The International Bank of Azerbaijan

Annual Report 2013

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Throughout the recent years, International Bank of Azerbaijan has been capable of successfully achieving all goals and aims put forward, and as a logical continuation of this success - is being recognized as a truly national development bank. The areas of its operations and services provided, had extended considerably; the Bank was able to gain the trust of many customers from various social backgrounds. All customers – starting from infants to elderly, from small business entrepreneurs to big corporations – take advantage of our services, their numbers are increasing constantly. As another area of the Bank's growth – it is important to mention the wide network of branches. Our ever growing and extending branch representations – within and outside of Azerbaijan, at the same time manage to improve their practices and always exceed expectations. A close study of these extensive and intensive development rates, allows us to recognize a completely new feature of our bank. Today one can be certain that International Bank of Azerbaijan is a Social Network - which unites all members of our society.

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Jahangir Hajiyev | Chairman of the Board

Statement by Chairman of Board of the International Bank of Azerbaijan

Jahangir Hajiyev,
November 15, Baku

Dear shareholders, customers, partners, friends and colleagues,

In 2013, the International Bank of Azerbaijan continued developing in all the fields of its activity. The Bank, having demonstrated high levels of sustainability and stability, reached all the goals and brought into life all missions it had committed itself for. The Bank became even more established as one of the greatest and most reliable brands among the Caucasus' financial holdings and successfully protected its advanced positions across all the segments of Azerbaijan's financial and banking market.

In 2013, the International Bank of Azerbaijan expanded its international-standard service spectrum for corporate and individual customers. Protecting the clientele's long-term interests was among the Bank's primary goals. Nowadays, Azerbaijan's oil, gas, energy production, transportation and construction compose the fundament of our corporate clientele. Thanks to the IBA's high-quality service, it has managed to gain the corporate customers' trust; in 2013, the Bank displayed higher financial indicators in this field and was able to provide for further strengthening its positions. We continuously improve our efforts for our customers' loyalty. It is worth mentioning the Bank managed to hold and improve its high ratings in 2013 and became a laureate of a number of international awards. With reference to The Banker's rating, the IBA was included into the world's top-1,000 banks in terms of size and sustainability. In mid-2013, the International Bank of Azerbaijan's brought its authorised capital up to AZN330 million. Capitalisation completion was appreciated by Fitch and Moody's. The IBA's capital growth determined increasing assets and provided for better capital sufficiency indicators. This became one of the IBA's main advan-

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tages, greatly enhanced its financial stability and created the Bank's opportunities for more asset transactions and for the implementation of a number of important strategic initiatives to apply a modern governance system in all the activities including mutually beneficial relations with the customers.

In 2013, Moody's Investors Service raised the International Bank of Azerbaijan's Issuer Default Rating outlook level up to "stable" due to the Bank's higher asset quality. To a great extent, the higher rating was based on the outcomes in the IBA's 2012 financial report, prepared in accordance with the IFRS standards.

> The Banker awarded the International Bank of Azerbaijan Bank of the Year. One of Europe's leading information and analytical media, emeafinance awarded the IBA Best Local Bank (among Best Banks in the CIS, Central Europe and Eastern Europe) for the fifth time, which proves a symbol of our success recognised.

In 2013, the IBA improved its corporate business and service quality as well as modernised the sales and crediting procedures. The Bank's retail service was also established up-to-date; new products to improve investment banking quality were presented.

During the reported year, the IBA accumulated its efforts to pay greater attention for better customer service in all the fields. To control customer service quality, a special monitoring service and performance standards were developed. The Bank set as a goal meeting changing market demands and customers' expectations and improves efforts related. During the year, the customers were offered substantially new personal products and services such as special crediting for the Bank's salary-card holders, Pension Deposit, a new Pension+ social-responsibility program for pension-card holders, a unique R@ndevu service, developing new customer-care standards, etc.

Jahangir Hajiyev,
November 15, Baku

The Bank became Azerbaijan's pioneer for its VISA-certified card acquiring with Visa payWave contact-free payment technology. In 2013, activities to prepare issuing those cards were completed. Another product by the Bank, IBA-Express urgent money transfer coverage was expanded upon related contracts signed with banks in China, Uzbekistan, and Tajikistan. The IBA became the first bank in Azerbaijan to sign a partnership agreement with UnionPay International and started preparation to issue UnionPay cards.

The Bank, within the framework of Islamic banking, implemented the so-called Islam Window facility and started the service for the customers. In 2013, the IBA presented Qibla Card, a pioneer product of a European scale meeting requirements of Islamic banking.

Products with relevant certification for Islamic banking enter the spectrum of service the IBA offers. Islamic banking has been maintained on the level of a promising segment. The outcomes related evidently prove this. It is envisioned to provide for its further development and later establish divisions-in-charge within regional branches. Actually, the Bank became the CIS's first one to launch a perfect domestic model of Islamic banking.

The Bank paid 2013's greatest attention to improving the quality of its assets and, as a result of the activities run, kept the indicators on a relevant level and liquidity high. Our assets grew up by 24.42% and exceeded AZN7.9 billion to make up 35.2% of Azerbaijan's total.

The Bank's joint stock reached AZN475 million, which displayed growth as much as 43.6%. During the current year, the Bank's net profit grew by 11.4% and equaled AZN58.9 million. The International Bank of Azerbaijan's General Meeting adopted a resolution to pay AZN14.1 million of 2012's net profit as dividends. Further growth in individual savings should be mentioned. The total of individual savings grew by 31.7% during the reported year and exceeded AZN1.5 billion. By late 2013, we had managed to bring our individual customers' numbers up to approximately 860,000. Actually covering all the regions in Azerbaijan, our service network intensively developed: 35 branches, nearly 60 divisions and 800 ATMs are serving people in Baku and beyond.

To effectively meet demands caused by recent years' complications in global economic environment, the International Bank of Azerbaijan launched new institutional approaches based on the world's best practices in strategic governance to be implemented step by step.

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The Bank was able to reach the goals set, kept under control risks threatening macro-economic indicators, and provided for its own financial sustainability and stable development. Of course, all the outcomes demonstrated by the International Bank of Azerbaijan have been backed by the people's evident socio-economic prosperity, a reasonable and careful policy by the regulatory body, the Republic of Azerbaijan's Central Bank, and, in general, the nation's successful internal economic policy implemented under new macroeconomic conditions.

The IBA expanded its partnership with the Asian Development Bank, Islamic Development Bank, Black Sea Trade and Development Bank, other international and regional development banks, and some export credit agencies from a number of developed countries.

> Having brought cheap and long-term financial resources to Azerbaijan, we strengthened our leadership crediting important sectors of domestic economy. A large-size dynamically developing finance-and-credit institution, the IBA is implementing its plans for further strengthening the successes achieved demonstrating a high level of determination and effectiveness. I am sure the Bank is going to retain the image of a reliable and professional institution and keep on growing its positive reputation.

As a traditional conclusion, let me cordially thank our customers for their trust; our shareholders for their support and loyalty; our partners for their reliability; and the entire staff and my colleagues for their honest work.

I wish you success and happiness.

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Our Management

All Management | Deputies of Chairman | Directors

Emil MUSTAFAYEV
First Deputy Chairman of the Board

Vagif AKBAROV
Deputy Chairman of the Board

Gubad HUSEYNOV
Deputy Chairman of the Board

Rashad HAJIYEV
Deputy Chairman of the Board - Chief Financial Officer

Fuad ISLAMOV
General Director

Akif ALIYEV
General Director

Elmir HABIBULLAYEV
General Director

Mazahir DADASHOV
Director, Risk management department

Farhad KARIMOV
Director, Central treasury department

Yalchin TAGHIZADEH
Director, Communications and information technologies department

Yasin JALILOV
Director, Corporate business department

Hasan HASHIMZADE
Director, department of coordination of Bank's managerial structures

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Rauf KHALILOV
Director, Legal department

Aydin SALIMOV
Director, Cash turnover department

Elshan MAMMADZADEH
Director, department of correspondent accounts

Tahir MAHMUDOV
Director, department of credit activity control

Mayya DURSUNOVA
Director, Strategic development and marketing department

Irada HASANOVA
Director,
Human resources management department

Rashad GASIMOV
Director, Accounting and budget forecast department

Azad MAMMADOV
Director,
Internal audit department

Emin IBRAHIMOV
Director, department of Bank activity support

Aydin ISMAYILOV
Director, Internal control and monitoring department

Rauf NAJAFLI
Director, department of Bank activity security

Behnam GURBANZADEH
Director, Islamic banking department

Ramiz DADASHOV
Director, Retail business department

"The International Bank of Azerbaijan" Social Network

IBA Details

About

Full Name	The Open Joint Stock Company "International Bank of Azerbaijan"
Short name	OJSC "IBA"
Date of establishment	January 10, 1992
Legal address	Nizami, 67, AZ1005, Baku, Azerbaijan
Telephone	(+994 12) 4930091, 4989127, 4987593
Fax	(+994 12) 4934091, 4989128
E-Mail	ibar@ibar.az
URL	www.ibar.az
License	Banking License #2 by the Central Bank of the Republic of Azerbaijan, December 30, 1992
Ratings	BB by Fitch IBCA (long-term, in foreign currency, by 27.05.2014)
	Ba3 by Moody's (long-term, in foreign currency, by 30.04.2014)
2013'S awards	Best Bank in Azerbaijan (by Emeafinance magazine)
	Bank of the Year (by The Banker, for Azerbaijan)
	Best Bank of the World's Developing Markets (by Global Finance, for Azerbaijan)
Membership in professional associations, unions, exchanges and payment systems	Azerbaijan Banks Association
	American Express (exclusive partner in Azerbaijan)
	MasterCard International
	VISA International,
	Diners' Club
	UnionPay Co Ltd
	World Economic Forum (WEF)
	WEF's Community of Global Growth Companies
	WEF's Partnership Against Corruption Initiative
	Asia House (United Kingdom)
	TheCityUK (United Kingdom)
	Britain Azerbaijan Business Council (United Kingdom)

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Shareholders

	2013	2012
total number	1803	1821
including:		
legal persons	14	14
staff	289	302
other individuals	1500	1505
shareholders' part of authorized capital (%),		
including:		
Ministry of Finance	60,06	51,59
other legal persons	7,89	10,10
staff	4,64	5,82
other individuals	27,41	32,49

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Staff

	2013	2012
Total number	1371	1289
including:		
Head Office	442	422
branches & departments	920	858
representative offices*	9	9

* Dubai, Frankfurt, London, Luxembourg, New York

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Service Network

	2013	2012
branches.	35	35
including:		
subbranches	42	55
ATMs	709	671
POS-terminals	7399	4628
Subsidiary banks	2	2
Representative offices	5	5

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Main Financial Indicators

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Structure of Assets and Liabilities

In the reported year, the International Bank of Azerbaijan's assets reached AZN7.68 billion, which makes its growth reach the percentage level of as much as 24.42% in comparison to the previous year. As a result of loan operations growing high, loans to customers totally reached the amount of AZN6.62 billion, or by 25.93% more than the previous year's indicators. Owing to proper attention paid to raising idle funds, corporate customers' (except national and public organizations) and individuals' term and current deposits totalled at AZN2.5 billion including AZN1.7 billion of term deposits and AZN0.78 billion of current deposits, in comparison to, respectively, the previous year's AZN1.34 billion and AZN0.65 billion.

In terms of percentage, loans (including 11.4% for individuals and 88.6% for corporate customers) have composed 86%. 15% of the assets in comparison to the previous year's 85.11%.

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Structure of Income and Expense

According to the outcomes for the reported year, the total income obtained by the International Bank of Azerbaijan has grown by 23.49% and reached AZN614.45 million (against the previous year's 14.63% growth) including 29.81% as interests and 11.74% as commission.

The volume of commission income the International Bank of Azerbaijan has earned has been provided by card transfers (46.5% against the previous year's 46.3%), operations with foreign currency (26.75% in comparison to the previous year's 24.74%), clearing & settlement (17.48% in comparison to the previous year's 21.85%) and so on.

In percentage terms, the reported year's overall expense had grown by 25.52% and reached AZN535.07 million, made up by that for interests (59.9%), commission (5.71%), administration and other operations (27.43%), in comparison to the previous year's respective 52.77%, 7.19%, and 30.45%, and so on. As a result of the intensive growth in funds raised during the reported year, interests paid by the International Bank of Azerbaijan proved a large part of the overall expense thereof.

The reported year's net profit had grown by 11.4% to reach AZN58.9 million.

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Kapital

During the reported year, the International Bank of Azerbaijan's authorized capital grew up to AZN475.04 million. Owing to the growth of the Bank's retained earnings (by 29.58%) and authorized capital (by 43.59%), the joint stock grew up by 42.73% and reached AZN590.76 million.

The overrunning growth of the capital has provided for its better sufficiency indicator and larger crediting volume. Capital growth - one of the International Bank of Azerbaijan's crucial competitive advantages – has significantly influenced the displayed stability with regard to financial outcomes.

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The financial outcomes by the International Bank of Azerbaijan for the reported year demonstrate high growth dynamics. Under the conditions of competition permanently getting tighter, the Bank has maintained the leading positions of its and managed to win a higher extent of trust shown by the customers. These trends have been greatly confirmed by the main financial, economic and other indicators the IBA displayed during the reported year.

	2013		2012		
	'000 AZN	'000 $	'000 AZN	'000 USD	Growth/Decline
Loans to customers	6 617 667,00	8 435 522,00	5 255 151,00	6 694 460,00	25.93%
Including loans for Corporate Customers	6 497 854,00	8 282 797,00	5 296 976,00	6 747 740,00	22.67%
Loans for Individuals	833 478,00	1 062 432,00	665 427,00	847 678, 00	25.25%
Total Assets	**7 681 218,00**	**9 791 227,00**	**6 173 865,00**	**7 864 796,00**	**24.42%**
Customer Accounts	3 500 854,00	4 462 529,00	3 104 140,00	3 954 318,00	12.78%
Including Corporate Customers' Term Deposits	395 667,00	504 356,00	723 713,00	921 927,00	(45.33%)
Including. Individuals' Term Deposits	1 550 773,00	1 976 766,00	1 177 220,00	1 499 643,00	31.73%
Total Liabilities	**7 087 640,00**	**9 034 595,00**	**5 757 628,00**	**7 334 558,00**	**23.10%**
Shareholders' capital	475 038,00	605 530,00	330 834,00	421 444,00	43.59%
Total Capital	**593 578,00**	**756 632,00**	**416 237,00**	**530 238,00**	**42.61%**
Interest Income	467 733,00	596 218,00	360 333,00	459 023,00	29.81%
Commission Income	101 036,00	128 790,00	90 420,00	115 185,00	11.74%
Total Income	**614 455, 00**	**783 244,00**	**497 577,00**	**633 856,00**	**23.49%**
Expenses	**535 070,00**	**682 052,00**	**426 285,00**	**543 038,00**	**25.52%**
Gross Profit	**79 385,00**	**101 192,00**	**71 292,00**	**90 818,00**	**11.35%**
Year's Net Profit	**58 946,00**	**75 138,00**	**52 912,00**	**67 404,00**	**11.40%**

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Achievements

All Achievements | List | Graphics

With reference to the IBA's IFRS-based financial report, Moody's Investors Service has changed the Bank's prognosis from "negative" to "stable" due to the Bank's asset ehancement and confirmed BFSR E+. Moody's has also confirmed the International Bank of Azerbaijan's Ba3 ratings for, respectively, crediting and deposits in foreign and national currencies and B1 for subordinated debt in foreign currencies.

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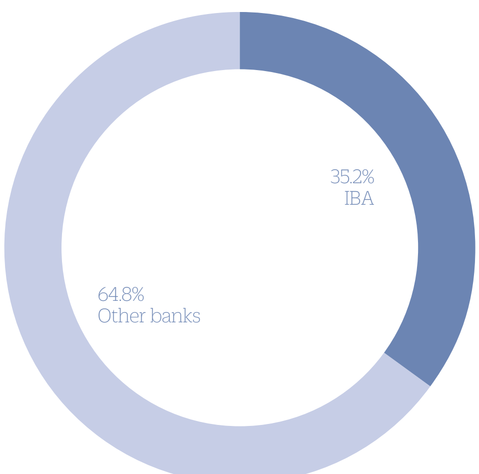
IBA's share in total banks' assets of the country (%)



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The IBA was awarded Best Bank of Azerbaijan by emea-finance and Bank of the Year in Azerbaijan by The Banker (both the UK). Global Finance (US) awarded the IBA Best Bank of Developing Regions in Azerbaijan.

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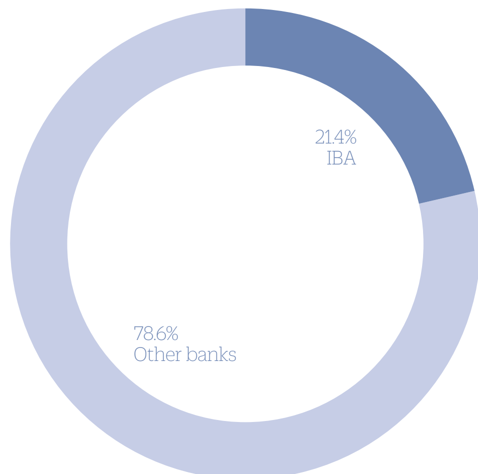
IBA's share in total banks' capital of the country (%)



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Fitch Ratings has confirmed the IBA's "stable" outlook for EDR in foreign currencies. The agency has appreciated the shareholders' plan to raise the IBA's capital, announced in October 2013. In addition, Fitch has confirmed the International Bank of Azerbaijan's B for short-term EDR, b- for VR, 3 for the Support Rating, and BB for long-term EDR support level.

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The IBA has introduced Qibla Card, a product rather original for European banks, to meet Islamic banking standards. Based on MasterCard Platinum, it contains an electronic compass showing direction to Mecca, a feature to be possibly used by Muslims for them to follow the prayer rules and to symbolize one of the main Islamic values.

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The IBA has gained the Champion Supporter status by 1996 - established Asia House (the UK), whose purpose is mostly to grow relations between European and Asian businesses.

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The bank has started a unique R@ndevu service for the customers' convenience, allowing them to appoint a meeting at any branch in one-day advance.

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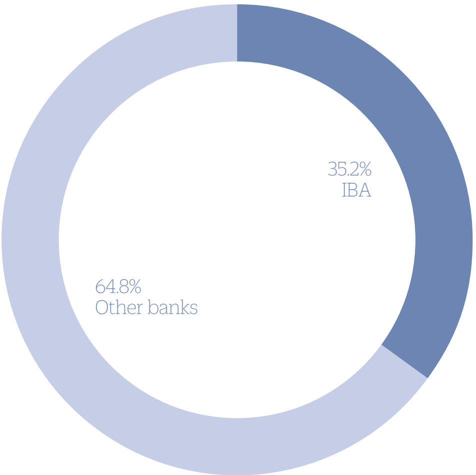
IBA's share in total loan portfolio of the country (%)



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The IBA has become the first bank in Azerbaijan certified by VISA International and MasterCard International for acquiring cards provided with the contact-free payment technologies, Visa PayWave and MasterCard PayPass. It would not be excessive to mention these technologies enable momentary payments wherever relevant counting devices are available.

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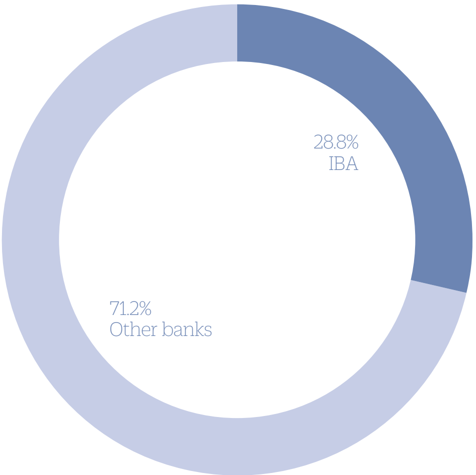
IBA's share in toal portfolio of corporates' and individuals' term deposits (%)



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Having signed a collaboration agreement with the world's greatest card emitter and second greatest system in terms of card-based turnover, UnionPay International, the International Bank of Azerbaijan has been the first one in Azerbaijan to start issuing cards together with this system.

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Serving corporate customers

Credit Operations

In the reported year, the Bank increased the volume of crediting the corporate clientele by 22.67%, and the credit portfolio reached AZN6.5 billion.

