,849
Other financial liabilities	107	-	107	107

## 28 Events after reporting period

On 18 May 2017 in the General Meeting of Shareholders it was decided to increase share capital of the Bank in an amount of AZN 25,000 thousand by issuing 10,000 ordinary shares with par value of AZN 1,000 and 15,000 preference shares with par value of AZN 1,000.

Mr. Emil Rzayev  
Chairman of the Management Board



Mr. Vusal Shahverdiyev  
Chief Financial Officer