BANK MELLI IRAN BAKU BRANCH

31 December 2013

Financial Statements in accordance with International Financial Reporting Standards and Independent Auditor's Report

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BEST AUDIT LLC

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INDEPENDENT AUDITORS' REPORT

To the Shareholders and the Management Board of Bank Melli Iran Baku branch:

Report on Financial Statements

We have engaged to audit the accompanying financial statements of Bank Melli Iran Baku branch (the "Bank"), which comprise the statement of financial position as at 31 December 2013, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

Other Matter

The uncertainty related to the requirement of the Central Bank of Azerbaijan Republic (CBAR) about the increase by AZN 50 million in total equity of all the banks operating within the territory of the Republic of Azerbaijan effective 1st of January 2015 is continuing. Our opinion is not qualified in respect of this matter.

Baku, the Republic of Azerbaijan
20 February, 2013

	Note	31 December 2013	31 December 2012
ASSETS			
Cash and current placements with other banks	7	27,704,586	24,070,736
Due from banks and other financial institutions	8	24,969,505	33,390,396
Loans to customers	9	4,861,245	4,398,126
Investments held to maturity	10	-	2,897,701
Premises and equipment	11	13,377,029	4,292,846
Intangible assets	11	34,945	50,299
Income tax assets		112,909	141,515
Deferred tax assets	21	6,553	-
Other assets	12	520,998	735,923
TOTAL ASSETS		**71,587,770**	**69,977,542**
LIABILITIES			
Due to banks and other financial institutions	13	47,182,835	46,518,975
Customer accounts	14	2,849,101	1,979,795
Deferred tax liabilities	21	-	2,752
Other liabilities	15	46,248	27,056
TOTAL LIABILITIES		**50,078,184**	**48,528,578**
EQUITY			
Share capital	16	22,408,701	22,408,701
Revaluation surpluss		3,483	5,683
Accumulated deficit		(902,598)	(965,420)
TOTAL EQUITY		**21,509,586**	**21,448,964**
TOTAL EQUITY AND LIABILITIES		**71,587,770**	**69,977,542**

On behalf of the Management Board:

Hosseinzadeh Niri Manoochehr
Branch Manager

20 February 2013
Baku, the Republic of Azerbaijan

Elkhan Rahimli
Chief Accountant

20 February 2013
Baku, the Republic of Azerbaijan

The notes on pages 7-46 form an integral part of these financial statements.

	Note	Year ended 31 December 2013	Year ended 31 December 2012
Interest income	17	1,483,087	2,129,753
Interest expense	17	(74,298)	(195,616)
Net interest income		**1,408,789**	**1,934,137**
Reversal of provision/(provision for impairment), net		3,234	(979,409)
Net interest income after provision for loan impairment		**1,412,023**	**954,728**
Gain from trading in foreign currencies - less losses	18	(2,109)	(10,835)
Fee and commission income	19	107,115	154,148
Fee and commission expense	19	(10,885)	(55,966)
Other income		12,823	20
Operating income		**1,518,967**	**1,042,095**
Operating expenses	20	(1,467,650)	(1,434,909)
Profit before income tax		**51,317**	**(392,814)**
Income tax benefit	21	9,305	6,570
NET PROFIT FOR THE YEAR		**60,622**	**(386,244)**
Other comprehensive income		-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**60,622**	**(386,244)**

On behalf of the Management Board:

Hosseinzadeh Niri Manoochehr	**Elkhan Rahimli**
Branch Manager	**Chief Accountant**
20 February 2013	20 February 2013
Baku, the Republic of Azerbaijan	Baku, the Republic of Azerbaijan

	Share Capital	Accumulated deficit	Other Reserves	Total Equity
Balance at 01 January 2012	**22,408,701**	**(581,376)**	**7,883**	**21,835,208**
Total comprehensive income	-	(386,244)	-	**(386,244)**
Transfer of revaluation surpluss	-	2,200	(2,200)	**-**
Balance at 31 December 2012	**22,408,701**	**(965,420)**	**5,683**	**21,448,964**
Total comprehensive income		60,622		**60,622**
Transfer of revaluation surpluss		2,200	(2,200)	**-**
Balance at 31 December 2013	**22,408,701**	**(902,598)**	**3,483**	**21,509,586**

On behalf of the Management Board:

Hosseinzadeh Niri Manoochehr

Branch Manager

20 February 2013
Baku, the Republic of Azerbaijan

Elkhan Rahimli

Chief Accountant

20 February 2013
Baku, the Republic of Azerbaijan

	Note	Year ended 31 December 2013	Year ended 31 December 2012
CASH FLOW FROM OPERATING ACTIVITIES			
Profit/(loss) before income tax		51,317	(392,814)
Adjustments for:			
Provision on Loans to Customers		533,780	152,848
Amortisation and depreciation expense		229,892	218,526
Interest received on investment held to maturity		(37,866)	(47,179)
Translation loss/(gain) on foreign exchange operations		4,335	22,504
Cash flow from operating activities before changes in operating assets and liabilities		**781,458**	**(46,115)**
Changes in operating assets and liabilities:			
(Increase)/decrease in operating assets:			
Due from banks and other financial institutions	8	4,266,277	5,665,641
Loans to customers		(283,926)	398,938
Other assets	7	(5,533,330)	(380,602)
Increase/(decrease) in operating liabilities:			
Due to banks and other financial institutions		46,679	(2,474,976)
Customer Accounts		859,587	(807,862)
Other liabilities		22,747	(20,163)
Cash inflow from operating activities before taxation:		**159,492**	**2,334,861**
Income tax paid		-	(121,317)
Net cash from operating activities		**159,492**	**2,213,544**
CASH FLOW FROM INVESTING ACTIVITIES			
Purchase of premises and equipment	11	(2,757)	(91,318)
Purchase of intangible assets		-	(35,400)
Purchase of investments held-to-maturity		(17,993,933)	(17,861,684)
Proceeds on sale of investments held-to-maturity		20,929,500	15,011,171
Proceeds from sale of property, plant and equipment		-	-
Net cash used in investing activities		**2,932,810**	**(2,977,231)**
CASH FLOW FROM FINANCING ACTIVITIES			
Net cash used in financing activites		**-**	**-**
Effect of changes in foreign exchange rates on cash and cash equivalents		541,548	(12,449)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**3,633,850**	**(776,136)**
CASH AND CASH EQUIVALENTS, beginning of the year	**7**	**24,070,736**	**24,846,872**
CASH AND CASH EQUIVALENTS, end of the year	**7**	**27,704,586**	**24,070,736**

On behalf of the Management Board:

Hosseinzadeh Niri Manoochehr

Branch Manager

20 February 2013
Baku, the Republic of Azerbaijan

Elkhan Rahimli

Chief Accountant

20 February 2013
Baku, the Republic of Azerbaijan

1 Introduction

These financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2013 for Bank Melli Iran Baku Branch. Bank Melli Iran Baku Branch (the "Bank"), which was incorporated in Azerbaijan in 1993.The Bank's principal business activity is commercial and retail banking operations.

Basic activities.The Bank's primary business consists of bank services for legal and individual persons. The Bank is regulated by the Central Bank of the Republic of Azerbaijan (the "CBAR") and conducts its business under general license number 124.

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

Shareholders	31 December 2013 %	31 December 2012 %
"Bank Melli Iran" Iran Islamic Republic	100	100

Registered address and place of business. The Bank's registered address is:

Nobel ave. 23, AZ 1025
Baku, the Republic of Azerbaijan

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

2 Operating Environment of the Bank

The Azerbaijan Republic displays certain characteristics of an emerging market, including the existence of a currency that is not freely convertible in most countries outside of the Azerbaijan Republic, restrictive currency controls, relatively high inflation and economic growth. This sector in the Azerbaijan Republic is sensitive to adverse fluctuations in confidence and economic conditions.

The future economic direction of the Republic of Azerbaijan is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory, and political developments.

Recent volatility in global financial markets. The ongoing global liquidity crisis which commenced in the middle of 2007 has resulted in, among other things, a lower level of capital market funding, at times much higher than normal interbank lending rates across the Republic of Azerbaijan banking sector resulting in a significant reduction in the number of new loans and advances made to customers, and higher funding costs where it remains possible to obtain debt finance from International Institutions or other local banks.

3 Summary of Significant Accounting Policies

Basis of Preparation. These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention. The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

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

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Fair value is the current bid price for financial assets and current asking price for financial liabilities which are quoted in an active market. For assets and liabilities with offsetting market risks, the Bank may use mid-market prices as a basis for establishing fair values for the offsetting risk positions and apply the bid or asking price to the net open position as appropriate.

3 Summary of Significant Accounting Policies (continued)

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange or other institution and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Valuation techniques such as discounted cash flows models or models based on recent arms length transactions or consideration of financial data of the investees are used to fair value certain financial instruments for which external market pricing information is not available.

Valuation techniques may require assumptions not supported by observable market data. Disclosures are made in these financial statements if changing any such assumptions to a reasonably possible alternative would result in significantly different profit, income, total assets or total liabilities.