The portfolio segmentation changed in comparison to the earlier years, to a certain extent, and the structure of the Bank's total credit portfolio in terms of economy fields credited included construction and real estate (46.34% against 33.87% in the previous year), commerce and service (27.86% in comparison to 38.69%); manufacturing (18.61% in comparison to 18.21%, with 25.22% growth as compared to the previous year); transportation (railroad, airway and so on. - 4.13% in comparison to 5.02%); oil-and-gas and energy production-and-distribution (1.26% in comparison to 1.22%, with 26.46% growth as compared to the previous year); communications (0.6%), leasing (0.46%), government institutions/public agencies (0.01%), and oth-ers (0.74%)

The International Bank of Azerbaijan's share in crediting the national economy made 35.2%.

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Monetary Market and Securities

During the reported year, the Bank mostly operated in markets of the Russian Federation. To diversify its promissory-note portfolio, the IBA bought promissory notes issued by originations active in the Russian Federation and involved in construction, transportation, cinema and so on.

In the reported year, promissory-note investment was run in US dollars and Euro; the promissory-note portfolio made USD1.02 billion and EUR324.3 million, which is higher than in the previous year by USD224.6 million and EUR35.8 million. As a result of new emitters' pro-missory notes received and the promissory-note portfolio grown, the income from such operations made AZN53.03 million, or by AZN27.23 more than in the previous year.

During the reported year, the Bank expanded its activities in the market of securities and implemented a number of operations with Eurobonds, bought for as much as USD30.1 million, which proves the portfolio growth as much as USD16.2 million against the previous year's. Operations with those bonds provided for the reported year's USD532,180 as the income, higher by USD100,300 than in the previous year.

As a result of funds raised, the general turnover reached the amount of AZN357.7 million, EUR520 million, USD1.94 billion and 31,800 ounces of gold.

The turnover of allocating funds made EUR306.8 million, USD10.9 billion, and GBP35 million. The profit thereof reached AZN41.51 million, approximately at the level of the previous year's.

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During the reported year, the Bank showed growth in exchange operations (271%, 58.4% and 21.6% for, respectively, those with USD, Euro and Great Britain Pounds).

Having concluded a number of successful deals, the International Bank of Azerbaijan raised USD578 million from borrowing markets, including 5-year-long (USD198 million) and 3-year-long (USD236 million) ones among the largest.
During the reported year, the Bank adopted a resolution of debut issuing Eurobonds to implement in 2014's first two quarters.

As a result of active cooperation with financial institutions, different agreements were concluded with such advanced European, Middle Eastern and Russian banks as Raiffeisen, Commerzbank, ICD, VTB Capital, Emirates NBD, NoorBank and Rosselkhozbank to raise funds in the amount of USD500 million including syndicated USD127 million, USD200 million from Rosselkhozbank, USD63 million from VTB (palladium deal), USD20 million from ICD and so on. In addition, the Bank guaranteed a deal of USD130 million for the IBA – Moscow.

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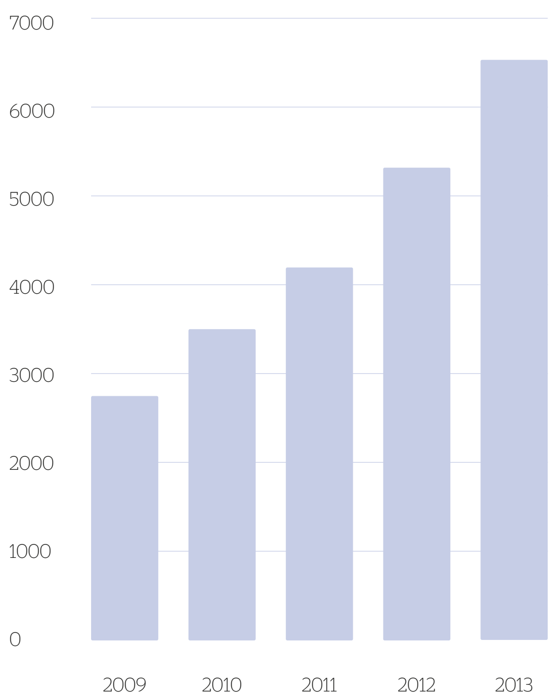
Loans to legal entities (mln., AZN)



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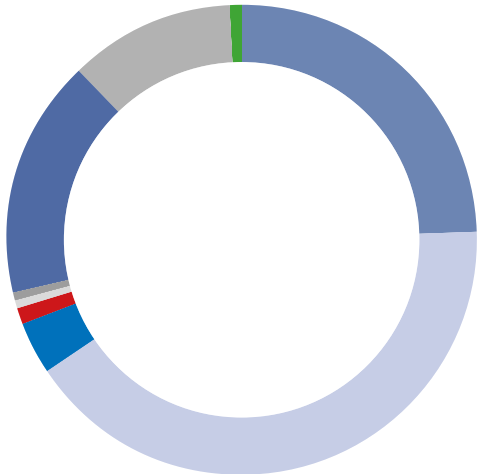
Distribution of loan portfolio by sectors (%)



- Trade and Services – 24.7%
- Construction and Real Estate – 41.1%
- Transportation – 3.6%
- Oil, Gas and Power Production – 1.1%
- Communication – 0.4%
- Leazing – 0.5%
- State Entities – 16.5%
- Legal Persons – 11.4%
- Others – 0.7%

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Documentary Operations

The total turnover of documentary operations (letters of credit and guarantees) exceeded USD16.5 billion in 2013. During the reported year, the number of letter-of-credit operations and the Bank-given guarantees for foreign commercial entities reached 1,770.

It was mostly JP Morqan Chase, Societe Generale, Commerzbank AG, LBBW, ING, Credit Agricole, Bayerishe Landesbank, Raiffeisenbank International, Russian Agricultural Bank and other well-known financial institutions which implemented approving letters of credit. The Bank's commission income reached approximately AZN2 million from documentary operations in the reported year.

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Activities against Legalizing Dirty Monetary Funds and Other Properties and against Financing Terrorism

In the reported year, the Bank, with reference to the present legislation, implemented relevant measures to develop and establish a system of internal control and worked out a number of legal regulations including:

- IBA Customer Identification Policy Towards Fighting Criminal Monetary Funds and Other Properties and Fighting Terrorism Funding;
- Internal Identification and Verification Rules for International Bank of Azerbaijan Towards Fighting Criminal Monetary Funds and Other Properties and Fighting Terrorism Funding.

In the reported year, the Bank's operations were monitored, and customers' doubtful operations discovered were reported to the Financial Monitoring Service Affiliated with the Central Bank of the Republic of Azerbaijan.

As a result of special indicators (benchmarks to discover cases producing doubts, or sufficient reasons for such, of criminal ways to obtain monetary funds or other properties or of funding terrorism) applied to foreign transfers into the customers' accounts, unusual operations were investigated by the Bank.

Effective control measures and procedures consistently applied by the International Bank of Azerbaijan cardinally reduced the probability of using the Bank with the purpose of legalizing criminal monetary funds or other properties and of financing terrorist activities.

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Serving individuals

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Credit Operations

During the reported year, the volume of loans provided for individuals reached the level of approximately AZN838 million (in comparison to the previous year's AZN660 million) or 11.4% of the International Bank of Azerbaijan's portfolio in comparison to 2012's 11.1%, which proved a growth as much as 26.23%. The International Bank of Azerbaijan offers various programs of consumer crediting, which is an instrument to satisfy demands the Bank's clients prove having for such long-term consumer goods as cars, furniture, home appliances and so on. Consumer loans (45.48% of crediting individuals in comparison to the previous year's 48.52%), car loans (10.69% against the previous year's 13.13%), mortgage loans (19.51% against the previous year's 18.18%) , loans for employees (10.94% against the previous year's 11.73%) and other ones (13.38% against the previous year's 8.44%) contributed to those provided for individuals. During the reported year, the Bank increased its efforts for the higher volume of mortgage loans, which reached AZN120 million, or 18.18% against 2012's 5.29% in crediting natural persons.

As well, the Bank greatly increased its efforts to grow the volume of consumer and mortgage loans for holders of its social (pension) and salary cards. So, the International Bank of Azerbaijan introduced the "Pension+" program in the middle of the current year, having raised an interest-free loan limit for all social (pension) cards. It cannot be cashed via ATMs, but can only be spent at the IBA's partner-shops (supermarkets, pharmacies and so on). The debts are to be paid off from the next month's pension transfer.

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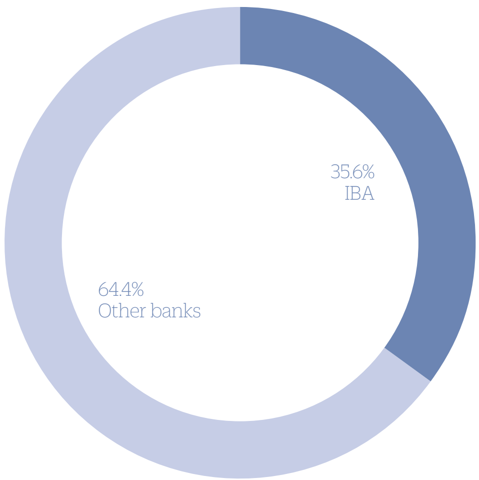
IBA's share in total bank cards portfolio issued by country banks (%)



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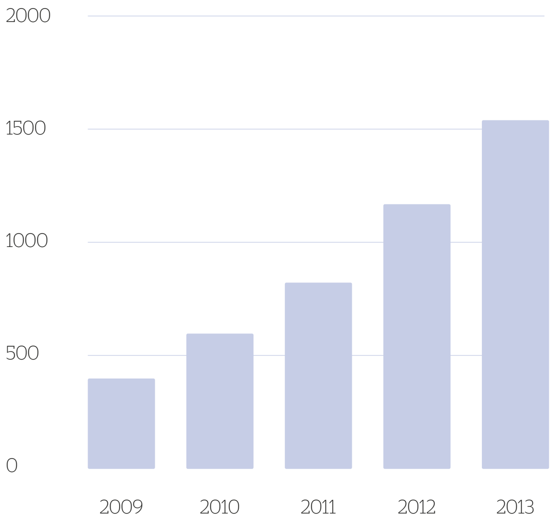
Volume of individuals' term depozits (mln. AZN)



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Bank Cards

The International Bank of Azerbaijan is a partner for VISA International, MasterCard International, UnionPay International , Diner's Club and, exclusive in Azerbaijan, with American Express.

The Bank issued more than 340,000 cards in the reported year to make the number of active cards reach approximately 2.33 million. 24.82 million transfers were run through the cards issued by the International Bank of Azerbaijan for the total amount of AZN4.11 billion.

During the reported year, the International Bank of Azerbaijan offered to its card holders a number of new services, absolutely unique for the local market. For the first time in Azerbaijan, the International Bank of Azerbaijan enabled money transfers from MasterCard and Maestro cards domestically, to MasterCard and Maestro cards of banks served by other processing centres active in Azerbaijan, and to such of banks across the CIS, Eastern Europe, Turkey, and Israel; the automatic cancellation of interest charges in credit cards; Cash to Any Card, and so on. In addition, the Bank, for the first time in Azerbaijan, was certified by VISA International and MasterCard International for acquiring cards with Visa payWave and MasterCard PayPass contact-free payment technologies. Visa payWave and MasterCard PayPass provide for momentary payments wherever relevant counting devices are available.

Pioneering in Azerbaijan, the Cash-by-Code cell phone transfer service has been introduced to enable withdrawing cash from an ATM without any card held. The service was presented within the International Bank of Azerbaijan 's subsidiary, AzeriCard's Mobile Wallet project. The project envisions public utility payments, learning one's balance, account reference, card block, card-to-card, as well as shopping.

Our customers can pay their cell-phone, ground-phone, the Internet, cable-TV , public utility and insurance bills through ATM, information booths, MobilBank and InternetBank. The bank's cardholders have been offered such services as Card Transfer, Electron Deposit, Cash-by-Code, SMS Notification, Automatic Payment, PIN-change and so on.

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In the reported year, 469,600 transfers were arranged through these channels for the total of AZN26.5 million. Even though just by 1% more than in the previous year, these transfers made a total volume growth as much as 87%. In general, 3.1 million transfers for the total of AZN103.3 million were arranged via Electron Banking in 2007-2013.

Though its 90% of transfers falls on cell phone service, 86.5% (in comparison to the previous year's 72.3%) of monetary volume came through CardTransfer.

Though the number of ATM transfers was still high (77.8% against the previous year's 90%), the number of transfers through other channels has been growing year after year. ATMs (42.61%), Internet Banking (15.21%), MobilBank (14.31%) and informations booths (27.97%) contributed to the total amount of transfers.

The commission earned by the International Bank of Azerbaijan from card transfers reached the amount of approx. AZN46.97 million, which demonstrated as much as 12.2% percentage growth in comparison to the level reached in the previous year.

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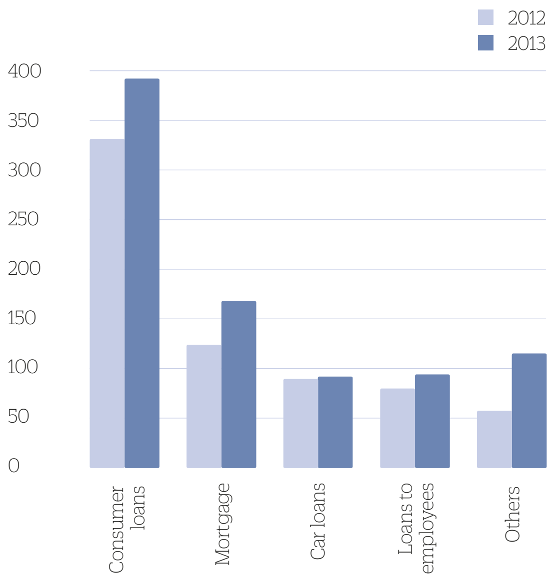
Loans to individual customers by types (%)



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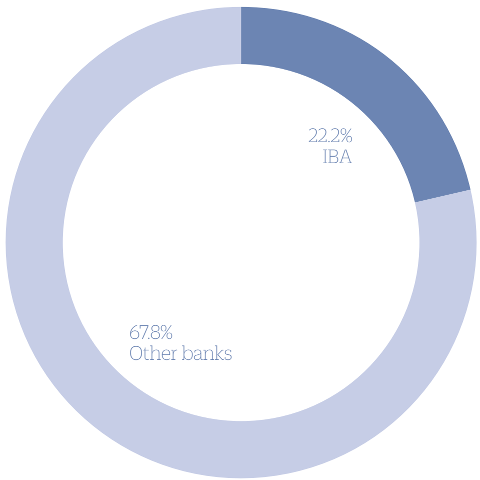
IBA's share in total ATM's network of the country banks (%)



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Savings

In the reported year, the number of the International Bank of Azerbaijan's customers with savings-accounts made 51,000, their fixed-term savings being AZN1.55 billion at the year's end, which is 31.73% growth in comparison to the previous year's. In terms of the volume of savings provided by individual customers, it is the International Bank of Azerbaijan among the nation's commercial banks which the biggest deposit portfolio belongs to.

During the reported year, the Bank presented a new, most flexible, kind of savings, "Pension", for 15 years as the shortest term. Upon the collection term, the holder can dispose it in two ways, either collect it at once or receive life-long on a monthly basis.

More

Our customers can currently process their savings, at their own choice, from 3 months to 10 years, and fetch their accumulated interests at the end of every month, year or a savings term. They also can get credited for as much as 70-80% of their savings and, subject to savings terms and amount, be presented various bank cards.

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Islamic Banking

The newly established Islamic Banking Department launched serving individuals and corporate customers in the reported year with Ijarah (which is a product similar to convenient leasing), Wakalah (one similar to convenient deposit), islamic bank cards and Hard-Hasan accounts. These products have been successfully certified by Dar Al-Shariah, Dubai Islamic Bank's Shariah finance legal advising subsidiary, and meet all the standards defined by the Accounting and Auditing Organization for Islamic Financial Institutions, a regulatory for Islamic financial bodies.

During the reported year, the International Bank of Azerbaijan introduced Qibla Card, a product of original quality among European banks, to meet the standards required by Islamic banking. Based on MasterCard Platinum, it contains an electronic compass that shows direction to Mecca, a feature that can make it attractive for Muslims.

For the first time domestically, syndicated funds in the amount of USD120.5 million were raised from NBD Capital Ltd, Barwa Bank, J.P.Morgan Ltd. and Noor Islamic Bank PJSC according to the principles of Islamic banking. The deal was awarded Cross Border Deal of the Year by Islamic Finance News.

Furthermore, an Amta'ah Murabahah deal in the amount of USD20 million was signed between the International Bank of Azerbaijan and Islamic Corporation for the Development of the Private Sector.

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Clearing-and-Settlement Operations

Accepting payments for public utilities, mobile- and ground-telephone communication services, Internet-service, cable TV and to the International Insurance Company via ATM, information booths and all service units of the Bank has been provided for.

During the reported year, the number and volume of urgent and ordinary transfers provided by the International Bank of Azerbaijan significantly increased both domestically and internationally. The reported year's number and volume of accepted transfers through all the money-transfer systems the Bank is the agent of made almost 270,000 and around AZN135.5 million, respectively (in comparison to the previous year's 232,000 and AZN126,7 million), while the same indicators for sent transfers reached the amount of 36,000 and AZN22.2 million (against the previous year's 22,700 and AZN16.4 million).

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Human resources policy

HR management with the most fruitful forms and methods applied has become one of the main directions in the Bank's strategic planning. Therefore, successes the International Bank of Azerbaijan proved having achieved in the reported year were mainly connected to the staff's professionalism and the effective HR policy.

Thus, selection, employment, career planning and promotion are based on professional testing.

The International Bank of Azerbaijan implemented the following set of measures in the field of HR during the reported year:

- with the purpose of raising the staff's professionalism meeting constantly growing demands in the banking market, up-to-date distant learning in ten subjects was provided for 2,045 staff members;
- arrangements were implemented for quarterly online testing customer-service employees (more than 850 persons annually);
- e-doc turnover trial was launched for online HR management;
- for the first time, the International Bank of Azerbaijan's staff members' online testing was arranged to check their knowledge compliance with the modern standards;
- the staff's performance in the reported year was evaluated.

During the recent years, advanced banks have been using the Learning Management System to implement online distant education for their staff. Doubtless advantages in terms of transparent and fair assessment the system enjoys consist in the exam sitters' opportunity to immediately check their scores on the real-time basis. We are glad and proud the International Bank of Azebaijan has been the pioneer among the domestic commercial banks to use this new and progressive method. More than 870 staff members were tested on the same day and learned their scores on the same day. Regulation, connection and control were implemented at the cost of internal resources. Such a challenging process proved a new and important direction for the HR Department.

That the International Bank of Azerbaijan currently has an initiative, professional and united team, capable to reach our goals promptly and perfectly, is an expectable outcome of the HR management activities.

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IBA financial group

IBA financial group | IBA – Moscow | IBA – Georgia | AzeriCard Ltd | More ▾

The following subsidiaries had composed the IBA's Financial Group by 2013, December 31:

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Entity Name	the IBA's part of authorized capital,%
"IBA-Moscow"	100
The International Bank of Azerbaijan - Georgia	75
International Insurance Company (IIC)	100
AzeriCard Ltd	100
Associated Institutions	**the IBA's part of authorized capital,%**
Joint Leasing Closed Corporation	47,6
Baku Inter-Bank Currency Exchange	20,0

Brief details about the entities that comprise the International Bank of Azerbaijan's group-of-companies are provided below.

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"IBA-Moscow"

"IBA-Moscow" has been acting in the banking market of the Russian Federation since 2002. The main directions of the activities run by the IBA - Moscow are operations between different banks and service provided for corporate and individual customers. During the reported year, the "IBA-Moscow" for the first time was long-term and short-term rated B3 by Moody's Investor Service in terms of rouble and foreign-currency deposits. The bank was also given E-level of the free-bank financial continuity rating with a stable forecast and Baa3.ru long-term credit rating by Moody's Interfax Agency.

In the reported year, the bank's assets and income, respectively, increased by 17% and 126.19% and reached 33.43 billion roubles and 281.42 million roubles. The bank's individual and corporate customers had, respectively, 8.4 billion and 4.87 billion roubles on their current accounts and as fixed deposits.

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The International Bank of Azerbaijan – Georgia

The International Bank of Azerbaijan - Georgia was established on November 16, 2007; it is a 100% foreign-owned resident bank. The bank's authorised capital makes GEL 12 million (around USD7 million).

The main directions of activities provided by the IBA - Georgia consist in offering loans for corporate and individual customers, taking part in crediting syndicates, and trading securities from the domestic Georgian issuers. The bank actively participates in providing banking services for large-size regional projects notable for their public significance. The International Bank of Azerbaijan - Georgia finances such projects as well.