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

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

The effective interest method is a method of allocating interest income or interest expense over the relevant period so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest reprising date except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortized over the whole expected life of the instrument.

The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate (refer to income and expense recognition policy).

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

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date that the Bank commits to deliver a financial asset. All other purchases are recognized when the entity becomes a party to the contractual provisions of the instrument. Following their initial recognition, the financial assets and financial liabilities are subsequently measured at amortized cost using the effective interest rate method.

3 Summary of Significant Accounting Policies (continued)

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

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

Mandatory cash balances with the CBAR. Mandatory cash balances in AZN and foreign currency held with the CBAR are carried at amortized cost and represent non-interest bearing mandatory reserve deposits, which are not available to finance the Bank's day-to-day operations.

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

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

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

The following other principal criteria are also used to determine that there is objective evidence that an impairment loss has occurred:

- Any installment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;

- The borrower experiences a significant financial difficulty as evidenced by the borrower's financial information that the Bank obtains;

- The borrower considers bankruptcy or a financial reorganization;

- There is an adverse change in the payment status of the borrower as a result of changes in the national or local economic conditions that impact the borrower; or

- The value of collateral significantly decreases as a result of deteriorating market conditions.

3 Summary of Significant Accounting Policies (continued)

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

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets and the experience of management in respect of the extent to which amounts will become overdue as a result of past loss events and the success of recovery of overdue amounts.

Past experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods and to remove the effects of past conditions that do not exist currently.

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

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

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account through profit or loss.

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

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

Premises and equipment. Premises are stated at revalued amounts, as described below, less accumulated depreciation and provision for impairment, where required.
All other items of premises and equipment are stated at cost less accumulated depreciation and impairment losses, if any.

The costs of minor repairs and maintenance are expensed when incurred. The cost of replacing major parts or components of premises and equipment items are capitalized and the replaced part is retired.
If impaired, premises and equipment are written down to the higher of their value in use and fair value less costs to sell. The decrease in carrying amount is charged to profit or loss to the extent it exceeds the previous revaluation surplus in equity. An impairment loss recognized for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

3 Summary of Significant Accounting Policies (continued)

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

Depreciation. Depreciation on other items of premises and equipment is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives as follows:

Premises	2 %;
Computers and communication equipment	20%;
Furniture, fixtures and other	20%;
Vehicles	20%;
Other fixed assets	20%.

The residual value of an asset is the estimated amount that the Bank would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.

The residual value of an asset is nil if the Bank expects to use the asset until the end of its physical life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

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

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

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

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

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

Other borrowed funds. Other borrowed funds include loans from resident and non-resident financial institutions with fixed maturities and fixed or floating interest rates. Term borrowings are carried at amortised cost.

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

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

3 Summary of Significant Accounting Policies (continued)

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

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

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

When loans and other debt instruments become doubtful of collection, they are written down to the present value of expected cash inflows and interest income is thereafter recorded for the unwinding of the present value discount based on the asset’s effective interest rate which was used to measure the impairment loss. All other fees, commissions and other income and expense items are generally recorded on an accrual basis by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Foreign currency translation. Institutions of the Bank's functional currency of the primary economic environment in which the entity is the currency. The Bank’s functional and presentation currency is the national currency of the Republic of Azerbaijan, Azerbaijani Manats (“AZN”).

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

Rate of exchange as at 31 December 2013:

1 USD = 0.7845 AZN (31 December 2012: 1 USD = 0.7850 AZN)
1 EUR = 1.078 AZN (31 December 2012: 1 EUR = 1.0377 AZN)

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

3 Summary of Significant Accounting Policies (continued)

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

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

4 Critical Accounting Estimates and Judgments In Applying Accounting Policies

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

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

Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Initial recognition of related party transactions. In the normal course of business the Bank enters into transactions with its related parties. IAS 39 requires initial recognition of financial instruments based on their fair values. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis. Terms and conditions of related party balances are disclosed in Note 28.

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

Going concern.

Compliance with local legislation. As disclosed in Note 24 the banking license of the Bank might be cancelled by the Central Bank of the Republic of Azerbaijan. The reason is a non-compliance with statutory requirements to keep total equity above AZN 50,000,000. As at 31 December 2013 the Bank has sufficient amount of fund at its disposal deposited by the shareholders to meet the CBAR's requirement. Management believes that the sufficient funds will be provided by the shareholders in the foreseeable future prior to any action committed by the CBAR against the Bank.

Uncertainties. Should the Bank be unsuccessful in meeting its operating and financing obligations, it may not be able to continue as a going concern. These financial statements do not include any adjustments that might result from the outcome of these uncertainties as stated above.

5 Adoption of New or Revised Standards and Interpretations

The following new standards and interpretations became effective for the Company from 1 January 2013:

IFRS 10 "Consolidated Financial Statements". IFRS 10 became effective for annual periods beginning on or after 1 January 2013. The new standard supersedes IAS 27 "Consolidated and Separate Financial Statements" and SIC-12 "Consolidation – Special Purpose Entities". IFRS 10 introduces a single control model which includes entities that are currently within the scope of SIC-12. Under the new three-step control model, an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with that investee, has the ability to affect those returns through its power over that investee and there is a link between power and returns.

Consolidation procedures are carried forward from IAS 27 (2008). When the adoption of IFRS 10 does not result in a change in the previous consolidation or non-consolidation of an investee, no adjustments to accounting are required on initial application. When the adoption results in a change in the consolidation or non-consolidation of an investee, the new standard may be adopted with either full retrospective application from date that control was obtained or lost or, if not practicable, with limited retrospective application from the beginning of the earliest period for which the application is practicable, which may be the current period.

IFRS 11 "Joint Arrangements" became effective for annual periods beginning on or after 1 January 2013 with retrospective application required. The new standard supersedes IAS 31 "Interests in Joint Ventures". The main change introduced by IFRS 11 is that all joint arrangements are classified either as joint operations, which are consolidated on a proportionate basis, or as joint ventures, for which the equity method is applied. The type of arrangement is determined based on the rights and obligations of the parties to the arrangement arising from joint arrangement's structure, legal form, contractual arrangement and other facts and circumstances. When the adoption of IFRS 11 results in a change in the accounting model, the change is accounted for retrospectively from the beginning of the earliest period presented.

Under the new standard all parties to a joint arrangement are within the scope of IFRS 11 even if all parties do not participate in the joint control.

IFRS 12 "Disclosure of Interests in Other Entities" became effective for annual periods beginning on or after 1 January 2013. The new standard contains disclosure requirements for entities that have interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. Interests are widely defined as contractual and non-contractual involvement that exposes an entity to variability of returns from the performance of the other entity. The expanded and new disclosure requirements aim to provide information to enable the users to evaluate the nature of risks associated with an entity's interests in other entities and the effects of those interests on the entity's financial position, financial performance and cash flows.

IFRS 13 "Fair Value Measurement" became effective for annual periods beginning on or after 1 January 2013. The new standard replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It provides a revised definition of fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. IFRS 13 does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurement that currently exist in certain standards.

Amendment to IAS 19 "Employee Benefits" was issued in June 2011 and became applicable to annual periods beginning on or after 1 January 2013. It outlines the accounting requirements for employee benefits, including short-term benefits (e.g. wages and salaries, annual leave), post-employment benefits such as retirement benefits, other long-term benefits (e.g. long service leave) and termination benefits. The standard establishes the principle that the cost of providing employee benefits should be recognized in the period in which the benefit is earned by the employee, rather than when it is paid or payable, and outlines how each category of employee benefits are measured, providing detailed guidance in particular about post-employment benefits.

5 Adoption of New or Revised Standards and Interpretations and New Accounting Pronouncements (continued)

Amendment to IAS 27 "Separate Financial Statements" outlines the accounting and disclosure requirements for 'separate financial statements', which are financial statements prepared by a parent, or an investor in a joint venture or associate, where those investments are accounted for either at cost or in accordance with IAS 39 "Financial Instruments: Recognition and Measurement" or IFRS 9 "Financial Instruments". The amendment also outlines the accounting requirements for dividends and contains numerous disclosure requirements. The revised IAS 27 was reissued in May 2011 and applies to annual periods beginning on or after 1 January 2013 and supersedes IAS 27 "Consolidated and Separate Financial Statements" from that date.

Amendment to IAS 28 "Investments in Associates and Joint Ventures" outlines how to apply, with certain limited exceptions, the equity method to investments in associates and joint ventures. The standard also defines an associate by reference to the concept of "significant influence", which requires power to participate in financial and operating policy decisions of an investee (but not joint control or control of those polices). The amendment was issued in May 2011 and applies to annual periods beginning on or after 1 January 2013.

6 New Accounting Pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2014 or later and which the Company has not early adopted.

IFRS 9, Financial Instruments Part 1: Classification and Measurement. IFRS 9 was issued in November 2009 and became applicable for annual periods beginning on and after 1 January 2015. It replaces those parts of IAS 39 relating to the classification and measurement of financial assets.