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JointLeasing Closed Corporation

The Joint Leasing Closed Corporation has been active since 2007 as a joint venture.

By 1st January 2014, the leasing portfolio offered by the company had reached AZN27.9 million; the corporation had financed more than 670 projects including 80 ones in the reported year covering such segments of economy as construction (42%), transportation (23%), food production, light industries (together 15%), commerce (8%) and so on. The profit made by the Joint Leasing Closed Corporation exceeded the level achieved in the previous year by 25%.

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AzeriCard Ltd

"The main activity of AzeriCard Ltd consists in preparing and issuing bank cards, using bank cards in the domestic and international network of cashless payments and settlements and implementing services on settlements related.

100% of the company's authorized capital belongs to the International Bank of Azerbaijan. In the reported year, AzeriCard provided its professional services for 31 banks, 1,700 ATMs and more than 40,000 POS-terminals in shops and cash-paying departments. During the reported year, AzeriCard issued 2.2 million cards.

The profit obtained by AzeriCard Ltd for the reported year reached the level of AZN8.57 million.

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International Insurance Company Ltd

The company provides 31 voluntary and one compulsory insurance type. By January 1, 2014, the company›s authorized capital and aggregated capital had equaled AZN8.8 million and AZN6.49 million respectively.

As part of 2013›s outcomes, the company collected AZN13.66 million of insurance premium. Insurance coverage the company paid to the customers during the current year has exceeded AZN 5.7 million.

According to the company›s financial reports, composed as per the International Financial Recording Standards and audited by Deloitte&Touche, it ended up 2013 with a net profit as much as AZN140,000.

Owing to newly recruited, but already experienced human resource and to permanent structural improvement, the International Insurance Company has brought efficacy and the quality of its professional services onto an even higher level, which has eventually provided for greater clientele numbers and a larger volume of different policies. Prioritizing the customers› convenience, the company also pays constantly special attention to forming its network of branches.

From its very origins, the IIC has been using advanced practices of western countries› insurance companies in insurance arrangements and risk assessment.

To reinsure the risks guaranteed, the company partners foreign specialized institutions whose global ratings are quite high. Alongside, the IIC successfully cooperates with domestic insurers and reinsurers towards mutual benefit.


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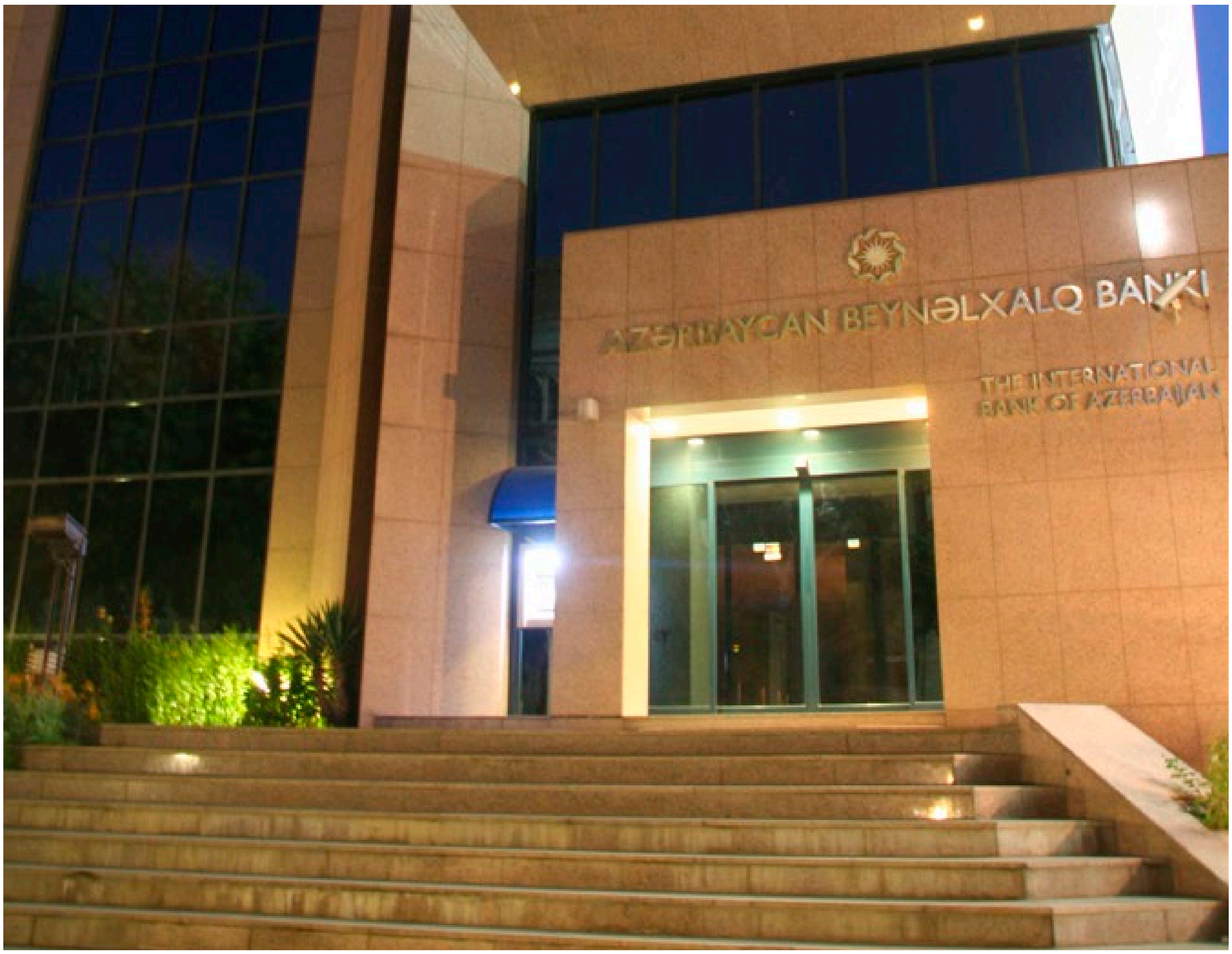

Consolidated Financial Statements For the Year Ended December 31, 2013

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STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2013

Management is responsible for the preparation of the consolidated financial statements that present fairly the consolidated financial position of the International Bank of Azerbaijan and its subsidiaries (the "Group") as at December 31, 2013, and the consolidated results of its operations, cash flows and changes in equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRS").

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

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

Management is also responsible for:

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

The consolidated financial statements of the Group for the year ended December 31, 2013 were approved by management on March 31, 2014:

On behalf of the Board of Directors:

Mr. Jahangir Hajiyev
Chairman of the Board of Directors
Baku, the Republic of Azerbaijan, March 31, 2014

Mr. Rashad Gasimov
Director of Accounting and Budgeting Department
Baku, the Republic of Azerbaijan, March 31, 2014

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Board of Directors of the International Bank of Azerbaijan:

We have audited the accompanying consolidated financial statements of the International Bank of Azerbaijan and its subsidiaries (collectively – the "Group"), which comprise the consolidated statement of financial position as at December 31, 2012, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

March 31, 2014
Baku, the Republic of Azerbaijan

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2013

(in thousands of Azerbaijan Manats)

	Note	December 31, 2013	December 31, 2012
ASSETS			
Cash and cash equivalents	4,31	423,085	489,142
Mandatory cash balances with the National/Central Banks	31	15,555	14,665
Due from other banks	5	282,266	138,048
Loans and advances to customers	6,31	6,617,667	5,255,151
Financial assets at fair value through profit or loss	7	22,588	10,264
Other debt securities	8	22,822	20,220
Available-for-sale investments	9	10,338	6,300
Investment in associates	10	489	575
Premises, equipment and intangible assets	11	227,409	179,817
Current income tax asset		4,362	4,623
Deferred income tax asset	25	9,469	22,369
Other financial and insurance assets	12	14,955	10,125
Other assets	13	30,213	22,566
Total assets		**7,681,218**	**6,173,865**
LIABILITIES AND EQUITY			
LIABILITIES:			
Due to other banks	14,32	1,793,365	1,199,805
Customer accounts	15,32	3,500,854	3,104,140
Debt securities in issue	16	85,126	9,489
Other borrowed funds	17	1,219,963	956,830
Current income tax liability		377	1,185
Deferred income tax liability	25	7,103	643
Other financial and insurance liabilities	18	48,737	82,408
Other liabilities	19	18,092	13,557
Subordinated debt	20,32	414,023	389,571
Total liabilities		**7,087,640**	**5,757,628**
EQUITY:			
Equity attributable to owners of the Bank:			
Share capital	21	475,038	330,834
Cumulative translation reserve		(3,594)	(3,670)
Revaluation reserve for premises		43,503	28,244
Retained earnings		75,810	58,503
Total equity attributable to owners of the Bank		**590,757**	**413,911**
Non-controlling interest		**2,821**	**2,326**
Total equity		**593,578**	**416,237**
Total liabilities and equity		**7,681,218**	**6,173,865**

On behalf of the Board of Directors:

Mr. Jahangir Hajiyev
Chairman of the Board of Directors
Baku, the Republic of Azerbaijan, March 31, 2014

Mr. Rashad Gasimov
Director of Accounting and Budgeting Department
Baku, the Republic of Azerbaijan, March 31, 2014

The notes on pages 8-77 form an integral part of these consolidated financial statements

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31, 2013
(in thousands of Azerbaijan Manats)

	Note	Year ended December 31, 2013	Year ended December 31, 2012
Interest income	22,32	467,733	360,333
Interest expense	22,32	(320,447)	(224,940)
NET INTEREST INCOME		**147,286**	**135,393**
Initial recognition adjustment on interest bearing assets		(3,019)	(4,782)
Provision for impairment of due from other banks	5	469	(861)
Provision for impairment of loans to customers	6,32	(17,838)	(14,938)
NET INTEREST INCOME AFTER PROVISION FOR IMPAIRMENT		**126,898**	**114,812**
Fee and commission income	23,32	101,036	90,420
Fee and commission expense	23,32	(30,572)	(30,663)
Fair value (loss)/gain on derivatives		(4,602)	257
Gains less losses from trading in foreign currencies		30,368	31,660
Foreign exchange translation losses less gains		(601)	(4,011)
Net loss on financial assets at fair value through profit or loss		(1,290)	(172)
Impairment of premises	11	-	(3,114)
Provision on other operations		-	(1,491)
Gross insurance premiums written		13,458	13,644
Reinsurance premiums ceded		(4,662)	(4,687)
Increase of provision for unearned premium, net of reinsurance	18	239	(440)
Net claims incurred		(5,182)	(6,319)
Other income		1,152	1,263
Administrative and other operating expenses	24,32	(146,771)	(129,793)
Share of loss of associates	10,32	(86)	(74)
PROFIT BEFORE INCOME TAX		**79,385**	**71,292**
Income tax expense	25	(20,439)	(18,380)
PROFIT FOR THE YEAR		**58,946**	**52,912**
OTHER COMPREHENSIVE INCOME:			
Items that will not be reclassified subsequently to profit or loss:			
Net gain resulting on revaluation of property	11	20,612	10,109
Income tax recorded directly in other comprehensive income	11,25	(4,122)	(2,022)
Items that may be reclassified subsequently to profit or loss:			
Cumulative translation reserve		77	583
OTHER COMPREHENSIVE INCOME FOR THE YEAR		**16,567**	**8,670**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**75,513**	**61,582**
PROFIT IS ATTRIBUTABLE TO:			
Owners of the Bank		58,451	52,587
Non-controlling interest		495	325
PROFIT FOR THE YEAR		**58,946**	**52,912**
TOTAL COMPREHENSIVE INCOME IS ATTRIBUTABLE TO:			
Owners of the Bank		75,018	61,293
Non-controlling interest		495	289
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**75,513**	**61,582**
Earnings per share for profit attributable to the owners of the Bank, basic and diluted (expressed in AZN per share)	26	0.04	0.05

On behalf of the Board of Directors:

Mr. Jahangir Hajiyev
Chairman of the Board of Directors
Baku, the Republic of Azerbaijan, March 31, 2014

Mr. Rashad Gasimov
Director of Accounting and Budgeting Department
Baku, the Republic of Azerbaijan, March 31, 2014

The notes on pages 8-77 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31, 2013

(in thousands of Azerbaijan Manats)

	Note	Share capital	Cumulative translation reserve	Revaluation reserve for premises	Retained earnings/ (accumulated deficit)	Total equity attributable to owners of the Bank	Non-controlling interest	Total equity
December 31, 2011		**240,000**	**(4,289)**	**21,074**	**13,694**	**270,479**	**2,037**	**272,516**
Profit for the year		-	-	-	52,587	52,587	325	52,912
Other comprehensive income for the year		-	619	8,087	-	8,706	(36)	8,670
Transfer to retained earnings		-	-	(917)	917	-	-	-
Dividends paid		-	-	-	(8,695)	(8,695)	-	(8,695)
Issue of shares		90,834	-	-	-	90,834	-	90,834
December 31, 2012		**330,834**	**(3,670)**	**28,244**	**58,503**	**413,911**	**2,326**	**416,237**
Profit for the year		-	-	-	58,451	58,451	495	58,946
Other comprehensive income for the year		-	76	16,490	-	16,566	-	16,566
Transfer to retained earnings		-	-	(1,231)	1,231	-	-	-
Dividends paid	21	-	-	-	(14,805)	(14,805)	-	(14,805)
Issue of shares	21	116,634	-	-	-	116,634	-	116,634
Increase in par value of shares	21	27,570	-	-	(27,570)	-	-	-
December 31, 2013		**475,038**	**(3,594)**	**43,503**	**75,810**	**590,757**	**2,821**	**593,578**

On behalf of the Board of Directors:

Mr. Jahangir Hajiyev
Chairman of the Board of Directors
Baku, the Republic of Azerbaijan, March 31, 2014

Mr. Rashad Gasimov
Director of Accounting and Budgeting Department
Baku, the Republic of Azerbaijan, March 31, 2014

The notes on pages 8-77 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2013
(in thousands of Azerbaijan Manats)

	Note	Year ended December 31, 2013	Year ended December 31, 2012
CASH FLOWS FROM OPERATING ACTIVITIES:			
Interest received		460,942	293,417
Interest paid		(317,608)	(211,333)
Fees and commissions received		96,256	81,059
Fees and commissions paid		(29,506)	(22,470)
Insurance premiums received		13,209	12,270
Reinsurance premiums paid		(4,662)	(4,687)
Insurance claims paid		(5,182)	(6,319)
Income received from trading in foreign currencies		30,368	31,660
Other operating income received		-	404
Staff costs paid		(58,972)	(56,490)
Administrative and other operating expenses paid		(71,089)	(58,337)
Cash flows from operating activities before changes in operating assets and liabilities		**113,756**	**59,174**
Changes in operating assets and liabilities:			
Net (increase)/decrease in mandatory cash balances with the National/Central Banks		(890)	89,242
Cash collected on behalf of a related party		-	149,107
Cash paid on behalf of a related party		-	(149,107)
Net increase in due from other banks		(141,574)	(98,663)
Net increase in loans and advances to customers		(1,376,391)	(1,155,513)
Net increase in financial assets at fair value through profit or loss		(12,324)	(4,407)
Net increase in other financial and insurance assets		(4,830)	(5,450)
Net (increase)/decrease in other assets		(7,648)	1,461
Net increase in due to other banks		596,796	267,838
Net increase in customer accounts		380,987	337,978
Net (decrease)/increase in other financial and insurance liabilities		(33,671)	29,383
Net increase in other liabilities		4,535	1,433
Cash used by operating activities before taxation		**(481,254)**	**(477,524)**
Income tax paid		**(5,748)**	**-**
Net cash used in operating activities		**(487,002)**	**(477,524)**
CASH FLOWS FROM INVESTING ACTIVITIES:			
Payment for premises, equipment and intangible assets		(38,096)	(16,863)
Payment for available-for-sale investments		(6,407)	(8,549)
Proceeds from sale of investments available for sale		2,354	6,300
Payment for other debt securities		(22,807)	(20,220)
Proceeds from sale of other debt securities		20,220	-
Net cash used in investing activities		**(44,736)**	**(39,332)**

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2013
(in thousands of Azerbaijan Manats)

	Note	Year ended December 31, 2013	Year ended December 31, 2012
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from issue of debt securities		74,044	2,120
Proceeds from other borrowed funds		1,001,071	537,969
Repayments of other borrowed funds		(737,108)	(346,174)
Proceeds from subordinated debt		104,062	338,236
Repayments of subordinated debt		(78,500)	-
Issue of shares		116,634	90,834
Dividends paid		(14,805)	(8,695)
Net cash generated by financing activities		**465,398**	**614,290**
Effect of exchange rate changes on cash and cash equivalents		**283**	**327**
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(66,057)**	**97,761**
CASH AND CASH EQUIVALENTS, beginning of year	**4**	**489,142**	**391,381**
CASH AND CASH EQUIVALENTS, end of year	**4**	**423,085**	**489,142**

On behalf of the Board of Directors:

Mr. Jahangir Hajiyev
Chairman of the Board of Directors
Baku, the Republic of Azerbaijan, March 31, 2014

Mr. Rashad Gasimov
Director of Accounting and Budgeting Department
Baku, the Republic of Azerbaijan, March 31, 2014

The notes on pages 8-77 form an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2013
(in thousands of Azerbaijan Manats, unless otherwise indicated)

1. ORGANIZATION

The International Bank of Azerbaijan (the "Bank") was incorporated in 1991 as a fully state-owned bank and is domiciled in the Republic of Azerbaijan. On October 28, 1992, the Bank became a joint-stock commercial bank and the Ministry of Finance of the Republic of Azerbaijan ("MoF") became the major shareholder of the Bank. As at December 31, 2013 the MoF held 60.06% (December 31, 2012: 51.06%) of the total paid-in share capital of the Bank. The Bank is regulated by the Central Bank of the Republic of Azerbaijan (the "CBAR") and conducts its business under general full banking license issued on December 30, 1992. On March 1, 2005, a Presidential Decree, which outlined the process for privatisation of the state shareholding in the Bank's share capital, was enacted. The Bank's primary business consists of commercial activities, trading with securities, foreign currencies and derivative instruments, originating loans and guarantees.

The registered office of the Bank is located at 67, Nizami Street, AZ1005, Baku, the Republic of Azerbaijan.

As at December 31, 2013 and 2012 the Bank had 35 branches operating in the Republic of Azerbaijan, 5 representative offices in London, Frankfurt, Dubai, Luxemburg and New-York.

The Bank is a parent company of a banking group:

		Proportion of ownership interest/voting rights (%)		
Name	**Country of operation**	**2013**	**2012**	**Type of operation**
The International Bank of Azerbaijan	The Republic of Azerbaijan	Parent		Banking
Subsidiaries:				
IBA Moscow	Russian Federation	100.0		Banking
International Insurance Company	The Republic of Azerbaijan	100.0		Insurance
Azericard Limited	The Republic of Azerbaijan	100.0		Plastic cards
IBA Georgia	The Republic of Georgia	75.0		Banking
Associates:				
Joint Leasing	The Republic of Azerbaijan	47.6		Leasing
Baku Inter-Bank Currency Exchange	The Republic of Azerbaijan	20.0		Currency exchange

The ultimate controlling party of the Group is the Government of the Republic of Azerbaijan.

On January 24, 2002, the Group registered its fully-owned subsidiary, the International Bank of Azerbaijan - Moscow, in Moscow, the Russian Federation ("IBA Moscow"). The share capital of IBA Moscow was established in the amount of EUR 10,000,000. IBA Moscow operates under a licence issued by the Central Bank of the Russian Federation (the "CBRF") on January 25, 2002. This licence allows IBA Moscow to carry out banking operations with legal entities in Russian Roubles and in foreign currencies. During the first two years after its registration due to Russian statutory requirements IBA Moscow was restricted from attracting deposits from individuals. On December 1, 2004, IBA Moscow obtained a licence from the CBRF allowing it to provide a full range of banking services to individuals. IBA Moscow's principal activity is represented by commercial banking operations. IBA Moscow has been a member of the Deposit Insurance Agency of the Russian Federation since December 2, 2004. IBA Moscow's registered office is located at the following address: Tverskaya 6, Bldg 2, Moscow, 105062, Russian Federation. IBA Moscow opened a branch in Saint Petersburg, Russian Federation on May 28, 2003 and in Yekaterinburg on August 24, 2005.

Based on the decision of Supervisory Board of the Group dated December 30, 2006 and May 18, 2011, the share capital of IBA Moscow was increased by EUR 4 million and AZN 10 million, respectively, during the years ended December 31, 2007 and year ended December 31, 2011, respectively.

On February 5, 2002, the Group registered its fully-owned subsidiary International Insurance Company ("Insurance Subsidiary") at the Ministry of Justice of the Republic of Azerbaijan. The Insurance Subsidiary operates under an insurance licence issued by the Ministry of Finance of the Republic of Azerbaijan on October 15, 2009. The Insurance Subsidiary is licensed to perform a total of 33 types of insurance activities. The insurance business underwritten by the Company includes medical, auto, marine third party liability, marine hull, property, casualty, life, personal insurance, insurance banking risks, mandatory fire insurance, insurance of liability for non-performance of obligations and reinsurance. The registered office of the Insurance Subsidiary is located at 40C, J.Jabbarli Street, Baku, AZ 1065, the Republic of Azerbaijan.

Azericard Limited, which is 100% owned by the Bank, was established as a limited liability company on May 3, 1996. Azericard Limited was registered with the Ministry of Justice of the Republic of Azerbaijan on July 4, 1996 and commenced its operations in 1997. Azericard Limited is a member service provider for MasterCard and Visa International and acts as a clearing and authorisation centre for plastic card transactions in the Republic of Azerbaijan.

Azericard Limited is at present one of the largest providers of authorisation of plastic cards operations and clearing services in the Republic of Azerbaijan. The registered office address of Azericard Limited is: Nizami Street, 67, AZ1005, Baku, the Republic of Azerbaijan.

On November 16, 2006, the Group registered its 75% owned subsidiary, International Bank of Azerbaijan Republic - Georgia ("IBA Georgia"), in Tbilisi, Georgia. The share capital of IBA Georgia was established in the amount of 12,000,000 Georgian Laris ("GL"), with the non-controlling interest in the amount of GL 3,000,000 paid-in equally by an Azerbaijani commercial bank and a resident individual of the Republic of Georgia. IBA Georgia started its operations under a license issued by the National Bank of Georgia ("the NBG") on February 5, 2007. IBA Georgia's registered office is located at the following address: 36 Khetagurovi str., Tbilisi, Republic of Georgia. Based on the decision of Supervisory Board of the Group dated May 18, 2011, the share capital of IBA Georgia was increased by AZN 3,750 thousand during the year ended December 31, 2012, total increase in share capital was AZN 5,000 thousand, remaining part was paid by other shareholders of IBA Georgia.

These consolidated financial statements were authorized for issue on March 31, 2014 by the Board of Directors.

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

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

Other basis of presentation criteria

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

These consolidated financial statements are presented in thousands of Azerbaijan Manats ("AZN"), unless otherwise indicated. These consolidated financial statements have been prepared on the historical cost basis except for certain properties and financial instruments that are measured at revalued amounts or fair values, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

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

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

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

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

The principal accounting policies are set out below.

Basis of consolidation
These consolidated financial statements incorporate the financial statements of the Bank and entities (including structured entities) controlled by the Bank and its subsidiaries. Control is achieved when the Bank:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Bank reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Bank has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Bank considers all relevant facts and circumstances in assessing whether or not the Bank's voting rights in an investee are sufficient to give it power, including:

- the size of the Bank's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Bank, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Bank has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Bank obtains control over the subsidiary and ceases when the Bank loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Bank gains control until the date when the Bank ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Bank and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Bank and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

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

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

Non-controlling interests

Non-controlling interests represent the portion of profit or loss and net assets of subsidiaries not owned, directly or indirectly, by the Bank.

Non-controlling interests are presented separately in the consolidated statement of comprehensive income and within equity in the consolidated statement of financial position, separately from parent shareholders' equity.

Recognition of interest income and expense

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

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

Income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL.

Once a financial asset or a group of similar financial assets has been written down (partly written down) as a result of an impairment loss, interest income is thereafter recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Interest earned on assets at fair value is classified within interest income.

Recognition of revenue – other

Recognition of fee and commission income

Loan origination fees are deferred, together with the related direct costs, and recognized as an adjustment to the effective interest rate of the loan. Where it is probable that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are deferred, together with the related direct costs, and recognized as an adjustment to the effective interest rate of the resulting loan. Where it is unlikely that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are recognized in profit or loss over the remaining period of the loan commitment. Where a loan commitment expires without resulting in a loan, the loan commitment fee is recognized in profit or loss on expiry. Loan servicing fees are recognized as revenue as the services are provided.

Loan syndication fees are recognized in profit or loss when the syndication has been completed. All other commissions are recognized when services are provided.

Financial instruments

The Group recognizes financial assets and liabilities in its consolidated statement of financial position when it becomes a party to the contractual obligations of the instrument. Regular way purchases and sales of financial assets and liabilities are recognized using settlement date accounting.

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

Financial assets

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

Financial assets at FVTPL
Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- It has been acquired principally for the purpose of selling it in the near term; or
- On initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- It is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- The financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- It forms part of a contract containing one or more embedded derivatives, and IAS 39 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the 'Net gain/loss on financial assets at fair value through profit or loss' line item in the consolidated statement of income statement. Fair value is determined in the manner described in Note 30.

Held-to-maturity investments
Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity. Held-to-maturity investments are measured at amortised cost using the effective interest method less any impairment.

If the Group were to sell or reclassify more than an insignificant amount of held–to–maturity investments before maturity (other than in certain specific circumstances), the entire category would be tainted and would have to be reclassified as available–for–sale. Furthermore, the Group would be prohibited from classifying any financial asset as held to maturity during the following two years.

Available-for-sale financial assets
Available-for-sale financial assets are non-derivatives that are either designated as available-for-sale or are not classified as (a) loans and receivables, (2) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

Listed shares and listed redeemable notes held by the Group that are traded in an active market are classified as AFS and are stated at fair value. Fair value is determined in the manner described in Note 30. Gains and losses arising from changes in fair value are recognised in other comprehensive income and accumulated in the investments revaluation reserve, with the exception of other-than-temporary impairment losses, interest calculated using the effective interest method, dividend income and foreign exchange gains and losses on monetary assets, which are recognised in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

The fair value of AFS monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of the reporting period. The foreign exchange gains and losses that are recognised in profit or loss are determined based on the amortised cost of the monetary asset. Other foreign exchange gains and losses are recognised in other comprehensive income.

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at the end of each reporting period.

Loans and receivables
Trade receivables, loans, other debt securities and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

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

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

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

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

For certain categories of financial asset, such as loans and receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of loans and receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of loans and receivables, where the carrying amount is reduced through the use of an allowance account. When a loan or a receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

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

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

In respect of AFS equity securities, impairment losses previously recognized in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income and accumulated under the heading of investments revaluation reserve. In respect of AFS debt securities, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

Renegotiated loans

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated any impairment is measured using the original effective interest rate as calculated before the modification of terms and the loan is no longer considered past due. Management continually reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

Write off of loans and advances

Loans and advances are written off against the provision for loan impairment when deemed uncollectible. Loans and advances are written off after management has exercised all possibilities available to collect amounts due to the Group and after the Group has sold all available collateral. Subsequent recoveries of amounts previously written off are reflected as an offset to the charge for impairment of financial assets in the consolidated statement of comprehensive income in the period of recovery.

Derecognition of financial assets

A financial asset (or, where applicable a part of the financial asset or part of a group of similar financial assets) is derecognized where:

- Rights to receive cash flows from the asset has expired;
- The Group has transferred its rights to receive cash flows from the asset or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; and
- The Group either (a) has transferred substantially all the risks and rewards of the asset,
  or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

A financial asset is derecognized when it has been transferred and the transfer qualifies for derecognition. A transfer required that the Group either (a) transfers the contractual rights to receive the asset's cash flows; or (b) retains the right to receive the asset's cash flows but assumes a contractual obligation to pay those cash flows to a third party. After a transfer, the Group reassesses the extent to which it has retained the risks and rewards of ownership of the transferred asset. If substantially all the risks and rewards have been retained, the asset remains on the statement of financial position. If substantially all of the risks and rewards have been transferred, the asset is derecognized. If substantially all the risks and rewards have been neither retained nor transferred, the Group assesses whether of not it has retained control of the asset. If it has not retained control, the asset is derecognized. Where the Group retained control of the asset, it continues to recognise the asset to the extent of its continuing involvement.

Financial liabilities and equity instruments issued

Classification as debt or equity

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

Equity instruments

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

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

Financial liabilities

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

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- It has been acquired principally for the purpose of repurchasing it in the near term; or
- On initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- It is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- The financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- It forms part of a contract containing one or more embedded derivatives, and IAS 39 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the 'other gains and losses' line item in the consolidated statement of income statement. Fair value is determined in the manner described in Note 30.

Other financial liabilities

Other financial liabilities, including depository instruments with the Central Bank of the Republic of Azerbaijan, deposits by banks and customers, debt securities issued, other borrowed funds and other liabilities are initially measured at fair value, net of transaction costs.

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

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

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit and loss.

Financial guarantee contracts

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

Financial guarantee contracts issued by the Group are initially measured at their fair values and, if not designated as at FVTPL, are subsequently measured at the higher of:

- The amount of the obligation under the contract, as determined in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets ; and
- The amount initially recognized less, where appropriate, cumulative amortization recognized in accordance with the revenue recognition policies.

Derivative financial instruments

Forwards and futures. Forward and futures contracts are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future. Forwards are customised contracts transacted in the over-the-counter market. Futures contracts are transacted in standardised amounts on regulated exchanges and are subject to daily cash margin requirements. The main differences in the risk associated with forward and futures contracts are credit risk and liquidity risk.

The Group has credit exposure to the counterparties of forward contracts. The credit risk related to future contracts is considered minimal because the cash margin requirements of the exchange help ensure that these contracts are always honoured. Forward contracts are settled gross and are, therefore, considered to bear a higher liquidity risk than the futures contracts which are settled on a net basis. Both types of contracts result in market risk exposure.

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. All short-term inter-bank placements, beyond overnight placements, are included in due from other banks. Amounts, which relate to funds that are of a restricted nature, are excluded from cash and cash equivalents. Cash and cash equivalents are carried at amortised cost.

Mandatory cash balances held with the CBAR, CBRF and NBG

Mandatory cash balances with the CBAR, CBRF and NBG are carried at amortised cost and represent non-interest bearing mandatory reserve deposits, which are not available to finance the Group's day to day operations and hence are not considered as part of cash and cash equivalents for the purposes of the consolidated statement of cash flows.

The Group as lessee
Assets held under finance leases are initially recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with the Group's general policy on borrowing costs. Contingent rentals are recognised as expenses in the periods in which they are incurred.

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

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

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

Premises and equipment
Premises held for use in the production or supply of goods or services, or for administrative purposes, are stated in the consolidated statement of financial position at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amounts do not differ materially from those that would be determined using fair values at the end of each reporting period.

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

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of premises and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

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

Freehold land is not depreciated.

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

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

Premises	2.5%-5%
Leasehold improvements	5-10%
Office and computer equipment	25%
Banking equipment, furniture, fixtures, vehicles and other	20%-25%

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

Intangible assets

Intangible assets acquired separately

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

Derecognition of intangible assets

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

Impairment of non-financial assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and definitely-lived intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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

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

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

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

Taxation

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

Current tax

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

Deferred tax

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

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax for the year

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Operating taxes

Countries where the Group operates also have various other taxes, which are assessed on the Group's activities. These taxes are included as a component of operating expenses in the consolidated statement of comprehensive income.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Contingencies

Contingent liabilities are not recognized in the consolidated statement of financial position but are disclosed unless the possibility of any outflow in settlement is remote. A contingent asset is not recognized in the consolidated statement of financial position but disclosed when an inflow of economic benefits is probable.

Insurance operations

Insurance contracts – classification

The Group issues contracts that transfer insurance risks. Insurance contracts are those that transfer significant insurance risk. As a general guideline, the Group defines as significant insurance risk the possibility of having to pay benefits on the occurrence of an insured event that are at least 10% more than the benefits payable if the insured event did not occur.

Premiums

Upon inception of the contract, the total premiums to be received over the term of the policy coverage are recorded as written and are earned primarily on a pro-rata basis over the term of the related policy coverage. The reserve for unearned premiums represents the proportion of premiums written in the year that relate to unexpired terms of policies in force at the end of the reporting period, calculated on a time apportionment basis.

Losses

Losses including loss adjustment expenses are charged to the consolidated statement of comprehensive income as incurred. Reserves for losses represent the accumulation of estimates for incurred losses and include two types of reserves: reserve for reported but not settled losses ("RBNS") and reserve for incurred but not reported losses ("IBNR"). RBNS reserve is calculated for each unsettled claim. The estimation is made on the basis of information received by the Group during investigation of insurance cases to be settled after the end of the reporting period.

If the amount of loss is not determined, the maximum possible amount of losses not exceeding the insurance limit, stated in the insurance policy, is accepted as RBNS. IBNR is established based on actuarial methods used to determine loss development patterns based on historic information, implied expected ultimate loss ratios and implied reported claims development factors. IBNR is calculated by the Group for each line of business; the calculation includes assumptions based on prior years' claims and claims handling experience. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. The methods of determining such estimates and establishing the resulting provisions are continually reviewed and updated. Resulting adjustments are reflected in the consolidated statement of comprehensive income (as a decrease or increase in profit before tax) as they arise. Loss provision reserve is estimated on an undiscounted basis due to the relatively quick pattern of claims notification and payment.

Reinsurance

The Group assumes and cedes reinsurance in the normal course of business. Ceded reinsurance contracts do not relieve the Group from its obligations to policyholders. Reinsurance receivables include balances due from reinsurance companies for paid claims, including claims handling expenses and premiums receivable ceded to the Group. Amounts recoverable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsured policy. Reinsurance payables are obligations of the Group for the transfer of reinsurance premiums to reinsurers.

Fiduciary activities

The Group provides trustee services to its customers. The Group also provides depositary services to its customers which include transactions with securities on their depositary accounts. Assets accepted and liabilities incurred under the fiduciary activities are not included in the Group's financial statements. The Group accepts the operational risk on these activities, but the Group's customers bear the credit and market risks associated with such operations. Revenue for provision of trustee services is recognized as services are provided.

Foreign currencies

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

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise except for:

- Exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
- Exchange differences on transactions entered into in order to hedge certain foreign currency risks; and
- Exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into AZN using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of control over a joint arrangement that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Group are reclassified to profit or loss.

In the case of a partial disposal that does not result in the Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. reductions in the Group's ownership interest in associates or joint arrangement that do not result in the Group losing significant influence or control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Goodwill and fair value adjustments on identifiable assets and liabilities acquired arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in equity.

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

	December 31, 2013	December 31, 2012
AZN/1 US Dollar	0.7845	0.7850
AZN/1 Euro	1.0780	1.0377
AZN/1 Russian Rouble	0.0241	0.0258

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Collateral

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

Repossessed collateral is measured at the lower of their previous carrying amount and fair value less costs to sell.

Equity reserves

The reserves recorded in equity (other comprehensive income) on the Group's consolidated statement of financial position include:

- 'Cumulative translation reserve' which is used to record exchange differences arising from the translation of the net investment in foreign operations, net of the effects of hedging;
- 'Revaluation reserve for premises' which includes change in fair value of buildings.

Investments in associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. Under the equity method, an investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses.

Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

The requirements of IAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When a group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognised in the Group' consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

Critical accounting judgements and key sources of estimation uncertainty

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

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

Key sources of estimation uncertainty

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

Impairment of loans and receivables

The Group regularly reviews its loans and receivables to assess for impairment. The Group's loan impairment provisions are established to recognize incurred impairment losses in its portfolio of loans and receivables. The Group considers accounting estimates related to allowance for impairment of loans and receivables a key source of estimation uncertainty because (i) they are highly susceptible to change from period to period as the assumptions about future default rates and valuation of potential losses relating to impaired loans and receivables are based on recent performance experience, and (ii) any significant difference between the Group's estimated losses and actual losses would require the Group to record provisions which could have a material impact on its financial statements in future periods.

The Group uses management's judgment to estimate the amount of any impairment loss in cases where a borrower has financial difficulties and there are few available sources of historical data relating to similar borrowers. Similarly, the Group estimates changes in future cash flows based on past performance, past customer behavior, observable data indicating an adverse change in the payment status of borrowers in a group, and national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans. The Group uses management's judgment to adjust observable data for a group of loans to reflect current circumstances not reflected in historical data.

The allowances for impairment of financial assets in the consolidated financial statements have been determined on the basis of existing economic and political conditions. The Group is not in a position to predict what changes in conditions will take place in the Republic of Azerbaijan and what effect such changes might have on the adequacy of the allowances for impairment of financial assets in future periods.

As at December 31, 2013 and 2012 the gross loans and receivables totaled AZN 7,331,332 thousand and AZN 5,962,403 thousand, respectively, and provision for loan impairment amounted to AZN 713,665 thousand and AZN 707,252 thousand, respectively.

Valuation of financial instruments

As described in Note 30, the Bank uses valuation techniques that include inputs that are not based on observable market date to estimate the fair value of certain types of financial instruments. Note 30 provides detailed information about the key assumptions used in the determination of the fair value of financial instruments, as well as the detailed sensitivity analysis for these assumptions. The directors believe that the chosen valuation techniques and assumptions used are appropriate in determining the fair value of financial instruments.

Useful lives of property and equipment

As described above, the Group reviews the estimated useful lives of premises and equipment at the end of each annual reporting period.

Premises carried at revalued amounts

Premises are measured at revalued amounts. The date of the latest appraisal was June 30, 2013. The next revaluation is preliminary scheduled as at June 30, 2014. The carrying value of revalued property amounted to 78,254 thousand and AZN 60,411 thousand as at December 31, 2013 and 2012, respectively.

Recoverability of deferred tax assets

The management of the Group is confident that the valuation allowance of AZN 50 thousand against deferred tax assets at the reporting date is considered necessary; because it is more likely than not that the deferred tax asset will be fully realized. The carrying value of deferred tax assets amounted to 17,169 thousand and AZN 22,369 thousand as at December 31, 2013 and 2012, respectively.

Other borrowed funds

Management has considered whether gains or losses should arise on initial recognition of loans from international financial institutions in the amount of AZN 1,219,963 thousand as at December 31, 2013 (December 31, 2012: AZN 956,830 thousand) and related lending. The Bank obtains long term financing from international financial institutions at interest rates, at which such institutions ordinarily lend in emerging markets and which may be lower than rates, at which the Bank could source the funds from local lenders. The amount of such borrowings as at December 31, 2013 was AZN 304,132 thousand (December 31, 2012: AZN 260,685 thousand). As a result of such financing, the Bank is able to advance funds to specific customers at advantageous rates.

As the transactions are with unrelated parties, management's judgement is that these funds and the related lending are at the market interest rates and no initial recognition of gains or losses should arise. In making this judgement management also considered that these instruments are a separate market segment.

Loans at low interest rates

Management has considered the appropriate market interest rate for certain loans and advances where the contractual interest rate is 5% or lower. The amount of such loans as at December 31, 2013 was AZN 211,744 thousand (December 31, 2012: 5% or lower - AZN 165,539 thousand). Management have assessed that the contractual interest rates for these loans are equivalent to the alternative highest and best use of the funds provided under these loans, the majority of which are with Government bodies and state-owned entities. Had management concluded that the interest rates for these borrowings were different to the highest and best use of the funds provided, then the carrying amounts in respect of these loans in the consolidated financial statements, and the amounts recorded within interest income and losses on the origination of loans, would have been different.

Tax legislation

Azerbaijani, Russian and Georgian tax, currency and customs legislation is subject to varying interpretations. Refer to Note 29.

Initial recognition of related party transactions

In the normal course of business the Group 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. The information on related party balances is disclosed in Note 31.

Capital Adequacy ratio

Capital Adequacy Ratio is calculated in accordance with the International Convergence of Capital Measurement and Capital Standards (July 1988, updated to November 2005) (or Basel Capital Accord) requirements. Such requirements are subject to interpretation and accordingly the appropriateness of the inclusion, exclusion, and/or classification of amounts included in the calculation of the Capital Adequacy Ratio requires management judgment, for example, whether the off-balance sheet commitments covered by blocked customer accounts would carry 0% risk for the purposes of calculating total risk-weighted assets. Currently, management believes that such off-balance sheet commitments carry 0% risk for the capital adequacy calculation purposes.

Liquidity mismatch

As disclosed in Note 27 to these consolidated financial statements, the Group has a cumulative negative liquidity gap up to twelve months as at December 31, 2013 and as at December 31, 2012. Management is confident that the Group will be able to obtain required funds in order to replace attracted liabilities with duration of up to twelve months. In particular, management believes that the continued support of its shareholders and access to borrowings from international financial institutions means that the Group would be able to obtain appropriate resources should all liabilities require settlement as disclosed in Note 27.