Key features are as follows:

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent only payments of principal and interest (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.

All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.

Amendment to IAS 32 "Offsetting Financial Assets and Financial Liabilities". This amendment will be applicable for annual periods beginning on and after 1 January 2014. It amends IAS 32 "Financial Instruments: Presentation" to clarify certain aspects because of diversity in application of the requirements on offsetting, focused on four main areas: a) he meaning of 'currently has a legally enforceable right of set-off'; b) the application of simultaneous realisation and settlement; c) the offsetting of collateral amounts; d) the unit of account for applying the offsetting requirements.

6 New Accounting Pronouncements (continued)

Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosure of Interests in Other Entities" and IAS 27 "Separate Financial Statements ". These amendments will be applicable for annual periods beginning on and after 1 January 2014. They amend IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosure of Interests in Other Entities" and IAS 27 "Separate Financial Statements " to: provide 'investment entities' (as defined) an exemption from the consolidation of particular subsidiaries and instead require that an investment entity measure the investment in each eligible subsidiary at fair value through profit or loss in accordance with IFRS 9 "Financial Instruments" or IAS 39 "Financial Instruments: Recognition and Measurement"; require additional disclosure about why the entity is considered an investment entity, details of the entity's unconsolidated subsidiaries, and the nature of relationship and certain transactions between the investment entity and its subsidiaries; require an investment entity to account for its investment in a relevant subsidiary in the same way in its consolidated and separate financial statements (or to only provide separate financial statements if all subsidiaries are unconsolidated).

Amendments to IAS 36 "Impairment of Assets". These amendments will be applicable for annual periods beginning on and after 1 January 2014. They amend IAS 36 "Impairment of Assets" to reduce the circumstances in which the recoverable amount of assets or cash-generating units is required to be disclosed, clarify the disclosures required, and to introduce an explicit requirement to disclose the discount rate used in determining impairment (or reversals) where recoverable amount (based on fair value less costs of disposal) is determined using a present value technique.

Amendments to IAS 39 "Financial Instruments: Recognition and Measurement ".These amendments will be applicable for annual periods beginning on and after 1 January 2014. They amend IAS 39 "Financial Instruments: Recognition and Measurement " to make it clear that there is no need to discontinue hedge accounting if a hedging derivative is novated, provided certain criteria are met.

A novation indicates an event where the original parties to a derivative agree that one or more clearing counterparties replace their original counterparty to become the new counterparty to each of the parties. In order to apply the amendments and continue hedge accounting, novation to a central counterparty (CCP) must happen as a consequence of laws or regulations or the introduction of laws or regulations.

IFRIC 21 Levies will be applicable for annual periods beginning on and after 1 January 2014. Provides guidance on when to recognise a liability for a levy imposed by a government, both for levies that are accounted for in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets and those where the timing and amount of the levy is certain.

The Interpretation identifies the obligating event for the recognition of a liability as the activity that triggers the payment of the levy in accordance with the relevant legislation. It provides the following guidance on recognition of a liability to pay levies: a) the liability is recognised progressively if the obligating event occurs over a period of time; b) If an obligation is triggered on reaching a minimum threshold, the liability is recognised when that minimum threshold is reached.

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

7 Cash and Cash Equivalents

	31 December 2013	31 December 2012
Cash on hand	1,046,370	554,270
Cash balances with the CBAR	20,549,019	11,963,239
Correspondent accounts and overnight placements with other banks:		
- The Republic of Azerbaijan	323,337	6,254,126
- Other countries	6,075,407	6,125,662
Less: provision for imapirment	(289,547)	(826,561)
Total cash and cash equivalents	**27,704,586**	**24,070,736**

The balances with the Central Bank of the Azerbaijan Republic as at 31 December 2013 and 31 December 2012 include AZN 107,381 and AZN 217,874 respectively, which represent the mandatory minimum reserve deposits with the CBAR.

Correspondent accounts placed by the Bank in Royal Bank OJSC in the amount of AZN 5,498,323 and loan loss provision on these amounts of AZN 549,086 were reclassified to other assets before they were written-off based on the decision of Baku Administrative Economical Court dated 27 February 2013. Refer to Note 11.

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

	Cash on hand	Cash balances with the CBAR	Correspondent accounts and overnight placements with other banks	Total
Current and not impaired				
- Cash on hand	1,046,370	-	-	**1,046,370**
- The Republic of Azerbaijan	-	20,549,019	33,790	**20,582,809**
- Other countries	-	-	6,075,407	**6,075,407**
Total current and not impaired	**1,046,370**	**20,549,019**	**6,109,197**	**27,704,586**
Total cash and cash equivalents	**1,046,370**	**20,549,019**	**6,109,197**	**27,704,586**

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

	Cash on hand	Cash balances with the CBAR	Correspondent accounts and overnight placements with other banks	Total
Current and not impaired				
- Cash on hand	554,270	-	-	**554,270**
- The Republic of Azerbaijan	-	11,963,239	5,427,565	**17,390,804**
- Other countries	-	-	6,125,662	**6,125,662**
Total current and not impaired	**554,270**	**11,963,239**	**11,553,227**	**24,070,736**
Total cash and cash equivalents	**554,270**	**11,963,239**	**11,553,227**	**24,070,736**

8 Due from Banks and Other Financial Institutions

	31 December 2013	31 December 2012
Short-term deposits in Resident banks	26,209,505	34,208,896
Less: provision for impairment	(1,240,000)	(818,500)
Total due from banks	**24,969,505**	**33,390,396**

The credit quality of due to banks and other financial institutions as of 31 December 2013 is as follows:

	Placement with non-resident financial institutions	Short-term deposits in other banks	Placements with other banks	Total
Current and not impared				
- Other Azerbaijani banks	-	24,969,505	-	**24,969,505**
Total current and not impaired	**-**	**24,969,505**	**-**	**24,969,505**

The credit quality of due to banks and other financial institutions as of 31 December 2012 is as follows:

	Placement with non- resident financial institutions	Short-term deposits in other banks	Placements with other banks	Total
Current and not impared				
- Other Azerbaijani banks	-	33,390,396	-	**33,390,396**
Total current and not impaired	**-**	**33,390,396**	**-**	**33,390,396**

The balance values of the amounts due from banks as of 31 December 2013 and 31 December 2012 approximate their fair values. The approximate fair value of the amounts due from banks as of 31 December 2013 is AZN 24,969,505 (2012: AZN 33,390,396).

The Bank placed deposits in the total amount of AZN 9,806,250 in Birlikbank OJSC whose license cancelled by the Central Bank of Azerbaijan. As at 31 December 2013, the Bank did not make any provision for impairment against these deposits. Should Birlikbank OJSC be not able to repay the mentioned deposits, the Bank would incur significant impairment losses. The amount is reimbursed by deposits from the Head Office.

The Bank had placed the total amounts of AZN 40,000 in Debutbank OJSC. As at 31 December 2013, the Bank made provision for impairment against these deposits at 100%.

Based on the decision of Baku Administrative Economical Court dated 27 February 2013 deposits placed by the Bank in Royal Bank OJSC in the amount of AZN 3,797,641 and loan loss provision on these deposits in the amount of AZN 378,440 were written-off. After the write-off, the Bank's term deposits with Royal Bank amount to AZN 4,000,000. The Bank made provision for impairment against these deposits about 30% (2012: 10%). Should Royal Bank OJSC be not able to repay the mentioned deposits, the Bank would incur impairment losses. Refer to Note 11.

9 Loans and Advances to Customers

	31 December 2013	31 December 2012
Corporate loans	3,078,634	3,108,415
Car purchase	1,584,309	1,603,092
Repair of Apartment	1,655,959	1,375,325
Trade and services	813,048	1,059,585
Consumer loans	1,349,904	949,371
Manufacturing	112,717	174,210
Construction	19,895	34,643
Agriculture	-	30,167
Less: Provision for loan impairment	(3,753,221)	(3,936,682)
Total loans and advances to customers	**4,861,245**	**4,398,126**

Total loans and advances to customers amount to AZN 4,861,245 at 31 December 2013 (31 December 2012: AZN 4,398,126).