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

The Group has adopted the following new or revised standards and interpretations issued by International Accounting Standards Board and the International Financial Reporting Interpretations Committee (the IFRIC) which became effective for the Group's annual consolidated financial statement for the year ended December 31, 2013:

Standards affecting the financial statements

New and revised Standards on consolidation, joint arrangements, associates and disclosures

In May 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued comprising IFRS 10 Consolidated Financial Statements, *IFRS 11* Joint Arrangements, *IFRS 12* Disclosure of Interests in Other Entities, *IAS 27 (as revised in 2011)* Separate Financial Statements *and IAS 28 (as revised in 2011)* Investments in Associates and Joint Ventures. *Subsequent to the issue of these standards, amendments to IFRS 10, IFRS 11 and IFRS 12 were issued to clarify certain transitional guidance on the first-time application of the standards.*

In the current year, the Group has applied for the first time IFRS 10, IFRS 11, IFRS 12 and IAS 28 (as revised in 2011) together with the amendments to IFRS 10, IFRS 11 and IFRS 12 regarding the transitional guidance. IAS 27 (as revised in 2011) is not applicable to the Group as it deals only with separate financial statements.

The impact of the application of these standards is set out below.

Impact of the application of IFRS 10. *IFRS 10 replaces the parts of IAS 27* Consolidated and Separate Financial Statements *that deal with consolidated financial statements and SIC-12* Consolidation – Special Purpose Entities. *IFRS 10 changes the definition of control such that an investor has control over an investee when a) it has power over the investee, b) it is exposed, or has rights, to variable returns from its involvement with the investee and c) has the ability to use its power to affect its returns. All three of these criteria must be met for an investor to have control over an investee. Previously, control was defined as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Additional guidance has been included in IFRS 10 to explain when an investor has control over an investee. Some guidance included in IFRS 10 that deals with whether or not an investor that owns less than 50% of the voting rights in an investee has control over the investee is relevant to the Group.*

Impact of the application of IFRS 11. *IFRS 11 replaces IAS 31* Interests in Joint Ventures, *and the guidance contained in a related interpretation, SIC-13* Jointly Controlled Entities – Non-Monetary Contributions by Venturers, *has been incorporated in IAS 28 (as revised in 2011). IFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified and accounted for. Under IFRS 11, there are only two types of joint arrangements – joint operations and joint ventures. The classification of joint arrangements under IFRS 11 is determined based on the rights and obligations of parties to the joint arrangements by considering the structure, the legal form of the arrangements, the contractual terms agreed by the parties to the arrangement, and, when relevant, other facts and circumstances. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement (i.e. joint operators) have rights to the assets, and obligations for the liabilities, relating to the arrangement. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement (i.e. joint venturers) have rights to the net assets of the arrangement. Previously, IAS 31 contemplated three types of joint arrangements – jointly controlled entities, jointly controlled operations and jointly controlled assets. The classification of joint arrangements under IAS 31 was primarily determined based on the legal form of the arrangement (e.g. a joint arrangement that was established through a separate entity was accounted for as a jointly controlled entity).*

The initial and subsequent accounting of joint ventures and joint operations is different. Investments in joint ventures are accounted for using the equity method (proportionate consolidation is no longer allowed). Investments in joint operations are accounted for such that each joint operator recognises its assets (including its share of any assets jointly held), its liabilities (including its share of any liabilities incurred jointly), its revenue (including its share of revenue from the sale of the output by the joint operation) and its expenses (including its share of any expenses incurred jointly). Each joint operator accounts for the assets and liabilities, as well as revenues and expenses, relating to its interest in the joint operation in accordance with the applicable Standards.

The management of the Company reviewed and assessed the classification of the Group's investments in joint arrangements in accordance with the requirements of IFRS 11.

Impact of the application of IFRS 12. *IFRS 12 is a new disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the application of IFRS 12 has resulted in more extensive disclosures in the consolidated financial statements (please see Notes 1, 2, and 10).*

***Amendments to IFRS 7* Financial instruments:Disclosures.** *The Group has applied the amendments to IFRS 7 titled* Disclosures – Transfers of Financial Assets *in the current year. The amendments increase the disclosure requirements for transactions involving the transfer of financial assets in order to provide greater transparency around risk exposures when financial assets are transferred.*

***Amendments to IAS 1* Presentation of financial statements (amended June 2011).** *The Group has applied the amendments to IAS 1 titled* Presentation of Items of Other Comprehensive Income *in advance of the effective date (annual periods beginning on or after 1 July 2012). The amendment increases the required level of disclosure within the statement of comprehensive income.*

The impact of this amendment has been to analyse items within the statement of comprehensive income between items that will not be reclassified subsequently to profit or loss and items that will be reclassified subsequently to profit or loss in accordance with the respective IFRS standard to which the item relates. The financial statements have also been amended to analyse income tax on the same basis. The amendments have been applied retrospectively, and hence the presentation of items of comprehensive income have been restated to reflect the change. Other than the above mentioned presentation changes, the application of the amendments to IAS 1 do not result in any impact on profit or loss, comprehensive income and total comprehensive income.

***IFRS 13* Fair Value Measurement**. *The Group has applied IFRS 13 for the first time in the current year. IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The scope of IFRS 13 is broad; the fair value measurement requirements of IFRS 13 apply to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except for share-based payment transactions that are within the scope of IFRS 2* Share-based Payment*, leasing transactions that are within the scope of IAS 17* Leases, and measurements *that have some similarities to fair value but are not fair value (e.g. net realisable value for the purposes of measuring inventories or value in use for impairment assessment purposes).*

IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under IFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, IFRS 13 includes extensive disclosure requirements.

IFRS 13 requires prospective application from 1 January 2013. In addition, specific transitional provisions were given to entities such that they need not apply the disclosure requirements set out in the Standard in comparative information provided for periods before the initial application of the Standard. In accordance with these transitional provisions, the Group has not made any new disclosures required by IFRS 13 for the 2012 comparative period (please see Notes 7, 8, 9 and 31 for the 2013 disclosures). Other than the additional disclosures, the application of IFRS 13 has not had any material impact on the amounts recognised in the consolidated financial statements.

Amendments to IAS 1* Presentation of Financial Statements *(as part of the Annual Improvements to IFRSs 2009 - 2011 Cycle issued in May 2012).
The Annual Improvements to IFRSs 2009 - 2011 have made a number of amendments to IFRSs. The amendments that are relevant to the Group are the amendments to IAS 1 regarding when a statement of financial position as at the beginning of the preceding period (third statement of financial position) and the related notes are required to be presented. The amendments specify that a third statement of financial position is required when a) an entity applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification of items in its financial statements, and b) the retrospective application, restatement or reclassification has a material effect on the information in the third statement of financial position. The amendments specify that related notes are not required to accompany the third statement of financial position.

New and revised IFRSs in issue but not yet effective

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

IFRS 9 Financial Instruments
Amendments to IFRS 9 and IFRS 7 Mandatory Effective Date of IFRS 9 and Transition Disclosures[2]
Amendments to IFRS 10, IFRS 12 and IAS 27 Investment Entities[1]
Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities[1]
Amendments to IAS 36 Impairment of Assets[1]
Amendments to IAS 39 Financial Instruments: Recognition and Measurement[1]
Amendments to IFRIC 21 Levies[1]

[1] Effective for annual periods beginning on or after 1 January 2014, with earlier application permitted. Disclose effect of changes if expected.
[2] Effective for annual periods beginning on or after 1 January 2015, with earlier application permitted. Disclose effect of changes if expected.

***IFRS 9* Financial Instruments.** *IFRS 9, issued in November 2009, introduced new requirements for the classification and measurement of financial assets. IFRS 9 was amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition.*

Key requirements of IFRS 9:

- All recognised financial assets that are within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.
- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.

The management of the Group anticipate that the application of IFRS 9 in the future may have a significant impact on amounts reported in respect of the Group's financial assets and financial liabilities (e.g. the Group's investments in redeemable notes that are currently classified as available-for-sale financial assets will have to be measured at fair value at the end of subsequent reporting periods, with changes in the fair value being recognised in profit or loss). However, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 until a detailed review has been completed.

Amendments to IFRS 10, IFRS 12 and IAS 27 Investment Entities. *The amendments to IFRS 10 define an investment entity and require a reporting entity that meets the definition of an investment entity not to consolidate its subsidiaries but instead to measure its subsidiaries at fair value through profit or loss in its consolidated and separate financial statements.*

To qualify as an investment entity, a reporting entity is required to:

- obtain funds from one or more investors for the purpose of providing them with professional investment management services;
- commit to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and
- measure and evaluate performance of substantially all of its investments on a fair value basis.

Consequential amendments have been made to IFRS 12 and IAS 27 to introduce new disclosure requirements for investment entities.

The management of the Group do not anticipate that the investment entities amendments will have any effect on the Group's consolidated financial statements as the Bank is not an investment entity.

Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities. *The amendments to IAS 32 clarify the requirements relating to the offset of financial assets and financial liabilities. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right of set-off' and 'simultaneous realisation and settlement'.*

The management of the Group do not anticipate that the application of these amendments to IAS 32 will have a significant impact on the Group's consolidated financial statements as the Group does not have any financial assets and financial liabilities that qualify for offset.

4. CASH AND CASH EQUIVALENTS

	December 31, 2013	December 31, 2012
Cash on hand	129,050	136,694
Cash balances with the National/Central banks (other than mandatory reserve deposits)	76,355	73,014
Correspondent accounts and overnight placements with other banks		
- The Republic of Azerbaijan	13,264	39,718
- Other countries	204,416	239,716
Total cash and cash equivalents	**423,085**	**489,142**

Included in cash balances with the National/Central banks (other than mandatory reserve deposits) are the balances on correspondent accounts of the Bank and its subsidiaries, IBA Moscow and IBA Georgia, with the CBAR, CBRF and NBG amounting to AZN 41,782 thousand, AZN 34,320 thousand and AZN 253 thousand as at December 31, 2013 (December 31, 2012: AZN 52,563 thousand, AZN 20,167 thousand and AZN 284 thousand), respectively.

As at December 31, 2013 overnight placement with other banks was Nil (December 31, 2012: overnight placements with other banks was AZN 39,250 thousand with interest rate 0.16% per annum).

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

	Cash balances with the National/Central banks	Correspondent accounts and overnight placements with other banks	Total
Current and not impaired:			
- Central Bank of the Republic of Azerbaijan	41,782	-	41,782
- Central Bank of the Russian Federation	34,320	-	34,320
- National Bank of the Republic of Georgia	253	-	253
Credit ratings of counterparty banks:			
- AAA	-	13	13
- AA	-	45,813	45,813
- A	-	165,028	165,028
- BBB	-	415	415
- <BBB	-	3,059	3,059
- not rated	-	3,352	3,352
Total current and not impaired cash and cash equivalents, excluding cash on hand	**76,355**	**217,680**	**294,035**

The most recently published international rating for the Republic of Azerbaijan is BBB-/Stable (Fitch Ratings - issued on March 28, 2014), for the Russian Federation is BBB/Negative (Fitch Ratings - issued on March 20, 2014) and for the Republic of Georgia is BB-/Stable (Fitch Ratings - issued on March 7, 2014).

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

	Cash balances with the National/Central banks	Correspondent accounts and overnight placements with other banks	Total
Current and not impaired:			
- Central Bank of the Republic of Azerbaijan	52,563	-	52,563
- Central Bank of the Russian Federation	20,167	-	20,167
- National Bank of the Republic of Georgia	284	-	284
Credit ratings of counterparty banks:			
- AAA	-	-	-
- AA	-	18,289	18,289
- A	-	162,325	162,325
- BBB	-	56,604	56,604
- <BBB	-	40,977	40,977
- not rated	-	1,239	1,239
Total current and not impaired cash and cash equivalents, excluding cash on hand	**73,014**	**279,434**	**352,448**

In the above tables for an analysis of credit quality of cash and cash equivalents, the management listed the classes of the banks in the order from highest to lowest credit quality as used for the purposes of internal monitoring and assessment.

The most recently published international rating for the Republic of Azerbaijan is BBB-/Positive (Fitch Ratings - issued on January 27, 2012), for the Russian Federation is BBB/Stable (Fitch Ratings - issued on January 16, 2012) and for the Republic of Georgia is BB-/Stable (Fitch Ratings - issued on December 15, 2011).

Geographical, currency, liquidity and interest rate analyses of cash and cash equivalents are disclosed in Note 27. The information on related party balances is disclosed in Note 31.

5. DUE FROM OTHER BANKS

	December 31, 2013	December 31, 2012
Term placements with other banks	286,387	142,638
Less: Provision for impairment	(4,121)	(4,590)
Total due from other banks	**282,266**	**138,048**

As at December 31, 2013 term placements with other banks include 13 short-term foreign currency denominated placements with non-resident banks in the total amount equivalent to AZN 144,448 thousand at annual interest rates of 0.0% and 8.0%, respectively. Term placements mature in from January to October 2014 (December 31, 2012: two short-term foreign currency denominated placements with non-resident banks in the total amount equivalent to AZN 87,272 thousand at annual interest rates of 0.0% and 1.5%, respectively. Term placements mature in January and April 2012).

As at December 31, 2013 and 2012 the Group had balances due from one bank with individual exposure exceeding 10% of the Group's equity.

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

	Term placements with other banks
Current and not impaired	
- BBB rated	19,687
- <BBB rated	85,712
- not rated	178,160
Total current and not impaired	**283,559**
Balances individually assessed for impairment (gross)	
- over 360 days overdue	2,828
Total balances individually assessed for impairment (gross)	2,828
Less: provision for impairment	(4,121)
Total due from other banks	**282,266**

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

	Term placements with other banks
Current and not impaired	
- BBB rated	63
- <BBB rated	120,664
- not rated	20,889
Total current and not impaired	**141,616**
Balances individually assessed for impairment (gross)	
- 90 to 180 days overdue	200
- 180 to 360 days overdue	200
- over 360 days overdue	622
Total balances individually assessed for impairment (gross)	1,022
Less: provision for impairment	(4,590)
Total due from other banks	**138,048**

In the above tables for an analysis of credit quality of due from other banks, the management listed the classes of the banks in the order from highest to lowest credit quality as used for the purposes of internal monitoring and assessment.

The primary factor that the Group considers whether a due from other banks balance is impaired is its overdue status. As a result, the Group presented the above ageing analysis of deposits that are individually determined to be impaired.

Movements in the provision for impairment of due from other banks were as follows:

	Due from other banks
December 31, 2011	**3,729**
Additional provisions recognized	861
December 31, 2012	**4,590**
Additional provisions recognized	(469)
December 31, 2013	**4,121**

The carrying value and fair value of due from other banks is disclosed in Note 30.

Geographical, currency, liquidity and interest rate analyses of due from other banks is disclosed in Note 27.

6. LOANS AND ADVANCES TO CUSTOMERS

	December 31, 2013	December 31, 2012
Corporate loans	6,472,400	5,296,976
State and public organisations	25,845	5,433
Loans to individuals – consumer loans	378,919	320,234
Loans to individuals – mortgage loans	162,549	120,011
Loans to individuals – purchase of motor vehicles	89,025	86,674
Loans to individuals – employees	91,147	77,386
Loans to individuals – other purposes	111,447	55,689
	7,331,332	5,962,403
Less: provision for loan impairment	(713,665)	(707,252)
Total loans and advances to customers	**6,617,667**	**5,255,151**

Movements in the provision for loan impairment during 2013 are as follows:

	Provision for loan impairment as at December 31, 2012	Increase in/ (recovery of) provision for impairment during the year	Effect of foreign currency exchange recognized	Provision for loan impairment as at December 31, 2013
Corporate loans	648,439	(18,270)	(10,475)	619,694
State and public organisations	3,606	(3,341)	(58)	207
Loans to individuals – consumer loans	44,069	25,918	(712)	69,275
Loans to individuals – mortgage loans	1,922	2,473	(31)	4,364
Loans to individuals – purchase of motor vehicles	482	(96)	(8)	378
Loans to individuals – employees	3,393	(582)	(55)	2,756
Loans to individuals – other purposes	5,341	11,736	(86)	16,991
Total	**707,252**	**17,838**	**(11,425)**	**713,665**

Movements in the provision for loan impairment during 2012 are as follows:

	Provision for loan impairment as at December 31, 2012	Increase in/ (recovery of) provision for impairment during the year	Effect of foreign currency exchange recognized	Provision for loan impairment as at December 31, 2012
Corporate loans	625,414	20,427	2,598	648,439
State and public organisations	108	3,485	13	3,606
Loans to individuals – consumer loans	26,006	17,909	154	44,069
Loans to individuals – mortgage loans	2,791	(876)	7	1,922
Loans to individuals – purchase of motor vehicles	878	(398)	2	482
Loans to individuals – employees	16,479	(13,098)	12	3,393
Loans to individuals – other purposes	17,833	(12,511)	19	5,341
Total	**689,509**	**14,938**	**2,805**	**707,252**

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

	December 31, 2013		December 31, 2012	
	Amount	%	Amount	%
Construction and real estate development	3,011,224	41.1	1,796,139	30.1
Trade and service	1,810,255	24.7	2,051,762	34.4
Manufacturing	1,209,091	16.5	965,606	16.2
Individuals	833,090	11.4	659,994	11.1
Railroad and other transportation	201,368	2.7	188,378	3.2
Oil and gas sector, Power production and distribution	81,778	1.1	64,667	1.1
Air transportation	66,805	0.9	77,908	1.3
Communication	38,966	0.5	14,144	0.2
Leasing companies	30,160	0.4	29,100	0.5
State and public organisations*	25,845	0.4	23,816	0.4
Other	22,750	0.3	90,889	1.5
Total loans and advances to customers (before impairment)	**7,331,332**	**100**	**5,962,403**	**100.0**

(*) State and public organisations include ministries, the Treasury and other state bodies of the Republic of Azerbaijan, excluding profit making state and public organisations that are included in the respective categories.

Included in the gross amount of total loans and advances to customers as at December 31, 2013, are the loans granted to thirty companies amounting to AZN 3,111,458 thousand (December 31, 2012: to thirty companies amounting to AZN 2,245,325 thousand) and representing a concentration of 42.4% (December 31, 2012: 37.7%) of the total loan portfolio of the Group.

As at December 31, 2013 and 2012 the Group granted loans to 17 and 21 customers/group of related customers, totaling AZN 2,527,928 thousand and AZN 1,947,080 thousand, respectively, which individually exceeded 10% of the Group's equity.

Included in the gross amount of total loans and advances to customers as at December 31, 2013, are the loans granted to government institutions and state enterprises of the Republic of Azerbaijan amounting to AZN 175,999 thousand (December 31, 2012: AZN 284,674 thousand) and representing 2.4% (December 31, 2012: 4.8%) of the total loan portfolio of the Group.

Included in the gross amount of total loans and advances to customers as at December 31, 2013, are the loans granted to fifteen borrowers amounting to AZN 168,804 thousand (December 31, 2012: fifteen borrowers, AZN 147,318 thousand) with interest rates being less than or equal to 5% (December 31, 2012: less than or equal to 5%) and representing 2.3% (December 31, 2012: 2.5%) of the total gross loan portfolio of the Group. No adjustments have been made to the contractual interest rates in relation to these amounts on initial recognition at fair value as the interest rates applicable are considered to represent the highest and best use of the funds provided given the alternative uses by the Bank of the funds extended under these agreements.

Included in the gross amount of total loans to individuals as at December 31, 2013 are outstanding balances drawn on credit cards of AZN 114,105 thousand (December 31, 2012: AZN 94,520 thousand).

The table below summarizes total amount of loans to customers before provision for impairment by type of collateral, rather than the fair value of collateral itself as at December 31, 2013 is as follows:

	Corporate loans	State and public organisations	Loans to individuals-consumer loans	Loans to individuals-mortgage loans	Loans to individuals-purchase of motor vehicles	Loans to individuals-employees	Loans to individuals - other purposes	Total
Unsecured loans	627,968	348	236,385	32,984	1,184	4,533	60,679	964,081
Loans collateralised by:								
- real estate	2,386,912	25,455	63,645	55,255	34	2,949	43,957	2,578,207
- corporate guarantee	667,566	-	22,316	72,044	5	224	572	762,727
- cash deposits	186,960	-	34,977	2,266	14	5,572	5,793	235,582
- movable property and equipment	2,357,113	-	1,538	-	87,724	28	97	2,446,500
- other	245,881	42	20,058	-	64	77,841	349	344,235
Total loans and advances to customers	**6,472,400**	**25,845**	**378,919**	**162,549**	**89,025**	**91,147**	**111,447**	**7,331,332**

The table below summarizes total amount of loans to customers before provision for impairment by type of collateral, rather than the fair value of collateral itself as at December 31, 2012 is as follows:

	Corporate loans	State and public organisations	Loans to individuals-consumer loans	Loans to individuals mortgage loans	Loans to individuals purchase of motor vehicles	Loans to individuals-employees	Loans to individuals - other purposes	Total
Unsecured loans	1,561,773	3,619	209,924	39,871	1,016	73,126	15,780	1,905,109
Loans collateralised by:								
- real estate	1,580,187	-	51,318	24,231	-	1,980	36,712	1,694,428
- corporate guarantee	693,712	1,812	40,818	55,162	3	25	234	791,766
- cash deposits	103,267	-	9,850	94	54	29	2,717	116,011
- movable property and equipment	1,329,476	2	2,579	653	85,563	23	74	1,418,370
- other	28,561	-	5,745	-	38	2,203	172	36,719
Total loans and advances to customers	**5,296,976**	**5,433**	**320,234**	**120,011**	**86,674**	**77,386**	**55,689**	**5,962,403**

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

	Corporate loans	State and public organisations	Loans to individuals- consumer loans	Loans to individuals- mortgage loans	Loans to individuals- purchase of motor vehicles	Loans to individuals - employees	Loans to individuals - other purposes	Total
Current and not impaired								
Secured loans	5,125,769	21,528	94,462	34,535	201	75,151	13,733	5,365,379
Unsecured loans	457,655	-	152,486	124,717	76,654	3,475	34,610	849,597
Loans renegotiated in 2013	429,145	42	20,043	179	295	8,006	127	457,837
Total current and not impaired	**6,012,569**	**21,570**	**266,991**	**159,431**	**77,150**	**86,632**	**48,470**	**6,672,813**
Past due but not impaired								
- up to 90 days overdue	56,590	-	378	-	5,669	10	953	63,600
- 90 to 180 days overdue	44,460	1,750	2,791	-	895	-	667	50,563
- 180 to 360 days overdue	62,558	2,177	891	35	1,147	-	523	67,331
- over 360 days overdue	259,557	-	15,632	3,083	4,164	3,712	34,298	320,446
Total past due but not impaired	**423,165**	**3,927**	**19,692**	**3,118**	**11,875**	**3,722**	**36,441**	**501,940**
Impaired loans								
- up to 90 days overdue	28,396	243	57,038	-	-	680	15,730	102,087
- 90 to 180 days overdue	-	-	10,803	-	-	-	13	10,816
- 180 to 360 days overdue	865	-	320	-	-	8	979	2,172
- over 360 days overdue	2,795	105	12,284	-	-	105	9,814	25,103
Loans renegotiated in 2013	4,610	-	11,791	-	-	-	-	16,401
Total impaired loans	**36,666**	**348**	**92,236**	**-**	**-**	**793**	**26,536**	**156,579**
Less: provision for loan impairment	**(619,694)**	**(207)**	**(69,275)**	**(4,364)**	**(378)**	**(2,756)**	**(16,991)**	**(713,665)**
Total loans and advances to customers	**5,852,706**	**25,638**	**309,644**	**158,185**	**88,647**	**88,391**	**94,456**	**6,617,667**

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

	Corporate loans	State and public organisations	Loans to individuals- consumer loans	Loans to individuals- mortgage loans	Loans to individuals- purchase of motor vehicles	Loans to individuals - employees	Loans to individuals - other purposes	Total
Current and not impaired								
Secured loans	3,077,703	1,816	70,207	80,064	80,971	2,162	5,138	3,318,061
Unsecured loans	1,152,748	166	183,227	34,133	381	70,001	1,634	1,442,290
Loans renegotiated in 2012	426,868	42	7,414	454	74	323	27	435,202
Total current and not impaired	**4,657,319**	**2,024**	**260,848**	**114,651**	**81,426**	**72,486**	**6,799**	**5,195,553**
Past due but not impaired								
- up to 90 days overdue	58,229	-	9,996	-	690	10	394	69,319
- 90 to 180 days overdue	31,845	-	1,272	-	529	72	215	33,933
- 180 to 360 days overdue	57,031	-	9,672	30	1,117	22	2,776	70,648
- over 360 days overdue	194,916	107	34,879	3,442	2,912	4,796	45,457	286,509
Total past due but not impaired	**342,021**	**107**	**55,819**	**3,472**	**5,248**	**4,900**	**48,842**	**460,409**
Impaired loans								
- up to 90 days overdue	228,579	-	3,159	653	-	-	3	232,394
- 90 to 180 days overdue	564	-	-	-	-	-	6	570
- 180 to 360 days overdue	1,734	-	1	-	-	-	-	1,735
- over 360 days overdue	58,340	3,302	76	1,235	-	-	39	62,992
Loans renegotiated in 2012	8,419	-	331	-	-	-	-	8,750
Total impaired loans	**297,636**	**3,302**	**3,567**	**1,888**	**-**	**-**	**48**	**306,441**
Less: provision for loan impairment	**(648,439)**	**(3,606)**	**(44,069)**	**(1,922)**	**(482)**	**(3,393)**	**(5,341)**	**(707,252)**
Total loans and advances to customers	**4,648,537**	**1,827**	**276,165**	**118,089**	**86,192**	**73,993**	**50,348**	**5,255,151**

In these consolidated financial statements prepared in accordance with IFRS, the Group 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 end of the reporting period. The Group's internal loan grading policy is to classify each loan as follows:

- Standard loans – Loans with the payments of both principal and interest are up-to-date in accordance with the agreed terms and provisions up to 10% against gross carrying amount.
- Sub-standard loans – Fully secured or expected loss is less than 50% of the unsecured amount and 10%-50% provisions against gross carrying amount.
- Doubtful loans – Indeterminable security value but expected to be significant with expected loss is 50% to less than 100% of the loan and 50%-100% provision against gross carrying amount.
- Loss (bad) loans – Loan recovery is assessed to be insignificant with no security available as alternative resource and 100% provision against gross carrying amount.

For the purposes of above table standard and sub-standard loans have been classified either as current and not impaired or past due but not impaired loans. Doubtful and loss (bad) loans have been classified as impaired loans.

Current and not impaired, but renegotiated loans represent the carrying amount of loans that would otherwise be past due or impaired whose terms have been renegotiated. Past due, but not impaired loans presented in the above table represent collateralised loans where the fair value of collateral covers the overdue interest and principal repayments. The amount reported as past due, but not impaired is the whole balance of such loans, not only the individual instalments that are past due. The primary factors that the Group considers whether a loan is impaired are its overdue status and realisability of related collateral, if any. As a result, the Group presented the above ageing analysis of loans that are impaired.

As at December 31, 2013, total estimated value of collaterals pledged by borrowers was AZN 3,065,567 thousand (December 31, 2012: AZN 2,108,336 thousand).

	December 31, 2013	**December 31, 2012**
Fair value of collateral for past due but not impaired loans		
- real estate	2,219,995	1,026,331
- movable property	666,351	302,518
- securities	70,009	-
- other assets	91,129	86,408
Fair value of collateral for impaired loans		
- real estate	17,985	609,906
- movable property	4	83,173
- securities	-	-
- other assets	94	-
Total	**3,065,567**	**2,108,336**

In addition to the above collaterals the Group has collateral agreements with loans to customers engaged in real estate development projects in Russia, mainly Moscow region, where those loan customers pledged their ordinary shares as collateral against the loans issued. The fair value of such collateral was deemed to be equal to its nominal value. The Group has however been able to determine the fair values of the real estate development projects as at December 31, 2013 and 2012.

The carrying value of each class of loans and advances to customers approximates fair value as at December 31, 2013 and 2012. As at December 31, 2013, the estimated fair value of loans and advances to customers was AZN 6,617,667 thousand (December 31, 2012: AZN 5,255,151 thousand). Refer to Note 30.

Geographical, currency, liquidity and interest rate analyses analysis of loans and advances to customers is disclosed in Note 27. The information on related party balances is disclosed in Note 31.

During the years ended December 31, 2013 and 2012 the Group received or non-financial assets by taking possession of collateral it held as security. As at December 31, 2013 and 2012 such assets in amount of AZN 3,160 thousand and AZN 517 thousand, respectively, are included in other assets (Note 13).

As at December 31, 2013 and 2012 loans to customers included loans totaling AZN 457,837 thousand and AZN 435,202 thousand, respectively, whose terms were renegotiated. Otherwise these loans would be past due or impaired.

	December 31, 2013			December 31, 2012		
	Carrying value before allowance	Allowance for impairment losses	Carrying value	Carrying value before allowance	Allowance for impairment losses	Carrying value
Loans to customers individually determined to be impaired	21,840	(12,689)	9,151	112,236	(13,314)	98,922
Loans to customers collectively determined to be impaired	134,739	(68,010)	66,729	194,205	(23,036)	171,169
Unimpaired loans	7,174,753	(632,966)	6,541,787	5,655,962	(670,902)	4,985,060
Total	**7,331,332**	**(713,665)**	**6,617,667**	**5,962,403**	**(707,252)**	**5,255,151**

As at December 31, 2013 and 2012 loans totaling AZN 21,840 thousand and AZN 112,234 thousand, respectively, that were individually determined to be impaired were collateralized by pledge of real estate, equipment, inventories, promissory notes and secured by guarantees with fair value totaling AZN 18,083 thousand and AZN 693,079 thousand, respectively.

7. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	December 31, 2013	December 31, 2012
Financial assets initially designated at fair value through profit or loss:		
Promissory notes	22,588	10,264
Total financial assets at fair value through profit or loss	**22,588**	**10,264**

As at December 31, 2013 the promissory notes bear interest rates ranging from 7.4% to 12.3% with maturities in July, 2014 to January, 2022. (December 31, 2012: the promissory notes bear interest rates ranging from 6.9% to 10.3% with maturities in August, 2013 to October, 2021).

The analysis by credit quality of the financial assets at fair value through profit or loss as at December 31, 2013 and 2012 is as follows:

	December 31, 2013	December 31, 2012
Current and not impaired:		
- BBB	13,394	9,103
- <BBB	7,480	542
- Unrated	1,714	619
Total current and not impaired	**22,588**	**10,264**

8. OTHER DEBT SECURITIES

As at December 31, 2013 the Group owned 22,822 bonds with par value of AZN 22,822 thousand issued by private company in Azerbaijan Republic (December 31, 2013: 20,220 bonds with par value of AZN 20,220 thousand issued by private company in Azerbaijan Republic). The amortized cost of these bonds as at December 31, 2013 was AZN 22,822 thousand (December 31, 2012: AZN 20,220 thousand). The bonds bear interest at 11.75% and are fully redeemable in November 18, 2016 (December 31, 2012: the bonds bear interest at 12.50% and are fully redeemable in November 7, 2013).

9. AVAILABLE-FOR-SALE INVESTMENTS

	December 31, 2013	December 31, 2012
Corporate bonds	10,338	6,300
Total available-for-sale financial assets	**10,338**	**6,300**

10. INVESTMENT IN ASSOCIATES

	December 31, 2013	December 31, 2012
Baku Inter-Bank Currency Exchange (BICE)	489	575
Joint Leasing Company	-	-
Total investments in associates	**489**	**575**

The table below summarises the movements in the carrying amount of the Group's investment in associates:

	2013	2012
Carrying amount as at January 1	**575**	**649**
Share of loss of BICE	(86)	(74)
Share of loss of Joint Leasing Company	-	-
Carrying amount as at December 31	**489**	**575**

As at December 31, 2013, the Group's interests in its principal associates and their summarised financial information, including total assets, liabilities, revenues and losses, were as follows:

Name	Total assets	Total liabilities	Revenue	Profit/ (loss)	% interest held	Country of Incorporation
Joint Leasing Company	23,457	26,655	5,339	1,241	47.6	The Republic of Azerbaijan
BICE	2,193	57	96	(428)	20.0	The Republic of Azerbaijan
Total	**25,650**	**26,712**	**5,435**	**813**		

As at December 31, 2012, the Group's interests in its principal associates and their summarised financial information, including total assets, liabilities, revenues and losses, were as follows:

Name	Total assets	Total liabilities	Revenue	Profit/ (loss)	% interest held	Country of Incorporation
Joint Leasing Company	24,945	28,319	4,828	753	47.6	The Republic of Azerbaijan
BICE	2,639	56	154	(370)	20.0	The Republic of Azerbaijan
Total	**27,584**	**28,375**	**4,982**	**383**		

11. PREMISES, EQUIPMENT AND INTANGIBLE ASSETS

	Premises	Leasehold improvements	Office and computer equipment	Banking equipment, furniture, fixtures, vehicles and other	Construction in progress	Total premises and equipment	Intangible assets	Total
At initial/revalued cost								
December 31, 2011	91,616	5,233	40,699	44,783	92,288	274,619	19,122	293,741
Additions	5,874	892	4,178	1,093	1,372	13,409	1,361	14,770
Capitalized borrowing cost	-	-	-	-	10,502	10,502	-	10,502
Revaluation	21,584	-	-	-	-	21,584	-	21,584
Disposals	(231)	(178)	(311)	(528)	-	(1,248)	-	(1,248)
Impairment loss	(3,114)	-	-	-	-	(3,114)	-	(3,114)
Transfers	3,792	-	10,239	-	(14,031)	-	-	-
Effect of foreign currency exchange differences	538	5	120	43	4	710	60	770
December 31, 2012	**120,059**	**5,952**	**54,925**	**45,391**	**90,135**	**316,462**	**20,543**	**337,005**
Additions	5,410	318	5,234	3,246	18,886	33,094	4,366	37,460
Capitalized borrowing cost	-	-	-	-	8,456	8,456	-	8,456
Revaluation	45,405	-	-	-	-	45,405	-	45,405
Disposals	-	-	(1,273)	(1,302)	-	(2,575)	-	(2,575)
Transfers	-	-	19	-	(19)	-	-	-
Effect of foreign currency exchange differences	(27)	-	(7)	(2)	(1)	(37)	(2)	(39)
December 31, 2013	**170,847**	**6,270**	**58,898**	**47,333**	**117,457**	**400,805**	**24,907**	**425,712**
Accumulated depreciation								
December 31, 2011	(42,982)	(1,630)	(35,585)	(38,036)	-	(118,233)	(13,262)	(131,495)
Depreciation charge	(5,279)	(538)	(4,343)	(2,819)	-	(12,979)	(1,986)	(14,965)
Revaluation	(11,475)	-	-	-	-	(11,475)	-	(11,475)
Eliminated on disposal	88	132	-	527	-	747	-	747
December 31, 2012	**(59,648)**	**(2,036)**	**(39,928)**	**(40,328)**	**-**	**(141,940)**	**(15,248)**	**(157,188)**
Depreciation charge	(8,152)	(594)	(5,317)	(2,669)	-	(16,732)	(2,111)	(18,843)
Revaluation	(24,793)	-	-	-	-	(24,793)	-	(24,793)
Eliminated on disposal	-	-	1,263	1,258	-	2,521	-	2,521
December 31, 2013	**(92,593)**	**(2,630)**	**(43,982)**	**(41,739)**	**-**	**(180,944)**	**(17,359)**	**(198,303)**
Net book value								
As at December 31, 2013	**78,254**	**3,640**	**14,916**	**5,594**	**117,457**	**219,861**	**7,548**	**227,409**
As at December 31, 2012	**60,411**	**3,916**	**14,997**	**5,063**	**90,135**	**174,522**	**5,295**	**179,817**

As at December 31, 2013 the premises owned by the Group carried at revalued amounts based on the independent appraiser's report. As at December 31, 2013 carrying value of these building totaled AZN 78,254 thousand (December 31, 2012: AZN 60,411 thousand). As at December 31, 2013, the carrying amount of premises would have been AZN 26,844 thousand (December 31, 2012: AZN 22,874 thousand) had the assets been carried at cost less depreciation. As a result of the valuation, the net carrying amount of buildings increased by AZN 20,612 thousand (2012: As a result of the valuation, the net carrying amount of buildings increased by AZN 6,995 thousand, representing a revaluation increase of AZN 10,109 thousand and an impairment of AZN 3,114 thousand). Revaluation increase through revaluation reserve of AZN 16,490 thousand and net of deferred tax of AZN 4,122 thousand relating to revaluation of buildings of the Bank and its subsidiaries, was recorded as an increase in comprehensive income for the year ended December 31, 2013, respectively (2012: Revaluation increase through revaluation reserve of AZN 8,087 thousand, net of deferred tax of AZN 2,022 thousand, and impairment of AZN 3,114 thousand through profit and loss statement relating to revaluation of buildings of the Bank and its subsidiaries, was recorded as an increase in comprehensive income for the year ended December 31, 2012, respectively).

Buildings owned by the Group were revalued by independent appraisers as at June 30, 2013.
The following methods were used for the estimation of their fair value: discounted cash flow method (income approach) and method of sales comparison (comparative approach).

Included in the premises and equipment as at December 31, 2013 are office, computer equipment and furniture, vehicles and other assets with a cost of AZN 61,083 thousand (December 31, 2012: 60,982 thousand) which have been fully depreciated but were still in use by the Group as at December 31, 2013.

Details of the Group's buildings and information about the fair value hierarchy as at 31 December 2013 are as follows:

	Level 1	Level 2	Level 3	Fair value as at December 31, 2013
Buildings in following region:	-	78,254	-	78,254
Total	**-**	**78,254**	**-**	**78,254**

Construction in progress mainly consists of construction and refurbishment of branch premises as well as payments made by the Group to contractors for the purposes of construction of its new office building on land purchased by the Group in the centre of Baku. During the year ended December 31, 2013 the Group has capitalised AZN 8,456 thousand (December 31, 2012: AZN 10,502 thousand) of interest into qualifying assets. Upon completion, assets are transferred to premises and equipment.

Intangible assets include software and licenses.

12. OTHER FINANCIAL AND INSURANCE ASSETS

	December 31, 2013	December 31, 2012
Amounts in the course of settlement and receivables for plastic cards transactions	12,355	7,574
Receivables from insurance policyholders	2,127	1,878
Currency forward agreements	-	257
Other	473	416
Total other financial and insurance assets	**14,955**	**10,125**

Receivables for plastic cards transactions represent receivables from other local banks for cards produced, issued and serviced for them by Azericard, the card processing subsidiary, as well as net funds receivable from other local banks for cash withdrawn from the Bank's ATMs by customers of other banks.

The analysis by credit quality of other financial and insurance assets outstanding as at December 31, 2013 is as follows:

	Receivables from insurance policyholders	Amounts in the course of settlement and receivable for plastic cards transactions	Total
Current and not impaired			
- not rated	1,197	12,828	14,025
Total current and not impaired	**1,197**	**12,828**	**14,025**
Past due but not impaired			
- less than 30 days overdue	213	-	213
Total past due but not impaired	**213**	**-**	**213**
Receivables collectively determined to be impaired (gross)			
- 30 to 90 days overdue	357	-	357
- 90 to 180 days overdue	79	-	79
- 180 to 360 days overdue	130	-	130
- over 360 days overdue	631	-	631
Total collectively impaired	**1,197**	**-**	**1,197**
Less: provision for impairment	**(480)**	**-**	**(480)**
Total other financial and insurance assets	**2,127**	**12,828**	**14,955**

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

	Currency forward agreements	Receivables from insurance policyholders	Amounts in the course of settlement and receivable for plastic cards transactions	Total
Current and not impaired				
- not rated	257	154	7,990	8,401
Total current and not impaired	**257**	**154**	**7,990**	**8,401**
Past due but not impaired				
- less than 30 days overdue	-	24	-	24
Total past due but not impaired	**-**	**24**	**-**	
Receivables collectively determined to be impaired (gross)				
- 30 to 90 days overdue	-	158	-	158
- 90 to 180 days overdue	-	247	-	247
- 180 to 360 days overdue	-	395	-	395
- over 360 days overdue	-	811	-	811
Total collectively impaired	**-**	**1,611**	**-**	**1,611**
Receivables individually determined to be impaired (gross)				
- 30 to 90 days overdue	-	121	-	121
- 90 to 180 days overdue	-	520	-	520
Total individually impaired	**-**	**641**	**-**	**641**
Less: provision for impairment	**-**	**(522)**	**-**	**(522)**
Total other financial and insurance assets	**257**	**1,878**	**7,990**	**10,125**

In the above tables for an analysis of credit quality of other financial and insurance assets, the management listed the classes in the order from highest to lowest credit quality as used for the purposes of internal monitoring and assessment.