9 Loans and Advances to Customers (continued)

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

	Corporate Loans	Manufacturing	Agriculture	Construction	Trade and Services	Repair of Apartment	Consumer Loans	Car Purchase	Total
Provision for impairment at 1 January 2013	**3,050,562**	**62,647**	**596**	**16,467**	**312,717**	**134,233**	**195,950**	**163,510**	**3,936,682**
Provision for impairment during the year	-	-	-	-	-	16,906	-	57,638	**74,544**
Reversal of provision for impairment during the year	(85,911)	(60,409)	(596)	(11,080)	(78,065)	-	(18,084)	-	**(254,145)**
Amounts written off during the year as uncollectible	-	-	-	-	-	-	(3,860)	-	**(3,860)**
Provision for impairment at 31 December 2013	**2,964,651**	**2,238**	**-**	**5,387**	**234,652**	**151,139**	**174,006**	**221,148**	**3,753,221**

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

	Corporate Loans	Manufacturing	Agriculture	Construction	Trade and Services	Repair of Apartment	Consumer Loans	Car Purchase	Total
Provision for impairment at 1 January 2012	**3,055,501**	**134,093**	**295**	**27,849**	**431,318**	**449,561**	**353,966**	**76,368**	**4,528,951**
Provision for impairment during the year	-	-	301	-	-	-	-	87,142	**87,443**
Reversal of provision for impairment during the year	(4,939)	(71,446)	-	(11,382)	(118,601)	(315,328)	(158,016)	-	**(679,712)**
Amounts written off during the year as uncollectible	-	-	-	-	-	-	-	-	**-**
Provision for impairment at 31 December 2012	**3,050,562**	**62,647**	**596**	**16,467**	**312,717**	**134,233**	**195,950**	**163,510**	**3,936,682**

9 Loans and Advances to Customers (continued)

Economic sector risk concentrations within the loans and advances to customers is as follows:

	31 December 2013		31 December 2012	
	Amount	**%**	**Amount**	**%**
Individuals				
Car purchase	1,584,309	18.39	1,603,092	19.23
Repair of Apartment	1,655,959	19.22	1,375,325	16.50
Trade and services	813,048	9.45	1,059,585	12.71
Consumer loans	1,349,904	15.67	949,371	11.39
Manufacturing	112,717	1.31	174,210	2.09
Construction	19,895	0.23	34,643	0.42
Agriculture	-	-	30,167	0.36
Total individuals	**5,535,832**	**64.27**	**5,226,393**	**62.70**
Corporate Loans				
Trade and services	1,569,858	18.22	1,526,704	18.32
Manufacturing	1,508,776	17.51	1,581,711	18.98
Total corporate loans	**3,078,634**	**35.73**	**3,108,415**	**37.30**
Total loans and advances to customers (before impairment)	**8,614,466**	**100.00**	**8,334,808**	**100.00**

The amount of loans to related parties at 31 December 2013 is AZN 134,872 (31 December 2012: AZN 139,049). Refer to Note 27.

9 Loans and Advances to Customers (continued)

Information about collateral at 31 December 2013 is as follows:

	Corporate Loans	Manufacturing	Agriculture	Construction	Trade and Services	Repair of Apartment	Consumer Loans	Car Purchase	Total
Unsecured loans	-	-	-	-	-	-	-	-	-
Loans collaterised by:									
- residental real estate	3,078,634	112,717	-	19,895	787,794	1,585,613	203,819	11,745	**5,800,217**
- moveable property	-	-	-	-	-	-	5,146	1,557,162	**1,562,308**
- guarantor	-	-	-	-	25,254	70,346	1,140,939	15,402	**1,251,941**
Total loans and advances to customers	**3,078,634**	**112,717**	**-**	**19,895**	**813,048**	**1,655,959**	**1,349,904**	**1,584,309**	**8,614,466**

Information about collateral at 31 December 2012 is as follows:

	Corporate Loans	Manufacturing	Agriculture	Construction	Trade and Services	Repair of Apartment	Consumer Loans	Car Purchase	Total
Unsecured loans	-	-	-	-	-	-	-	-	-
Loans collaterised by:									
- residental real estate	3,108,415	174,210	30,167	34,643	1,034,331	1,338,102	191,135	-	**5,911,003**
- moveable property	-	-	-	-	-	-	-	1,578,163	**1,578,163**
- guarantor	-	-	-	-	25,254	37,223	758,236	24,929	**845,642**
Total loans and advances to customers	**3,108,415**	**174,210**	**30,167**	**34,643**	**1,059,585**	**1,375,325**	**949,371**	**1,603,092**	**8,334,808**

9 Loans and Advances to Customers (continued)

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

	Corporate Loans	Manufacturing	Agriculture	Construction	Trade and Services	Repair of Apartment	Consumer Loans	Car Purchase	Total
Current and not impaired									
- Large borrowers with more than 1 year credit history	-	-	-	-	88,062	55,390	-	-	**143,452**
- Large new borrowers	-	99,558	-	-	104,267	141,574	30,997	-	**376,396**
- others	-	13,159	-	11,294	61,535	513,488	499,091	760,560	**1,859,127**
Total current and not impaired	**-**	**112,717**	**-**	**11,294**	**253,864**	**710,452**	**530,088**	**760,560**	**2,378,975**
Past due but not impaired									
- less than 30 days overdue	99,157	-	-	-	245,413	735,137	600,645	527,142	**2,207,494**
- 30 to 90 days overdue	-	-	-	-	5,155	63,399	50,809	62,756	**182,119**
Total past due but not impaired	**99,157**	**-**	**-**	**-**	**250,568**	**798,536**	**651,454**	**589,898**	**2,389,613**
Loans individually determined to be impaired (gross)									
-90 to 180 days overdue	-	-	-	-	91,230	21,950	25,571	37,432	**176,183**
-180 to 360 days overdue	-	-	-	-	-	37,909	9,665	45,381	**92,955**
-360 days overdue	2,979,477	-	-	8,601	217,386	87,112	133,126	151,038	**3,576,740**
Total individually impaired loans (gross)	**2,979,477**	**-**	**-**	**8,601**	**308,616**	**146,971**	**168,362**	**233,851**	**3,845,878**
Gross carrying values of loans	**3,078,634**	**112,717**	**-**	**19,895**	**813,048**	**1,655,959**	**1,349,904**	**1,584,309**	**8,614,466**
Less impairment provisions	**(2,964,651)**	**(2,238)**	**-**	**(5,387)**	**(234,652)**	**(151,139)**	**(174,006)**	**(221,148)**	**(3,753,221)**
Total loans and advances to customers	**113,983**	**110,479**	**-**	**14,508**	**578,396**	**1,504,820**	**1,175,898**	**1,363,161**	**4,861,245**

9 Loans and Advances to Customers (continued)

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

	Corporate Loans	Manufacturing	Agriculture	Construction	Trade and Services	Repair of Apartment	Consumer Loans	Car Purchase	Total
Current and not impaired									
- Large borrowers with more than 1 year credit history	45,871	21,000	-	-	177,490	77,208	-	-	**321,569**
- Large new borrowers	-	33,052	30,167	-	317,215	130,460	79,114	-	**590,008**
- others	-	-	-	18,541	141,838	923,200	601,601	1,205,672	**2,890,852**
Total current and not impaired	**45,871**	**54,052**	**30,167**	**18,541**	**636,543**	**1,130,868**	**680,715**	**1,205,672**	**3,802,429**
Past due but not impaired									
- less than 30 days overdue	7,703	-	-	-	-	9,346	26,751	113,196	**156,996**
- 30 to 90 days overdue	-	-	-	-	77,689	63,499	66,118	111,795	**319,101**
Total past due but not impaired	**7,703**	**-**	**-**	**-**	**77,689**	**72,845**	**92,869**	**224,991**	**476,097**
Loans individually determined to be impaired (gross)									
-90 to 180 days overdue	-	57,122	-	-	54,891	6,903	32,685	39,009	**168,265**
-180 to 360 days overdue	13,341	-	-	-	110,820	42,625	18,084	33,392	**317,480**
-360 days overdue	3,041,500	63,036	-	16,102	179,642	122,084	125,018	100,028	**4,230,659**
Total individually impaired loans (gross)	**3,054,841**	**120,158**	**-**	**16,102**	**345,353**	**171,612**	**175,787**	**172,429**	**4,716,404**
Gross carrying values of loans	**3,108,415**	**174,210**	**30,167**	**34,643**	**1,059,585**	**1,375,325**	**949,371**	**1,603,092**	**8,994,930**
Less impairment provisions	**(3,050,562)**	**(62,647)**	**(596)**	**(16,467)**	**(312,717)**	**(134,233)**	**(195,950)**	**(163,510)**	**(3,936,682)**
Total loans and advances to customers	**57,853**	**111,563**	**29,571**	**18,176**	**746,868**	**1,241,092**	**753,421**	**1,439,582**	**4,398,126**

9 Loans and Advances to Customers (continued)

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

The carrying value of each class of loans and advances to customers approximates fair value at 31 December 2013 and 31 December 2012. At 31 December 2013 the estimated fair value of loans and advances to customers was AZN 4,861,245 (2012: AZN 4,398,126).

10 Investment Held to Maturity

	Interest to nominal %	31 December 2013	Interest to nominal %	31 December 2012
CBAR treasury bills No. 50104934S	-	-	2.83%	1,397,380
CBAR treasury bills No. 50105234S	-	-	1.42%	1,001,394
CBAR treasury bills No. 50104934S	-	-	2.65%	498,927
Total investment held to maturity		**-**		**2,897,701**

11 Premises, Equipment and Intangible Assets

	Premises	Furniture and Fixtures	Computers and Communication Equipment	Vehicles	Other fixed assets	Total Furniture and Equipments	Software and Licences	Total
Balance as at 01 January 2012	**4,016,521**	**294,063**	**34,356**	**48,191**	**14,682**	**4,407,813**	**27,140**	**4,434,953**
Additions	-	9,000	27,318	55,000	-	**91,318**	35,400	**126,718**
Disposal/Sale	-	-	-	-	-	**-**	-	**-**
Depreciation/amortisation charge	(83,460)	(85,844)	(10,864)	(22,187)	(3,930)	**(206,285)**	(12,241)	**(218,526)**
Balance as at 31 December 2012	**3,933,061**	**217,219**	**50,810**	**81,004**	**10,752**	**4,292,846**	**50,299**	**4,343,145**
Additions	9,295,964	1,344	1,413	-	-	**9,298,721**	-	**9,298,721**
Disposals/Sale	-	-	-	-	-	**-**	-	**-**
Depreciation/amortisation charge	(83,460)	(86,226)	(13,064)	(27,931)	(3,857)	**(214,538)**	(15,354)	**(229,892)**
Balance as at 31 December 2013	**13,145,565**	**132,337**	**39,159**	**53,073**	**6,895**	**13,377,029**	**34,945**	**13,411,974**
Cost at 31 December 2012	4,173,009	452,005	147,163	139,657	19,831	**4,931,665**	109,118	**5,040,783**
Accumulated depreciation	(239,948)	(234,786)	(96,353)	(58,653)	(9,079)	**(638,819)**	(58,819)	**(697,638)**
Balance as at 31 December 2012	**3,933,061**	**217,219**	**50,810**	**81,004**	**10,752**	**4,292,846**	**50,299**	**4,343,145**
Cost at 31 December 2013	13,468,973	453,349	132,757	139,657	19,831	**14,214,567**	109,118	**14,323,685**
Accumulated depreciation	(323,408)	(321,012)	(93,598)	(86,584)	(12,936)	**(837,538)**	(74,173)	**(911,711)**
Balance as at 31 December 2013	**13,145,565**	**132,337**	**39,159**	**53,073**	**6,895**	**13,377,029**	**34,945**	**13,411,974**

Several computers and accessories in the amount of AZN 15,818 were disposed in 2013. These assets were fully amortised at the disposal date.

At 31 December 2013 furniture and fixtures at the cost of AZN 25,394, computers and communication equipment at the cost of AZN 65,515, other fixed assets at the cost of AZN 549, software and licenses at the cost of AZN 22,623 were fully amortised.

11 Premises, Equipment and Intangible Assets (continued)

In 2013 the Bank received premises at the fair value of AZN 9,295,964 in exchange of cash and term deposits placed with bankrupted Royal Bank OJSC in the respective net amounts of AZN 4,949,237 and AZN 3,419,201. The transaction was based on decision 2iqt(81)-2410/2012 by Baku Administrative Economical Court dated 27 february 2013. As a result of which the gain in the amount of AZN 927,526 was recorded as a reversal of provision in Profit and Loss.

12 Other Assets

	31 December 2013	31 December 2012
Items in suspense	-	105,115
Sundry debtors	3,785	75,441
Total other financial assets	**3,785**	**180,556**
Immovables received in satisfaction of non-performing loans	454,372	528,930
Advances for different services	34,003	-
Deferred expenses	28,838	22,095
Other	-	4,342
Total other assets	**520,998**	**735,923**

As at 31 December 2013 and 31 December 2012 other assets are AZN 520,998 and AZN 735,923 respectively.

13 Due to Banks and Other Financial Institutions

	31 December 2013	31 December 2012
Melli Iran Bank Head Office	40,948,618	40,264,424
Export Development Bank of Iran	6,185,603	6,206,444
Correspondent accounts and overnight placements of other banks	5,935	5,891
Short-term amounts owed to other insurance companies	42,679	42,216
Total due to other banks	**47,182,835**	**46,518,975**

The balance amount of due to banks approximates their fair values as of 31 December 2013 and 31 December 2012. At 31 December 2013 the estimated fair value of due to banks and funds borrowed was AZN 47,182,835 (2012: AZN 46,518,975).

Due to Banks and funds borrowed consists of amount AZN 40,948,618 in 2013 (2012: AZN 40,264,424) which are deposits and blocked accounts, correspondent accounts of Bank Melli Iran Head Office.

Amount 6,185,603 AZN in 2012 (2011: 6,206,444) consists of correspondent accounts of Export Development Bank of Iran.

There were no any financial covenants with regard to these borrowings that the Bank should have complied with.

13 Due to Banks and Other Financial Institutions (continued)

The accounts of the Head Office by the amounts of AZN 9,806,250 (2012: AZN 9,812,500) has been blocked by the Bank due to the placement of the same amount on Birlik bank.

14 Customer Accounts

	31 December 2013	31 December 2012
State Owned Enterprises and Public Organizations	**109,008**	**403,742**
- Current Accounts	108,081	402,948
- Term Deposits	824	794
- Closed Customer Accounts	103	-
Other legal entities	**1,319,713**	**67,730**
- Current Accounts	1,310,500	58,441
- Closed Customer Accounts	9,213	9,289
Individuals	**1,420,380**	**1,508,323**
- Current Accounts	1,176,263	908,779
- Term Deposits	227,011	581,939
- Closed Customer Accounts	17,106	17,605
Total Customer Accounts	**2,849,101**	**1,979,795**

Economic sector concentrations within customer accounts are as follows:

	31 December 2013		31 December 2012	
	Amount	**%**	**Amount**	**%**
Individuals	1,420,380	49.85	1,508,323	76.20
Embassies and Consulates	46,376	1.63	345,908	17.47
Other Institutions of Foreign Governments	45,182	1.59	41,471	2.09
Trade and Services	12,422	0.44	28,174	1.42
Manufacturing and industry	13,102	0.46	27,914	1.41
Public Organisations	17,450	0.61	16,363	0.83
Construction and Real Estate	1,283,879	45.06	1,267	0.06
Agriculture and Recycling	1,038	0.04	1,027	0.05
Transportation or Communication	47	-	47	-
Other	9,225	0.32	9,301	0.47
Total Customer Accounts	**2,849,101**	**100.00**	**1,979,795**	**100.00**

As at 31 December 2013 the accrued interest payable on customer accounts is AZN 722 (31 December 2012: AZN 4,789).

The balance amount of customer accounts is their fair values as of 31 December 2013 and 31 December 2012. The fair value of customer accounts is AZN 2,849,101 as of 31 December 2013 (2012: AZN 1,979,795).

Included in the funds attracted from Construction and Real Estate sector amount of AZN 1,196,686 relates to the current account of one company and comprises 42% of the total amount of customer accounts.

15 Other Liabilities

Other financial liabilities comprise the following:

	31 December 2013	31 December 2012
Payables to employees	31,773	-
Items in Course of Settlement	3,496	4,084
Items in suspense	-	413
Other financial liabilities	7,823	22,549
Total other financial liabilities	**43,092**	**27,046**
Sundry creditors	3,156	10
Total other liabilities	**46,248**	**27,056**

16 Share Capital

The number of registered and paid shares amounted AZN 22,408,701 as of 31 December 2013. The movement of shares is as follows:

	Ordinary shares	Total
At 31 December 2012	**22,408,701**	**22,408,701**
- new shares issued	-	-
At 31 December 2013	**22,408,701**	**22,408,701**

As per decree of the CBAR number 22, dated 14th of November 2013, all the banks operating within the territory of the Republic of Azerbaijan should have total capital not less than AZN 50 million effective 1st of January 2015 (refer to Note 24).

17 Interest Income and Expense

	Year ended 31 December 2013	Year ended 31 December 2012
Interest income comprises:		
Interest income on assets at amortised cost		
-interest income on assets with recognized provision	1,483,087	2,129,753
Total interest income	**1,483,087**	**2,129,753**
Interest income on assets at amortised cost comprises:		
-loans and advances to customers	931,125	1,051,021
-balances with banks and other financial institutions	514,096	1,031,553
-other interest income	37,866	47,179
Total interest income on assets carried at amortised cost	**1,483,087**	**2,129,753**
Interest expense comprises:		
-interest on liabilities recorded at amortized cost	(74,298)	(195,616)
Total interest expense	**(74,298)**	**(195,616)**
Interest on liabilities recorded at amortized cost comprises:		
-interest expense on banks and other financial institutions	(30,908)	(139,987)
-interest expense on customer accounts	(43,390)	(55,629)
Total interest expenses on liabilities carried at amortised cost	**(74,298)**	**(195,616)**
Net interest income prior to provisions	**1,408,789**	**1,934,137**

18 Gain from Trading in Foreign Currency

Gain on foreign exchange operations - less losses comprises:

	Year ended 31 December 2013	Year ended 31 December 2012
Dealing operations	2,226	11,669
Revaluation	(4,335)	(22,504)
Net losses	**(2,109)**	**(10,835)**