During the years ended 2012, the Group entered into currency forward agreements with non-resident banks, whereby the Group sold EUR and bought USD at the transaction date and agreed to buy back the initially sold amount of EUR at a predetermined future date by paying USD at the predetermined foreign exchange rate. As at December 31, 2012, the Group had 6 outstanding currency forward agreements representing derivative financial instruments with the fair value of AZN 257 thousand.

The carrying value of each class of other financial assets approximates its fair value as at December 31, 2013 and 2012. As at December 31, 2013, the estimated fair value of other financial assets was AZN 14,955 thousand (December 31, 2011: AZN 10,125 thousand). Refer to Note 30.

13. OTHER ASSETS

	December 31, 2013	December 31, 2012
Prepaid expenses	14,163	8,655
Advances for purchase of intangible assets and equipment	7,163	6,030
Collateral repossessed	3,160	517
Prepaid insurance	2,382	2,576
Deferred acquisition costs on insurance premiums written	1,356	1,253
Deferred expenses for plastic cards	670	2,133
Taxes receivable, other than income tax	297	352
Other	1,022	1,050
Total other assets	**30,213**	**22,566**
	-	-
Current	21,326	14,685
Non-current	8,887	7,881
Total other assets	**30,213**	**22,566**

Included in the advances for purchase of intangible assets and equipment as at December 31, 2013 and 2012 are prepayments for office furniture and other assets for the new Head Office building in the centre of Baku.

14. DUE TO OTHER BANKS

	December 31, 2013	December 31, 2012
Short-term placements of other banks	1,286,183	738,738
Correspondent accounts and overnight placements of other banks	305,009	338,693
Overdraft with CBAR	202,173	122,374
Total due to other banks	**1,793,365**	**1,199,805**

Included in due to other banks as at December 31, 2013 are four short-term placements amounting to EUR 323,000 thousand or AZN 348,194 thousand and correspondent account amounting to EUR 162,278 thousand or AZN 174,882 thousand , USD 2,079 thousand or AZN 1,631 thousand of non-resident banks. These short-term placements bear interest rate of 6.7% with maturities in March 2014 (December 31, 2012:four short-term placements amounting to EUR 323,000 thousand or AZN 335,177 thousand and correspondent account amounting to EUR 268,740 thousand or AZN 278,871 thousand, USD 2,079 thousand or AZN 1,632 thousand of non-resident banks. These short-term placements bear interest rate of 6.7% with maturities in March 2013). As at December 31, 2013 and 2012 included in deposits by banks are AZN 836,464 thousand and AZN 868,580 thousand (46.6%% and 72.4% of total balances dues to banks and other financial institutions), respectively, that were due to 3 banks, which represents a significant concentration.

The carrying value of each class of due to other banks approximates its fair value as at December 31, 2013 and December 31, 2012. As at December 31, 2013, the estimated fair value of due to other banks was AZN 1,793,365 thousand (December 31, 2012: AZN 1,199,805 thousand). Refer to Note 30.

Geographical, currency, liquidity and interest rate analyses of due to other banks is disclosed in Note 27. The information on related party balances is disclosed in Note 31.

15. CUSTOMER ACCOUNTS

	December 31, 2013	December 31, 2012
State and public organisations		
- Current/settlement accounts	619,172	352,425
- Term deposits	232,409	555,022
- Restricted customer deposits	138,981	177,347
	990,562	1,084,794
Other legal entities		
- Current/settlement accounts	492,872	375,018
- Term deposits	163,258	168,691
- Restricted customer deposits	14,186	25,273
	670,316	568,982
Individuals		
- Current/demand accounts	289,203	273,144
- Term deposits	1,550,773	1,177,220
	1,839,976	1,450,364
Total customer accounts	**3,500,854**	**3,104,140**

As at December 31, 2013, the Group had significant concentration of customer accounts attracted from one customer – a state organisation in the oil industry totalling AZN 598,920 thousand, and from one government body of AZN 227,425 thousand, or 23.6% of total customer accounts in aggregate (December 31, 2012: one customer – a state organisation in oil industry totalling AZN 740,075 thousand, and from one government body of AZN 392,814 thousand, or 36.5%of total customer accounts in aggregate).

Included in term deposits of state and public organizations are deposits of a state organization involved in the oil industry sector of the Republic of Azerbaijan totaling AZN 221,776 thousand. The interest rates on these deposits are 2.85% and 105% of overnight interest rate as per Reuters agency which is 0.095% as of December 31, 2013 (deposits of state and public organizations are deposits of a state organization involved in the oil industry sector of the Republic of Azerbaijan totaling AZN 80,000 thousand. The interest rates on these deposits are 2.85% and 70% of overnight interest rate as per Reuters agency which was 0.18%).

Included in the current and settlement accounts of state and public organisations as at December 31, 2013 are balances on current interest bearing accounts of state-owned enterprises and government bodies of AZN 67,172 thousand (December 31, 2012: AZN 94,224 thousand). Interest rates on these accounts vary from 0.5% to 1.0% per annum (December 31, 2012: 0.5% to 1.0% per annum).

Restricted customer deposits amounting to AZN 153,167 thousand as at December 31, 2013 (December 31, 2012: AZN 202,620 thousand) represent balances on customer accounts held by the Group as collateral for irrevocable commitments under import letters of credit issued by the Group on behalf of its customers. The information on letters of credit and guarantees outstanding as at December 31, 2013 and 2012 is disclosed in Note 29.

Economic sector concentrations within customer accounts are as follows:

	December 31, 2013		December 31, 2012	
	Amount	%	Amount	%
Individuals	1,839,976	52.6	1,450,364	46.7
Energy	667,035	19.1	806,475	26.0
Trade and services	311,070	8.9	412,453	13.3
State and public organisations*	342,219	9.8	261,135	8.4
Construction	142,292	4.1	36,503	1.2
Manufacturing	78,078	2.2	52,922	1.7
Transportation and communication	50,817	1.5	33,646	1.1
Other	69,367	1.8	50,642	1.6
Total customer accounts	**3,500,854**	**100.0**	**3,104,140**	**100.0**

(*) State and public organisations comprise ministries, Treasury, municipalities and other state bodies of the Republic of Azerbaijan, excluding profit making state and public organisations that are included in the respective categories.

The carrying value of each class of customer accounts approximates its fair value as at December 31, 2013 and 2012. As at December 31, 2013, the estimated fair value of customer accounts was AZN 3,500,854 thousand (December 31, 2012: AZN 3,104,140 thousand). Refer to Note 30.

Geographical, currency, liquidity and interest rate analyses of customer accounts is disclosed in Note 27. The information on related party balances is disclosed in Note 31.

16. DEBT SECURITIES IN ISSUE

	December 31, 2013	December 31, 2012
Deposit certificates	85,126	9,489
Total debt securities in issue	**85,126**	**9,489**

As at December 31, 2013, deposit certificates denominated in USD in the amount of AZN 8,004 thousand bear interest rates ranging between 8.0% - 25.0% per annum and have maturities of one, two, three and ten years, deposit certificates denominated in AZN in the amount of AZN 2,527 thousand bear interest rate of 25.0% per annum and have maturities of one, two, three and ten years, deposit certificates denominated in EUR in the amount of AZN 281 thousand bear interest rate of 4.8% per annum and have maturity of one year and deposit certificates denominated in RUR in the amount of AZN 74,314 thousand bear interest rates ranging between 9.0% - 12.4% per annum and have maturity of one year (deposit certificates denominated in USD in the amount of AZN 6,620 thousand bear interest rates ranging between 10.0%-25.0% per annum and have maturities of one, two, three and ten years, deposit certificates denominated in AZN in the amount of AZN 1,825 thousand bear an interest rate of 25.0% per annum and have maturities of ten years and deposit certificates denominated in RUR in the amount of AZN 1,044 thousand bear interest rates ranging between 2%-10% per annum and have maturities of one, nine months and one year). These certificates of deposit state as a condition that interest is paid each year only if certificates are held for the full period of that calendar year.

The carrying value of each class of debt securities in issue approximates its fair value as at December 31, 2013 and 2012. As at December 31, 2013, the estimated fair value of debt securities in issue was AZN 85,126 thousand (December 31, 2011: AZN 9,489 thousand). Refer to Note 30.

Geographical, currency, liquidity and interest rate analyses of debt securities in issue is disclosed in Note 27.

17. OTHER BORROWED FUNDS

	December 31, 2013	December 31, 2012
Syndicated loan maturing on April 14, 2014	103,801	-
Syndicated loan maturing on January 14, 2015	94,532	-
Syndicated loan maturing on July 23, 2013	-	54,950
Term borrowings from government organisations:		
- National Fund for Support of Entrepreneurship (the Republic of Azerbaijan)	171,273	120,132
Term borrowings from other financial institutions	837,134	767,695
Accrued interest payable	13,223	14,053
Total other borrowed funds	**1,219,963**	**956,830**

Syndicated borrowings
On April 15, 2013, Bank signed a facility agreement with foreign banks led by one of the major foreign banks in the amount of USD 37,500 thousand and EUR 69,000 thousand. The borrowing facilities are repayable on April 14, 2014.

On July 16, 2013, Bank signed a facility agreement with foreign banks led by one of the major foreign banks in the amount of USD 120,500 thousand. The borrowing facilities are repayable on January 14, 2015.

On July 23, 2010, Bank signed a facility agreement with foreign banks led by one of the major foreign banks in the amount of USD 100,000 thousand. The borrowing facilities were repayable on July 23, 2013.

Term borrowings from government organizations
As at December 31, 2013 loans from the National Fund for Support of Entrepreneurship amounting to AZN 171,273 thousand has been borrowed with annual rate of 1% and maturity period from 1 year to 10 years (December 31, 2012: borrowings from National Fund for Support of Entrepreneurship amounting AZN 120,132 thousand, which has been borrowed with annual rate of 1% and maturity periods of 1 to 10 years).

Term borrowings from other financial institutions
Included in term borrowings from other financial institutions are funds attracted from twenty six foreign banks and financial institutions. The amounts drawn down under credit agreements signed with these banks amounted to USD 811,906 thousand or AZN 636,940 thousand, EUR 181,939 thousand or AZN 196,130 thousand (December 31, 2012: funds attracted from twenty six foreign banks and financial institutions with amount of USD 503,163 thousand or AZN 394,983 thousand, EUR 180,422 thousand or AZN 187,224 thousand).

The Bank is obliged to comply with certain financial covenants stipulated by some aforementioned borrowing agreements within syndicated borrowings and term borrowings from other financial institutions. As at December 31, 2013 the Bank was in compliance with all financial covenants stipulated in borrowing agreements (December 31, 2012: Bank was in compliance with all financial covenants stipulated in borrowing agreements).

Market interest rates for the borrowings range between 1.0% to 9.9% per annum for the year ended December 31, 2013 (ranging between 1.0% to 8.9% per annum for the year ended December 31, 2012). All borrowings that belong to other borrowed funds category bear market interest rates.

The carrying value of each class of other borrowed funds approximates its fair value as at December 31, 2013 and 2012. As at December 31, 2013, the estimated fair value of other borrowed funds was AZN 1,219,963 thousand (December 31, 2012: AZN 956,830 thousand). Refer to Note 30.

Geographical, currency, liquidity and interest rate analyses of other borrowed funds is disclosed in Note 27. The information on related party balances is disclosed in Note 31.

18. OTHER FINANCIAL AND INSURANCE LIABILITIES

Other financial and insurance liabilities comprise the following:

	December 31, 2013	December 31, 2012
Items in course of settlement	23,902	48,047
Sundry creditors	9,170	23,349
Insurance reserves, net	8,392	8,631
Insurance premiums and broker commissions payable	1,701	1,822
Payables to employees	970	559
Payables on currency forward agreements	4,602	-
Total other financial and insurance liabilities	**48,737**	**82,408**

During the year ended December 31, 2013, the Group entered into currency forward agreements with non-resident banks, whereby the Group sold EUR, GBP and gold and bought USD at the transaction date and agreed to buy back the initially sold amount of EUR, GBP and gold at a predetermined future date by paying USD at the predetermined foreign exchange rate. As at December 31, 2013, the Group had six outstanding currency forward agreements representing derivative financial instruments. The fair value of these derivative financial instruments was AZN 4,602 thousand as at December 31, 2013.

Movements in insurance reserves during the years ended December 31, 2013 and 2012 were as follows:

	December 31, 2011	Increase/(decrease) during the year	December 31, 2012	Increase/(decrease) during the year	December 31, 2013
IBNR					
Gross	618	121	739	(99)	640
Reinsurer's share	(110)	101	(9)	(217)	(226)
Net	**508**	**222**	**730**	**(316)**	**414**
UPR					
Gross	8,762	1,505	10,267	500	10,767
Reinsurer's share	(1,864)	(1,081)	(2,945)	(272)	(3,217)
Net	**6,898**	**424**	**7,322**	**228**	**7,550**
RBNS					
Gross	785	(190)	595	(156)	439
Reinsurer's share	-	(16)	(16)	5	(11)
Net	**785**	**(206)**	**579**	**(151)**	**428**
Total	**8,191**	**440**	**8,631**	**(239)**	**8,392**

The carrying value of each class of other financial liabilities approximates fair value as at December 31, 2013 and 2012. Refer to Note 30.

19. OTHER LIABILITIES

Other liabilities comprise the following:

	December 31, 2013	December 31, 2012
Deferred revenue on plastic cards operations	6,478	5,624
Taxes payable other than income tax	4,852	4,772
Deferred commissions on insurance operations	134	95
Other	6,628	3,066
Total other liabilities	**18,092**	**13,557**
Current	13,106	8,690
Non-current	4,986	4,867
Total other liabilities	**18,092**	**13,557**

Deferred revenue on plastic cards operations represents the unearned portion of revenue related to fees charged for the annual maintenance of plastic card accounts. This fee is charged upon the issuance of cards and amortised over their respective term.

20. SUBORDINATED DEBT

	December 31, 2013	December 31, 2012
Subordinated debt from CBAR	350,000	250,000
Subordinated debt from non-resident financial institutions	63,347	138,239
Accrued interest payable	676	1,332
Total subordinated debt	**414,023**	**389,571**

On February 21, 2012 Bank signed AZN 150,000 thousand subordinated loan agreement with the Central Bank of Azerbaijan Republic, which is treated as Tier II as per capital requirements described in Note 28 and repayable in 5 years. On December 4, 2012 Bank signed another subordinated loan agreement with the Central Bank of Azerbaijan Republic in the amount of AZN 100,000 thousand repayable in 7 years. On June 28, 2013 Bank signed another subordinated loan agreement with the Central Bank of Azerbaijan Republic in the amount of AZN 100,000 thousand. One loan is repayable in 5 years and two others are repayable in 7 years.

In September 2012, the Bank attracted a subordinated loan agreement from an Investment Fund on the back of private placement for a total amount of USD 100,000 thousand. The loan bears fixed interest rate and was repaid in 2013. The Bank is obliged to comply with certain financial covenants stipulated by the aforementioned borrowing agreement.

Interest rates on subordinated debts are at market rates. Market interest rate for these subordinated debts is 5-7% per annum. The repayment of Bank's subordinated debt ranks after all other creditors in case of liquidation of the Bank.

As at December 31, 2013, the estimated fair value of subordinated debt was AZN 414,023 thousand (December 31, 2012: AZN 389,571 thousand). Refer to Note 30.

Geographical, currency, liquidity and interest rate analyses of subordinated debt is disclosed in Note 27. The information on related party balances is disclosed in Note 31.

21. SHARE CAPITAL

The authorised, issued and paid-in capital of the Bank as at December 31, 2013 and December 31, 2012 is as follows:

	Number of paid-in and outstanding shares (in thousands)	Ordinary Shares	Total
As at December 31, 2011	1,000,000	240,000	240,000
New shares paid-in	378,475	90,834	90,834
As at December 31, 2012	1,378,475	330,834	330,834
Increase in par value of shares	-	27,570	27,570
New shares paid-in	448,593	116,634	116,634
As at December 31, 2013	**1,827,068**	**475,038**	**475,038**

On March 28, 2012 the shareholders of the Bank decided to increase the share capital by AZN 100,000 thousand and on May 14, 2012 issued 416,666,675 ordinary shares. All ordinary shares have a nominal value of AZN 0.24 per share as at December 31, 2012 and 2011 and rank equally. Each share carries one vote.

On June 14, 2013 the shareholders of the Bank decided to increase par value of existing one share from AZN 0.24 per share to AZN 0.26 per share by directing AZN 27,570 thousand from retained earnings to share capital.

On October 18, 2013 the shareholders of the Bank decided to increase share capital by AZN 200,000 thousand issued 769,230,775 ordinary shares. All ordinary shares have a nominal value of AZN 0.26 per share as at December 31, 2013 and rank equally. Each share carries one note.

As at December 31, 2013 and December 31, 2012 the number of fully paid ordinary shares in issue was 1,827,068 and 1,378,475 thousand respectively.

The weighted average number of ordinary shares outstanding during the year ended December 31, 2013 and 2012 was 1,409,231 thousand and 1,134,442 thousand, respectively.

As at December 31, 2013 and 2012, the Ministry of Finance of the Republic of Azerbaijan (“MoF”) paid all subscribed shares and held 60.06% and 51.06% of the total paid-in share capital of the Bank, respectively.

As at December 31, 2013, the Group’s employees held 4.64% of the total share capital of the Bank, or 84,826 thousand ordinary shares with a par value of AZN 22,055 thousand (December 31, 2012: 5.82% or 80,223 thousand ordinary shares with a par value of AZN 19,253 thousand).

In 2013 the Group declared and paid dividends of AZN 0.01 per share totalling AZN 14,805 thousand on ordinary shares (2012: AZN 0.01 per share totalling AZN 8,695 thousand).

22. INTEREST INCOME AND EXPENSE

	Year ended December 31, 2013	Year ended December 31, 2012
Interest income comprises:		
Interest income on financial assets recorded at amortized cost:		
- interest income on unimpaired financial assets	367,582	277,652
- interest income on impaired financial assets	100,151	82,681
Total interest income	**467,733**	**360,333**
Interest income on financial assets recorded at amortized cost comprises:		
Loans and advances to customers	461,087	352,165
Due from other banks and correspondent accounts	4,430	5,640
Interest income on other debt securities	2,216	2,528
Total interest income	**467,733**	**360,333**
Interest expense comprises:		
Due to other banks and other borrowed funds	144,240	104,191
Savings deposits of individuals and deposit certificates	138,692	100,113
Term deposits of legal entities	15,432	9,013
Subordinated debt	22,083	11,623
Total interest expense	**320,447**	**224,940**
Net interest income	**147,286**	**135,393**

For information on related party transactions, see Note 31.

23. FEE AND COMMISSION INCOME AND EXPENSE

	Year ended December 31, 2013	Year ended December 31, 2012
Fee and commission income:		
- Plastic cards operations	46,972	41,870
- Transactions with foreign currencies and securities	27,033	22,377
- Settlement transactions	8,999	11,435
- Cash transactions	8,660	8,322
- Guarantees issued	2,658	1,377
- Letters of credit issued	1,553	1,463
- Servicing intermediary loans	403	1,973
- Securities operations	-	528
- Other	4,758	1,075
Total fee and commission income	**101,036**	**90,420**
Fee and commission expense:		
- Settlement transactions	17,104	18,130
- Plastic cards operations	10,637	9,020
- Policy acquisition costs on insurance operations	1,440	1,475
- Cash transactions	1,267	1,269
- Guarantees	104	11
- Other	20	758
Total fee and commission expense	**30,572**	**30,663**
Net fee and commission income	**70,464**	**59,757**

For information on related party transactions, see Note 31.

24. ADMINISTRATIVE AND OTHER OPERATING EXPENSES

	Year ended December 31, 2013	Year ended December 31, 2012
Staff costs	58,972	56,490
Depreciation of premises and equipment	16,730	12,979
Customs duties and taxes other than on income	12,368	8,781
Charity and financial aid	8,776	8,186
Advertising and marketing services	8,259	6,837
Rent	6,049	5,914
Consultancy	5,085	5,516
External labour and guarding	4,201	3,669
Premises and equipment maintenance	3,441	2,995
Software maintenance	2,813	2,255
Communication	2,443	2,366
Fees paid to deposit insurance fund	2,231	1,502
Amortisation of software and other intangible assets	2,113	1,986
Stationary, books, printing, and other supplies	1,420	1,557
Purchase of plastic cards	1,326	1,753
Business trips	929	739
Training	792	588
Other	8,823	5,680
Total administrative and other operating expenses	**146,771**	**129,793**

Included in staff costs are obligatory payments to the State Social Protection Fund of the Republic of Azerbaijan of AZN 8,334 thousand thousand (2012: AZN 9,645 thousand). In addition, AZN 1,020 thousand was collected by the Group as a deduction from employee salaries and paid to the State Social Protection Fund on their behalf (2012: AZN 909 thousand).