19 Fee and Commission Income and Expense

	Year ended 31 December 2013	Year ended 31 December 2012
Fee and commission income comprises:		
-cash operations	51,309	88,059
-settlements	54,530	65,499
-other operations	1,276	590
Total fee and commission income	**107,115**	**154,148**
Fee and commission expense comprises:		
-settlements	(3,258)	(28,824)
-cash operations	(5,328)	(24,958)
-other operations	(2,299)	(2,184)
Total fee and commission expenses	**(10,885)**	**(55,966)**
Net fee and commission income	**96,230**	**98,182**

20 Administrative Expenses

	Year ended 31 December 2013	Year ended 31 December 2012
Salaries and wages	777,745	776,181
Depreciation expenses	229,892	218,526
Taxes,other than income tax	109,391	75,503
Premises Security	61,917	64,737
Repair and maintenance	53,988	30,142
Communications	48,590	61,577
Insurance expenses	43,717	30,873
Legal fees	41,001	42,928
Utilities	27,188	19,335
Professional Services	23,384	16,750
Printing and office supplies	11,502	2,860
Membership	10,858	7,000
Rent expense	5,407	13,743
Advertising	4,572	4,703
Miscellanous	18,498	70,051
Total operating expenses	**1,467,650**	**1,434,909**

21 Income Tax

Income tax expense comprises the following:

	31 December 2013	31 December 2012
Deductible temporary differences:		
-premises and equipments	32,764	(13,759)
-other assets		-
Total deductible temporary differences	**32,764**	**(13,759)**
Net deferred tax asset/(liability) at the end of the year (at the statutory tax rate of 20%)	6,553	(2,752)
Net deferred tax asset/(liability) at the beginning of the year	(2,752)	(9,322)
Change in the deferred income tax for the year charged to profit	**9,305**	**6,570**

Differences between IFRS and Azerbaijani statutory taxation regulations give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases.

	Year ended 31 December 2013	Year ended 31 December 2012
Profit/(loss) before income tax	51,317	(392,814)
Tax at the statutory tax rate	(10,263)	78,563
Tax effect of permanent differences	(20,986)	(71,993)
Utilisation of previous year carryforward losses	40,554	-
Income tax benefit	**9,305**	**6,570**
Current income tax expense	-	-
Change in the deferred income tax	9,305	6,570
Income tax benefit	**9,305**	**6,570**

22 Financial Risk Management

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

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

22 Financial Risk Management (continued)

In addition, there are certain limits introduced and regularly monitored by the CBAR which are also mandatory to comply for all financial institutions of Azerbaijan. The following sub-limits are applied by the Bank:

(1) the maximum loan amount for one borrower or related borrowers is, as follows:

(i) 20 per cent of the Bank's total equity if the market value of the collateral is at least equal to 100 per cent of the value of the loan and less if there is no 150 per cent of the value of the loan collateralized by real estate; and

(ii) 7 per cent of the Bank's total equity if the market value of the collateral is at least equal to 100 per cent of the value of the loan and less if there is no 150 per cent of the value of the loan collateralized by real estate; and

(2) All large loans in aggregate must not exceed 8 times in total of the Bank's total equity;

(3) the total maximum amount of the Bank's loans to related parties must not exceed:

(i) 20 per cent of the Bank's total equity; and

(ii) 10 per cent of the Bank's equity per legal person; or

(iii) 3 per cent of the Bank's equity per physical person.

The serates are calculated based on the figures from the Bank's financial statements prepared in accordance with local standards.

The limits, other than the limits of the CBAR are developed and revised by the Risk Management Department on a quarterly basis. In the case of material change to the market environment, the limits may also be reviewed. A proposal for any change to the limits is first provided to the Credit Committee and subsequently to the Management Board of Bank Melli Iran for approval.

The Lending Operations and Reporting department reviews the adherence to all limits on a regular basis and some of the limits (maximum exposure to a single borrower or group of related borrowers, maximum exposure to related parties) are checked prior to the issue of any new loan.

The Credit Policy of the Bank regulates the authorities and responsibilities of each body of the Bank involved in lending process and determine the limits for credit granting approval the rules for monitoring of loans, the principles of rating system implemented by the bank, lending procedures etc.

Loan Approval Procedure and Delegation. The loan approval process is conducted in accordance with the procedures described in Lending Policy of the Bank. The delegation of authorities for loan granting approval process has been defined within the limits approved by Supervisory Board of the Bank for each level of decision-making authority.

Delegation of authorities for credit granting approval. Supervisory Board monitors and approves all loans. Limits on loansare as follows:

- Business loans (36 months) – withcollateral of real estate - maximum limit USD 150 000;
- Loans to individuals (36 months) – with collateral of real estate - maximum limit USD 50 000;
- According to deposits - maximum limit USD 400 000;
- Loans to individuals who works in offices of Iran Islamic Republic in Azerbaijan - maximum limit USD 20 000;
- Loans to individuals with guarant or maximum limit USD 10 000;
- Loans for the purpose of car purchase with collateral of car - maximum limit USD 10 000;

22 Financial Risk Management (continued)

The Bank performs a detailed evaluation of potential borrowers before granting loans. This analysis is based on their financial situation, position on the market, type and value of collateral provided for secure the loan and on credit history of the potential borrower.

Monitoring is implemented on a periodic basis during the whole duration of a loan and also depends on the Bank's internal risk rating assigned to the borrower. In most cases, the scheduled monitoring is conducted on a quarterly basis. When a loan becomes overdue, a notification is sent to the borrower within ten days. In case of failure of the borrower to repay the outstanding debt, a second notification is sent within 30 days. As the interest payments under the majority of the loans are made on a monthly basis it gives the Bank additional indicators of the borrower's financial condition. In case of overdue repayments, an extraordinary monitoring is executed by the Monitoring & Problem Loan Division which executes all types of loans' monitoring for the purpose of ensuring the security of Bank's assets and minimising possible credit risks and losses, and the results of it are to be formulated in special monitoring report presented for consideration to the Credit Committee of the Bank. The Bank aims for all loans to be secured by guarantees and various forms of collateral (real estate, property and equipment, goods in turnover, securities, etc).

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

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

Maximum exposure to credit risk. The Bank's maximum exposure to credit risk for balance sheet items is usually presented in the balance sheet value of the financial assets in the statement of financial position. The ability of the interchange of assets and liabilities is significant to reduce potencial credit risk.

For off-balance sheet items, especially letters of credit and guarantees the maximum exposure of credit risk represents total amount of liabilities. The Bank's credit risk for off-balance sheet items is disclosed in Note 24 "Contingencies and Commitments"

Credit risk for off-balance sheet financial instruments is defined as the possibility of sustaining a loss as a result of another party to a financial instrument failing to perform in accordance with the terms of the contract.

The Bank uses the same credit policies in making conditional obligations as it does for on-balance sheet financial instruments through established credit approvals, risk control limits and monitoring procedures.

					31 December 2013
	Maximum exposure	**Offset**	**Net exposure after offset**	**Collateral pledged**	**Net exposure after offset and collateral**
Cash and current placements with other banks	27,704,586	-	27,704,586	-	27,704,586
Due from banks and other financial institutions	24,969,505	-	24,969,505	15,161,168	9,808,337
Loans and advances to customers	4,861,245	-	4,861,245	4,861,245	-
Investments held to maturity	-	-	-	-	-

22 Financial Risk Management (continued)

					31 December 2012
	Maximum exposure	Offset	Net exposure after offset	Collateral pledged	Net exposure after offset and collateral
Cash and current placements with other banks	24,070,736	-	24,070,736	-	24,070,736
Due from banks and other financial institutions	33,390,396	-	33,390,396	15,500,000	17,890,396
Loans and advances to customers	4,398,126	-	4,398,126	4,398,126	-
Investments held to maturity	2,897,701	-	2,897,701	-	2,897,701

The banking industry is generally exposed to credit risk through its financial assets and contingent liabilities. Credit risk exposure of the Bank is concentrated within the Azerbaijan Republic. The exposure is monitored on a regular basis to ensure that the credit limits and credit worthiness guidelines established by the Bank's risk management policy are not breached.

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

Currency risk. Currency risk is defined as the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Bank is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. At the end of the reporting period the Bank's exposure to foreign currency exchange rate risk is presented in the table below:

	AZN	USD	EUR	31 December 2013 Total
ASSETS				
Cash and current placements with other banks	1,020,119	13,417,687	13,266,780	27,704,586
Due from banks and other financial institutions	7,819,781	13,915,724	3,234,000	24,969,505
Loans to customers	1,384,278	3,407,587	69,380	4,861,245
Premises and equipment	13,377,029	-	-	13,377,029
Intangible assets	34,945	-	-	34,945
Investments held to maturity	-	-	-	-
Income tax assets	112,909	-	-	112,909
Deferred tax assets	6,553	-	-	6,553
Other assets	517,318	-	3,680	520,998
TOTAL ASSETS	**24,272,932**	**30,740,998**	**16,573,840**	**71,587,770**
LIABILITIES				
Due to banks and other financial institutions	42,601	30,601,116	16,539,118	47,182,835
Customer accounts	411,466	2,323,275	114,360	2,849,101
Deferred tax liabilities	-	-	-	-
Other liabilities	44,757	1,491	-	46,248
TOTAL LIABILITIES	**498,824**	**32,925,882**	**16,653,478**	**50,078,184**
NET BALANCE SHEET POSITION	**23,774,108**	**(2,184,884)**	**(79,638)**	**21,509,586**

22 Financial Risk Management (continued)

	AZN	USD	EUR	31 December 2012 Total
ASSETS				
Cash and current placements with other banks	1,480,659	13,369,606	9,220,471	24,070,736
Due from banks and other financial institutions	11,251,699	15,233,661	6,905,036	33,390,396
Loans to customers	842,277	3,477,441	78,408	4,398,126
Premises and equipment	4,292,846	-	-	4,292,846
Intangible assets	50,299	-	-	50,299
Investments held to maturity	2,897,701	-	-	2,897,701
Income tax assets	141,515	-	-	141,515
Other financial assets	100	-	180,456	180,556
Other assets	551,924	-	3,443	555,367
TOTAL ASSETS	**21,509,020**	**32,080,708**	**16,387,814**	**69,977,542**
LIABILITIES				
Due to banks and other financial institutions	42,138	30,331,358	16,145,479	46,518,975
Customer accounts	610,618	1,114,023	255,154	1,979,795
Deferred tax liabilities	2,752	-	-	2,752
Other financial liabilities	21,751	1,806	3,489	27,046
Other liabilities	10	-	-	10
TOTAL LIABILITIES	**677,269**	**31,447,187**	**16,404,122**	**48,528,578**
NET BALANCE SHEET POSITION	**20,831,751**	**633,521**	**(16,308)**	**21,448,964**

Currency risk sensitivity. The Risk Management Department of the Bank daily monitors and regulates foreign currency risk related to commercial bank operations as follows:

i. Holding the open currency position limits determined by the CBAR for every foreign currency;

ii. Monitoring of the reciprocal relation between currency position level and liquidity level for every foreign currency;

iii. Forecasting of change trends in foreigncurrency exchange rates as USD and EUR;

iv. Analysis of activity of the Bank’s large customers engaged in export-import operations and bank operations.

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

As at 31 December 2012 the management considers that the Bank was in compliance with open currency limits determined by local legislation. The Bank’s open currency position determined by local legislation is calculated based on the Bank’s statements prepared in compliance with local standards and this calculation may materially differ from the information given in the Bank’s current financial statements.

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

22 Financial Risk Management (continued)

Impact on profit before tax:

	As at 31 December 2013		As at 31 December 2012	
	Interest rate 1%	Interest rate -1%	Interest rate 1%	Interest rate -1%
Assets:				
Due from Banks and other financial institutions	249,695	(249,695)	333,750	(333,750)
Loans to customers	48,612	(48,612)	43,981	(43,981)
Liabilities:				
Due to banks and other financial institutions	(471,828)	471,828	(465,131)	465,131
Customer accounts	(2,278)	2,278	(5,827)	5,827
Net impact on profit before tax	**(175,799)**	**175,799**	**(93,227)**	**93,227**

Geographical concentration

The geographical concentration of financial assets and liabilities as of 31 December 2013 is set out below:

	Azerbaijan Republic	OECD countries	Non-OECD countries	Total
Financial assets				
Cash and current placements with other banks	21,629,179	-	6,075,407	27,704,586
Due from banks and other financial institutions	24,969,505	-	-	24,969,505
Loans to customers	4,537,917	-	323,328	4,861,245
Investments held to maturity	-	-	-	-
Other financial assets	3,785	-	-	3,785
Total financial assets	**51,140,386**	**-**	**6,398,735**	**57,539,121**
Financial liabilities				
Due to banks and other financial institutions	48,614	-	47,134,221	47,182,835
Customer accounts	1,656,335	-	1,192,766	2,849,101
Other financial liabilities	43,092	-	-	43,092
Total financial liabilities	**1,748,041**	**-**	**48,326,987**	**50,075,028**
Net balance sheet position	**49,392,345**	**-**	**(41,928,252)**	**7,464,093**

22 Financial Risk Management (continued)

The geographical concentration of assets and liabilities as of 31 December 2012 is set out below:

	Azerbaijan Republic	OECD countries	Non-OECD countries	Total
Financial assets				
Cash and current placements with other banks	17,945,073	-	6,125,663	24,070,736
Due from banks and other financial institutions	33,390,396	-	-	33,390,396
Loans and advances to customers	3,996,346	-	401,780	4,398,126
Investments held to maturity	2,897,701	-	-	2,897,701
Other financial assets	180,556	-	-	180,556
Total financial assets	**58,410,072**	**-**	**6,527,443**	**64,937,515**
Financial liabilities				
Due to banks and other financial institutions	51,157	-	46,467,818	46,518,975
Customer accounts	436,329	-	1,543,466	1,979,795
Other financial liabilities	27,046	-	-	27,046
Total financial liabilities	**514,532**	**-**	**48,011,284**	**48,525,816**
Net balance sheet position	**57,895,540**	**-**	**(41,483,841)**	**16,411,699**

Assets, liabilities and loan liabilities are classified according to the counterparts' operation country. Cash, precious metals, and equipments are classified according to the holding countries.

Other risk concentrations. Management monitors and discloses concentrations of credit risk by obtaining reports listing the exposures to borrowers with aggregated loan balances in excess of 10% of net assets. The Bank did not have any such significant risk concentrations at 31 December 2013 and 2011.

The Management determines risk concentrations based on the evaluation of quantitative indexes for the risks within the reporting period. This disclosure is based on the information presented to key management personnel and represents currency, credit and interest rate risk concentration analysis.

Liquidity risk. Liquidity risk exists when the maturities of assets and liabilities do not match. The Bank everyday incurs risks related to the usage of the monetary funds intended for operations with overnight placements, customer accounts, repayment of deposits, granting loans, payments on guarantees and derivative financial instruments. The Bank doesn't hold enough monetary funds to meet all the obligations shown above at the same time, as it is possible to forecast exactly the necessary level of the monetary funds amount intended for meeting these obligations based on the experience. The liquidity risk is controlled by the management of the Bank.

22 Financial Risk Management (continued)

The Bank seeks to maintain a stable funding base comprising primarily amounts due to other banks, corporate and retail customer deposits and debt securities and invest the funds in diversified portfolios of liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

The liquidity management of the Bank requires considering the level of liquid assets necessary to settle obligations as they fall due; maintaining access to a range of funding sources; maintaining funding contingency plans and monitoring balance sheet liquidity ratios against regulatory requirements. The Bank calculates its instant liquidity ratio on a monthly basis in accordance with the requirement of the Central Bank of Azerbaijan.

In accordance with the directions of the CBAR, the Bank calculates the quick ratio as a ratio of weighted daily assets to weighted daily liabilities. This ratio is calculated based on the balances from the Bank's financial statements prepared in accordance with local standards.

Risk Management Departament obtains the information on the liquidity profiles related to financial assets and liabilities. After this, Reporting Departament maintains adequacy of short-term liquid assets which include short-term debt securities for sale, short-term placements with other banks and other interbank credits for the purpose of maintenance enough liquidity in the Bank.

Credit Departments monitor the liquidity position every day and regularly do testings of sensitivity for liquidity based on different scenarious which include standard and unfavorable market conditions. The functions of Treasury and Financial Departments are set out below:

i. Compliance with the minimum liquidity requirements of the CBAR (As a percentage of assets and liabilities should not be less than 30%);
ii. Reporting to the Bank's director and assistant director on the forecast levels of cash flows;
iii. Monitoring of large deposit concentrations;
iv. Manintaining of active participation in local and international markets for the purpose of obtaining medium and short-term credits when necessary; and
v. Monitoring of cash flows related to the Bank's credit activity.

22 Financial Risk Management (continued)

The Bank controls maturities and liquidity shortage summarized as follows at 31 December 2013:

	Up to 1 month	1 month to 3 months	3 months to 1 year	More than 1 year	Total
Assets					
Cash and current placements with other banks	27,704,586	-	-	-	27,704,586
Due from banks and other financial institutions	12,363,255	-	-	12,606,250	24,969,505
Loans to customers	41,614	16,508	812,095	3,991,028	4,861,245
Investments held to maturity	-	-	-	-	-
Other financial assets	3,785	-	-	-	3,785
Total financal assets	**40,113,240**	**16,508**	**812,095**	**16,597,278**	**57,539,121**
Liabilities					
Due to banks and other financial institutions	37,376,585	9,806,250	-	-	47,182,835
Customer accounts	2,627,424	9,022	212,030	625	2,849,101
Other financial liabilities	43,092	-	-	-	43,092
Total financial liabilities	**40,047,101**	**9,815,272**	**212,030**	**625**	**50,075,028**
Liquidity gap as at 31 December 2013	**66,139**	**(9,798,764)**	**600,065**	**16,596,653**	**7,464,093**
Cumulative liquidity gap as at 31 December 2013	**66,139**	**(9,732,625)**	**(9,132,560)**	**7,464,093**	

22 Financial Risk Management (continued)

The Bank controls maturities and liquidity shortage summarized as follows at 31 December 2012:

	Up to 1 month	1 month to 3 months	3 months to 1 year	More than 1 year	Total
Assets					
Cash and current placements with other banks	24,070,736	-	-	-	24,070,736
Due from banks and other financial institutions	15,424	-	13,980,955	19,394,017	33,390,396
Loans to customers	47,115	44,076	774,019	3,532,916	4,398,126
Investments held to maturity	2,897,701				2,897,701
Other financial assets	180,556				180,556
Total financal assets	**27,211,532**	**44,076**	**14,754,974**	**22,926,933**	**64,937,515**
Liabilities					
Due to banks and other financial institutions	31,517,975	5,188,500	-	9,812,500	46,518,975
Customer accounts	1,457,700	164,650	117,400	240,045	1,979,795
Other financial liabilities	27,046	-	-	-	27,046
Total financial liabilities	**33,002,721**	**5,353,150**	**117,400**	**10,052,545**	**48,525,816**
Liquidity gap as at 31 December 2012	**(5,791,189)**	**(5,309,074)**	**14,637,574**	**12,874,388**	**16,411,699**
Cumulative liquidity gap as at 31 December 2012	**(5,791,189)**	**(11,100,263)**	**3,537,311**	**16,411,699**	

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

The management considers that although the great part of customer accounts has “demand” status, diversification of these deposits by number and type of depositors, and the past experience of the Bank would indicate that these customer accounts provide a long-term and stable source of funding for the Bank.

23 Commitments and Contingencies

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

Tax legislation. Azerbaijani tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation, as applied to the transactions and activity of the Bank, may be challenged by the relevant state authorities. Recent events within the Republic of Azerbaijan suggest that the tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

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

Operating lease commitments. At 31 December 2013, the Bank had no significant operating lease commitments (2012: nill).

Compliance with covenants. The Management has made judgments during interpretation of local legislation requirements and determination of the Bank's compliance with special covenants in credit facility agreements. These judgments comprise calculation methods and impact of such potential contradictions on the Bank. The Management based on the rules it uses believes that the determination of the impact of the current contradictions on the financial statements was properly accomplished. If proof that, management's approach is not the correct, penalties or other sanctions may be imposed against the Bank.

Obligations related to credits. The main purpose of these financial instruments is to maintain providing financial assets to customers.

Commitments for granting credits comprise unused part of the amounts not approved by the Management for granting credits as loans, guarantees or letters of credit. The Bank incurs risks of loss which equals to the total amount of potential unused commitments when the unused amounts should be used due to the credit commitments. However, as the great part of credit related commitments depends on some requirements concerning customer's payment ability, the estimated amount of loss is less than the amount of unused commitments. Due to the fact that long-term liabilities usually have higher credit risk comparing to short-term liabilities, the Bank monitors the period untill the maturity date of the credit related commitments. The commitments related to credits comprise the following.

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

24 Management of Capital

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

24 Management of Capital (continued)

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

As per decree of the CBAR number 22, dated 14th of November 2013, all the banks operating within the territory of the Republic of Azerbaijan should have total capital not less than AZN 50 million effective 1st of January 2015.

Management believes that the Bank is in compliance with the statutory capital adequacy ratio and any other requirements of the CBAR on 31 December 2013 and it will be compliant on 1st of January 2015 as well.

25 Fair Value of Financial Instruments

Fair values of financial instruments carried at amortised cost are as follows:

	31 December 2013		31 December 2012	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Cash and current placements with other banks	27,704,586	27,704,586	24,086,160	24,086,160
Due from banks and other financial institutions	24,969,505	24,969,505	33,374,972	33,374,972
Loans to customers	4,861,245	4,861,245	4,398,126	4,398,126
Investments held to maturity	-	-	2,897,701	2,897,701
Other financial assets	3,785	3,785	180,556	180,556
Total financial assets carried at amortised cost	**57,539,121**	**57,539,121**	**64,937,515**	**64,937,515**

	31 December 2013		31 December 2012	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial liabilities				
Due to banks and other financial institutions	47,182,835	47,182,835	46,518,975	46,518,975
Customer accounts	2,849,101	2,849,101	1,979,795	1,979,795
Other financial liabilities	43,092	43,092	27,046	27,046
Total financial liabilities carried at amortised cost	**50,075,028**	**50,075,028**	**48,525,816**	**48,525,816**

26 Presentation of Financial Instruments by Measurement Category

For the purposes of measurement, IAS 39, Financial Instruments: Recognition of Measurement, classifies financial assets into the following categories: (a) loans and receivables; (b) available for sale financial assets; (c)financialassetsheldtomaturity and d) financial assets at fair value through profit or loss(“PLFV”). "Financial assets at fair value through profit or loss" category is divided into two sub-categories: (i) Duringtheinitialaccounting part of thiscategory of assets and (ii) financial assets for trading.

26 Presentation of Financial Instruments by Measurement Category (continued)

The following table provides a reconciliation of classes of financial assets with these measurement categories as at 31 December 2013:

	Loans and receivables	Available-for-sale assets	Total
Financial assets			
Cash and cash equivalents	27,704,586	-	27,704,586
Cash on hand	1,046,370	-	1,046,370
Cash and balances with the CBAR	20,549,019	-	20,549,019
Correspondent Accounts	6,109,197	-	6,109,197
Due from banks and other financial institutions	24,969,505	-	24,969,505
Loans and advances to customers	4,861,245	-	4,861,245
Corporate loans	3,078,634	-	3,078,634
Repair of Apartment	1,655,959	-	1,655,959
Agriculture	-	-	-
Consumer loans	1,349,904	-	1,349,904
Trade and services	610,675	-	610,675
Construction	222,268	-	222,268
Car purchase	1,584,309	-	1,584,309
Manufacturing	112,717	-	112,717
Provision for impairment	(3,753,221)		(3,753,221)
Investments held to maturity	-	-	-
Other financial assets	3,785	-	3,785
Total financial assets	**57,539,121**	**-**	**57,539,121**
Non-financial assets	**14,048,649**	**-**	**14,048,649**
Total assets	**71,587,770**	**-**	**71,587,770**

26 Presentation of Financial Instruments by Measurement Category (continued)

The following table provides a reconciliation of classes of financial assets with these measurement categories as at 31 December 2012:

	Loans and receivables	Available-for-sale assets	Total
Financial assets			
Cash and cash equivalents	24,070,736	-	24,070,736
Cash on hand	554,270	-	554,270
Cash and balances with the CBAR	11,963,239	-	11,963,239
Correspondent Accounts	11,553,227	-	11,553,227
Due from banks and other financial institutions	33,390,396	-	33,390,396
Loans and advances to customers	4,398,126	-	4,398,126
Corporate loans	3,108,415	-	3,108,415
Repair of Apartment	1,375,325	-	1,375,325
Agriculture	30,167	-	30,167
Consumer loans	949,371	-	949,371
Trade and services	1,059,585	-	1,059,585
Construction	34,643	-	34,643
Car purchase	1,603,092	-	1,603,092
Manufacturing	174,210	-	174,210
Provision for impairment	(3,936,682)		(3,936,682)
Investments held to maturity	2,897,701	-	2,897,701
Other financial assets	180,556	-	180,556
Total financial assets	**64,937,515**	**-**	**62,039,814**
Non-financial assets	**5,040,027**	**-**	**5,040,027**
Total assets	**69,977,542**	**-**	**67,079,841**

27 Transactions with Related Parties

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

27 Transactions with Related Parties (continued)

	31 December 2013		31 December 2012	
	Related party balances	**Total category as per financial statements caption**	**Related party balances**	**Total category as per financial statements caption**
Loans to customers		**8,614,466**		**8,334,808**
- entities with joint control or significant influence over the entity	-		-	
- key management personnel of the entity or its close relatives	134,872		139,049	
Allowance for impairment losses		**(3,753,221)**		**(3,936,682)**
- entities with joint control or significant influence over the entity	-		-	
- key management personnel of the entity or its close relatives	(2,696)		(2,781)	
Customer accounts		**2,849,101**		**1,979,795**
- entities with joint control or significant influence over the entity	-		-	
- key management personnel of the entity or its close relatives	40,250		9,806	

As at 31 December 2013 and 31 December 2012 benefits to key management personnel were as follows:

	31 December 2013	**31 December 2012**
Short-term benefits – salaries and bonuses	121,089	124,050
Total	**121,089**	**124,050**

During the year ended 31 December 2013 key management's compensation, comprising salaries and benefits of the Bank's director and assistant director are classified as short-term payments in accordance IAS 19 "Employee Benefits".

28 Events After the Reporting Period

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