Included in charity and financial aid expenses incurred during the year are AZN 6,848 thousand paid to "Inter" professional football club (2012: AZN 7,200 thousand paid to "Inter" professional football club).

Rental expenses are related to the lease of the Group's branch buildings in Baku and in the regions of the Republic of Azerbaijan, exchange offices and rental costs associated with ATMs installed, for example, in department stores and hotels.

For information on related party transactions, see Note 31.

25. INCOME TAXES

Income tax expense comprises the following:

	Year ended December 31, 2013	Year ended December 31, 2012
Current tax	(5,201)	(5,545)
Deferred tax	(15,238)	(12,835)
Income tax expense for the year	**(20,439)**	**(18,380)**

The income tax rate applicable to the majority of the Group's income is 20% as at December 31, 2013 and 2012. The income tax rate applicable to the operations of IBA Moscow is 20% as at December 31, 2013 and 2012.

Reconciliation between the expected and the actual taxation charge is provided below.

	Year ended December 31, 2013	Year ended December 31, 2012
IFRS profit before income tax	**79,385**	**71,292**
Theoretical tax charge at statutory rate (20%)	(15,877)	(14,258)
Tax effect of items which are not deductible or assessable for taxation purposes:		
-Non deductible expenses	(4,562)	(4,122)
Income tax expense for the year	**(20,439)**	**(18,380)**

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

	December 31, 2012	**(Charged)/ credited to profit or loss**	**Charged directly to other comprehensive income**	**December 31, 2013**
Tax effect of deductible/(taxable) temporary differences				
Losses on assets and liabilities at non-market rates	3,543	(146)	-	3,397
Deferred revenue recognition	1,094	-	-	1,094
Provision for letters of credit and guarantees	(3,789)	(1,550)	-	(5,339)
Accruals and other	1,041	-	-	1,041
Provision for loan impairment	(8,153)	1,782	-	(6,371)
Premises, equipment and intangible assets	(13,827)	987	(4,122)	(16,962)
Revenue accruals	3,260	(1,694)	-	1,566
Tax effect of share of loss of associates	52	16	-	68
Tax effect of fair value gain of derivatives	(51)	-	-	(51)
Tax loss carry forwards	35,821	(14,802)	-	21,019
Other	2,785	169	-	2,954
	21,776	(15,238)	(4,122)	2,416
Deferred tax asset not recognized	**(50)**	**-**	**-**	**(50)**
Recognised deferred tax asset	**21,726**	**(15,238)**	**(4,122)**	**2,366**

In the context of the Group's current structure and applicable tax legislation, tax losses and current tax assets of different group companies may not be offset against current tax liabilities and taxable profits of other group companies and, accordingly, taxes may accrue even where there is a consolidated tax loss. Therefore, deferred tax assets and liabilities are offset only when they relate to the same taxable entity and the same taxation authority.

	December 31, 2011	**(Charged)/ credited to profit or loss**	**Charged directly to other comprehensive income**	**December 31, 2012**
Tax effect of deductible/(taxable) temporary differences				
Losses on assets and liabilities at non-market rates	2,587	956	-	3,543
Deferred revenue recognition	1,113	(19)	-	1,094
Provision for letters of credit and guarantees	(4,393)	604	-	(3,789)
Accruals and other	54	987	-	1,041
Provision for loan impairment	(4,204)	(3,949)	-	(8,153)
Premises, equipment and intangible assets	(8,835)	(2,970)	(2,022)	(13,827)
Revenue accruals	1,899	1,361	-	3,260
Tax effect of share of loss of associates	37	15	-	52
Tax effect of fair value gain of derivatives	711	(762)	-	(51)
Tax loss carryforwards	48,939	(13,118)	-	35,821
Other	(1,275)	4,060	-	2,785
	36,633	(12,835)	(2,022)	21,776
Deferred tax asset not recognized	**(50)**	**-**	**-**	**(50)**
Recognised deferred tax asset	**36,583**	**(12,835)**	**(2,022)**	**21,726**

The tax loss carry forwards expires in 2015 and the Group can charge tax loss carry forwards against income in future years.

The composition of the total net deferred tax asset of the Group after offsetting within the individual entities comprising the Group is, as follows:

	December 31, 2013	**December 31, 2012**
Total net deferred tax asset	9,469	22,369
Total net deferred tax liability	(7,103)	(643)
Total net deferred tax asset of the Group	**2,366**	**21,726**

26. EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the profit or loss attributable to owners of the Bank by the weighted average number of ordinary shares in issue during the year, excluding treasury shares. There were no treasury shares outstanding as at December 31, 2013 and 2012.

Basic earnings per share:

	Year ended December 31, 2013	Year ended December 31, 2012
Profit for the year attributable to ordinary shareholders	58,451	52,587
Weighted average number of ordinary shares in issue (thousands)	1,409,231	1,134,442
Basic earnings per ordinary share (expressed in AZN per share)	**0.04**	**0.05**

Diluted earnings per share:

	Year ended December 31, 2013	Year ended December 31, 2012
Earnings used in the calculation of basic earnings per share	58,451	52,587
Interest on proceeds of issue (after tax at 20%)	626	136
Earnings used in the calculation of diluted earnings per share	59,077	52,723
Weighted average number of ordinary shares used in the calculation of basic earnings per share (thousands)	1,409,231	1,134,442
Shares deemed to be issued (thousands)	100,276	23,543
Weighted average number of ordinary shares used in the calculation of diluted earnings per share (thousands)	1,509,507	1,157,985
Diluted earnings per ordinary share (expressed in AZN per share)	**0.04**	**0.05**

27. SEGMENT ANALYSIS

The chief operating decision maker, the Chairman of the Board of Directors, reviews the Group's internal reporting in order to assess its performance and allocate resources. The operating segments have been determined based on these reports as follows:

- Banking – representing private and corporate banking services, private and corporate customer current accounts, savings, deposits, investment savings products, custody, credit and debit cards, consumer loans and mortgages, direct debit facilities, current accounts, deposits, overdrafts, loan and other credit facilities, foreign currency and derivative products for retail and corporate customers.
- Insurance – representing the activities carried out by the Group's insurance subsidiary.
- Card processing – representing the activities carried out by the Group's card processing subsidiary.

The Chairman of the Board of Directors assesses the performance of the operating segments based on a measure of adjusted profit before income tax. This measurement basis excludes the effects of non-recurring expenditure from the operating segments, such as impairment of premises. Other information provided to the Chairman of the Board of Directors is measured in a manner consistent with that in these consolidated financial statements, except that segment assets reported to the Chairman of the Board of Directors exclude deferred income tax asset which is managed on a central basis. These are part of the reconciliation to total consolidated statement of financial position assets. In addition to that, the Group does not allocate depreciation and amortisation expenses, as well as share of profit or loss of the associates among its segments. These are the part of the reconciliation to items of the consolidated statement of the comprehensive income.

Segment information for the reportable segments of the Group for the years ended December 31, 2013 and 2012 is set out below:

	Banking	Insurance	Card processing	Total Group
Year ended December 31, 2013				
External revenues:				
- Interest income	486,555	413	472	487,440
- Fee and commission income	88,760	-	19,336	108,096
- Other operating income	30,688	13,790	-	44,478
Total revenue	**606,003**	**14,203**	**19,808**	**640,014**
Inter-segment revenue	(21,443)	-	(5,324)	(26,767)
Revenue from external customers	584,560	14,203	14,484	613,247
External expenses:				
- Interest expense	340,154	-	-	340,154
- Fee and commission expense	36,098	1,440	94	37,632
Total expense	**376,252**	**1,440**	**94**	**377,786**
Inter-segment expense	(26,509)	(209)	(49)	(26,767)
Expense from external customers	349,743	1,231	45	351,019
Total segment profit	**202,803**	**3,331**	**20,108**	**226,242**
Year ended December 31, 2012				
External revenues:				
- Interest income	374,871	620	1,258	376,749
- Fee and commission income	82,928	68	14,844	97,840
- Other operating income	32,241	13,646	859	46,746
Total revenue	**490,040**	**14,334**	**16,961**	**521,335**
Inter-segment revenue	(17,210)	(618)	(6,627)	(24,455)
Revenue from external customers	472,830	13,716	10,334	496,880
External expenses:				
- Interest expense	241,973	-	-	241,973
- Fee and commission expense	36,240	1,527	318	38,085
Total expense	**278,213**	**1,527**	**318**	**280,058**
Inter-segment expense	(24,294)	-	(161)	(24,455)
External expense	253,919	1,527	157	255,603
Total segment profit	**183,293**	**1,746**	**16,120**	**201,159**
Total assets reported				
December 31, 2013	7,636,211	16,555	18,983	7,671,749
December 31, 2012	6,117,031	15,879	18,586	6,151,496
Total liabilities reported				
December 31, 2013	7,068,973	10,757	807	7,080,537
December 31, 2012	5,745,245	11,044	696	5,756,985
Other segment items				
Capital expenditure, 2013	43,772	23	2,121	45,916
Capital expenditure, 2012	23,360	51	1,861	25,272

Total consolidated revenues comprise interest income, fee and commission income and other operating income and are reconciled to the sum of these items on the face of the consolidated statement of comprehensive income. Total consolidated expenses comprise interest expense and fee and commission expense and are reconciled to the sum of these items on the face of the consolidated statement of comprehensive income.

A reconciliation of adjusted profit before income tax to total profit before income tax is provided as follows:

	Year ended December 31, 2013	Year ended December 31, 2012
Adjusted profit before income tax for reportable segments	**226,242**	**201,159**
Depreciation	(16,730)	(12,979)
Amortisation	(2,113)	(1,986)
Other operating expenses	(127,928)	(114,828)
Share of post-tax loss of associates	(86)	(74)
Profit before income tax	**79,385**	**71,292**

The adjustments are attributable to the following:

- The Group does not allocate depreciation and amortisation to the segments.
- The Group does not allocate share of loss of associates to segments.

Reportable segments' assets are reconciled to total assets as follows:

	December 31, 2013	December 31, 2012
Total segment assets	7,671,749	6,151,496
Deferred income tax assets	9,469	22,369
Total assets per consolidated statement of financial position	**7,681,218**	**6,173,865**

Reportable segments' liabilities are reconciled to total assets as follows:

	December 31, 2013	December 31, 2012
Total segment liabilities	7,080,537	5,756,985
Deferred income tax liabilities	7,103	643
Total liabilities per consolidated statement of financial position	**7,087,640**	**5,757,628**

The Group applies an asymmetric approach regarding the allocation of non-current assets and related depreciation charges between segments, whereby the Group allocates non-current assets between segments whereas does not allocate related depreciation charges.

The adjustments are attributable to the following:

- Deferred income tax assets are not calculated for the purpose of internal management reporting.

Geographical information for non-current assets other than financial and insurance assets and taxes:

	December 31, 2013	December 31, 2012
The Republic of Azerbaijan	226,436	175,682
The Russian Federation	18,837	16,165
The Republic of Georgia	3,461	2,655
Total non-current assets per consolidated statement of financial position	**248,734**	**194,502**

Revenues for each individual country for which the revenues are material are reported separately as follows:

	Year ended December 31, 2013	Year ended December 31, 2012
The Republic of Azerbaijan	511,899	414,586
The Russian Federation	93,890	74,777
The Republic of Georgia	7,458	7,517
Total consolidated revenues	**613,247**	**496,880**

Provision for impairment of loans to customers for each individual country is reported separately as follows:

	Year ended December 31, 2013	Year ended December 31, 2012
The Republic of Azerbaijan	18,801	2,923
The Russian Federation	(36,537)	(14,809)
The Republic of Georgia	(102)	(3,052)
Total consolidated provision for impairment of loans to customers	**(17,838)**	**(14,938)**

The following is an analysis of the Group's revenue from continuing operations from its major products and services.

	Year ended December 31, 2013	Year ended December 31, 2012
Interest income on corporate loans	343,332	292,409
Interest income on retail loans	79,753	67,924
Fee and commission income from banking operations	101,036	90,420
Other revenue from banking operations	60,439	22,077
Income from insurance activities	14,203	13,716
Income from card processing activities	14,484	10,334
Total consolidated revenues	**613,247**	**496,880**

28. FINANCIAL RISK MANAGEMENT

The Group has exposure to financial risks which include credit, liquidity, market and operational risks. The taking of risk is integral to the Group's business. The Group's risk management function's aim is to achieve an appropriate balance between risk and return and to minimise potential adverse effects on the Group's financial performance.

The risk management framework
The risk management function is an integral part of the Group's internal control system and is centralised. The Group's risk management policies and approaches aim to identify, analyse, mitigate and manage the risks faced by the Group. This is accomplished through setting appropriate risk limits and controls, continuously monitoring risk levels and the adherence to limits and procedures and ensuring that business processes are correctly formulated and maintained.

Risk Management policies and procedures are reviewed regularly to reflect changes in market conditions, products and services offered. The Group, as part of its risk culture, emphasises integrity, management and employee standards in order to maintain and continuously improve upon a conservative control environment.

Risk management bodies and governance

Risk management policy, assessment, approval, monitoring and controls are conducted by a number of specialised bodies within the Group. These bodies also oversee the risk management policies and controls at the Group's subsidiaries. The Group has established executive bodies, committees and departments, which conform to Azerbaijani law, the CBAR regulations and the best industry practices.

The Supervisory Board of the Group has overall responsibility for the oversight of the risk management framework, overseeing the management of key risks and reviewing and approving risk management policies as well as several key risk limit approval authorities, including significantly large exposures, economic and product sector limits. It also delegates certain authority levels to the Executive Board and the Credit Committee.

Established by, appointed by and reporting directly to the Supervisory Board are the Executive Board, the Risk Management Department, the Audit Committee ("AC"), the Internal Audit Department, the Credit Committee and the Asset and Liability Committee ("ALCO") and Committee of Information Technology.

The Executive Board is responsible for the implementation and monitoring of risk mitigation measures and ensuring that the Group operates within the established risk parameters. The Member of the Executive Board responsible for risk management along with the Risk Management Department, which reports to this Director, are responsible for the overall risk management functions, ensuring the implementation of common principles and methods for identifying, measuring, mitigating, managing and reporting both financial and non-financial risks.

The Risk Management Department is chaired by the Chairman of the Executive Board responsible for risk management. This Committee is responsible for establishing risk management methodologies and ensuring that the risk appetite of the Group is correctly reflected in the strategic and business plans of the Group. It is the main forum for discussing and recommending changes in all risk approaches and procedures to the Executive and Supervisory Boards. It ensures that the Risk Management Department, the Credit Committee and ALCO, as well as the Executive Board, address all potential risks facing the Group prepared by the Management and reviewed by the Audit Committee and reports on these issues to the Supervisory Board.

ALCO is responsible for the management and optimisation of the Group's asset and liability structure. It is an integral part of the risk management process that focuses on various market risks, including liquidity, foreign currency and interest rate risks. ALCO's functions include making recommendations for approval of strategies, policies and limits associated with the aforementioned risks. It is responsible for providing timely and reliable information and reports regarding these risk areas. ALCO assists in setting pricing policies and funding strategies. It is also responsible, along with other risk management and controlling units of the Group, for ensuring that Treasury and other relevant units work with the parameters set by ALCO, the Risk Management Department, the Executive Board and the Supervisory Board.

The information Technology Committee is chaired by the First Deputy Chairman of the Executive Board and responsible for determination of strategy of use of IT and communication technologies. It ensures that structures of the Bank uses modern technologies for providing high level services to its clients. The Information Technology Committee defines IT procedures. All major IT issues are presented to the Supervisory Board for discussion with prior consent of the Executive Board.

The Audit Committee

The Audit Committee ("AC") is responsible for overseeing and monitoring the internal control framework of the Group and for assessing the adequacy of risk management policies and procedures, as an integral part of the internal control system of the Group. The AC members cannot be employees or part of the management structure of the Group. They provide recommendations to the Executive Board, the Risk Management Department and the Supervisory Board on development of the framework, as well as their views on, the quality of risk management and compliance with established policies, procedures and limits. The AC supervises the work of the Internal Audit, which reports directly to the AC. The Internal Audit's working plans, schedule of audits and its reports, including non-planned audits, are closely reviewed and approved by the AC. Implementation plans based on the AC's recommendations, including status reports, are approved by the Executive Board and reported to the Executive Board, the Supervisory Board and the General Meeting of the Shareholders.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty fails to meet its contractual obligations when due. The major portion of credit risk arises from the Groups' loans and advances to customers and banks and other on and off balance sheet credit exposures. For risk reporting purposes, the Group considers and consolidates all elements of credit risk exposures such as individual customer and counterparty default risk and industry risk.

The general credit risk approval structure, for corporate legal entities, private individuals and financial organisations, is as follows:

Supervisory Board	The Supervisory Board reviews and approves limits above AZN 1.5 million and meets on a regular basis
Executive Board	The Executive Board reviews and approves limits above 1% of total regulatory capital up to a maximum limit of AZN 1.5 million and meets on a regular basis
Credit Committee	The Credit Committee reviews and approves limits up to 1% of total regulatory capital and meets on a regular basis

The Supervisory Board also approves general limits so as to control and manage risk diversification:

- Portfolio limits: Corporate loans, retail loans and interbank exposures as percentages of the total portfolio;
- Portfolio limits: Secured facilities and unsecured facilities as percentages of the total portfolios and as a percentage of the retail portfolio; and
- Economic sector and product exposures: as a percentage of the corporate and retail portfolios.

The Executive Board also approves limits and authority levels for exposures, as follows:

- By branch;
- By collateral type and loan to value ratios; and
- By individual authority.

As at December 31, 2013, the breakdown of the loan portfolio by economic and product sectors is provided in Note 6.

Credit risk management
Credit risk policy is developed by the Risk Management Department and Executive Board in line with the risk profile and strategic plans of the Group. It is approved by the Supervisory Board.

This policy establishes:

- Procedures for generating, analysing, reviewing and approving counterparty risk exposures;
- The methodology for the credit assessment of counterparties;
- The methodology for the credit rating of counterparties;
- The methodology for the evaluation and control of collateral;
- Credit documentation requirements;
- Loan administration procedures;
- Procedures for the ongoing monitoring of credit exposures; and
- Loan loss provisioning policy.

Loan/credit requests are originated and generated by client managers and credit inspectors. Credit applications within approved authority limits are approved by the branches or relevant business generating units. Then copies of these approved requests are submitted to the Risk Management Department for post-control, including being assigned a rating and input into a monitoring schedule. Risk exposure requests above these limits are sent to the Credit Committee. The Credit Committee performs a secondary analysis and issues a report, rating and opinion. If the credit request is below a certain authorised limit and receives a positive opinion from the Credit Committee, and is signed off by the appropriate individuals, then the request is considered approved. If the opinion of risk management is negative then the request is sent to the Credit Committee for adjudication. If approved and the transaction is in an amount higher than the competence of the Credit Committee then it is sent to the Executive Board for approval. Large transactions, as defined above, have to be submitted to the Supervisory Board for approval.

The Group uses a rating system based on an analysis of four basic criteria: creditworthiness, financial performance, credit history and other risks. The Group uses this system for decision-making purposes to lend to new borrowers. For the quality of its existing loan portfolio, the Group uses the classification as disclosed in Note 6 to these consolidated financial statements.

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

For certain retail loan products, a credit scoring system is used, plus the Group uses its internal database and that of the CBAR to identify potentially risky customers. Credit assessments are done on a portfolio basis concentrating on amount and term limits, approval procedures, target groups, types of product, default statistics, loan/value ratios (if applicable), and pricing.

The following table presents the maximum exposure to credit risk of balance sheet and off balance sheet financial assets. For financial assets in the balance sheet, the maximum exposure is equal to the carrying amount of those assets prior to any offset or collateral. The Group's maximum exposure to credit risk under contingent liabilities and commitments to extend credit, in the event of non-performance by the other party where all counterclaims, collateral or security prove valueless, is represented by the contractual amounts of those instruments.

	Maximum exposure	Offset	Net exposure after offset	Collateral pledged	Net exposure
December 31, 2013					
Cash and cash equivalents	423,085	-	423,085	-	423,085
Mandatory cash balances with the National/Central banks	15,555	-	15,555	-	15,555
Due from other banks	282,266	-	282,266	-	282,266
Loans and advances to customers	6,617,667	(235,582)	6,382,085	(3,728,799)	2,653,286
Financial assets at fair value through profit or loss	22,588	-	22,588	-	22,588
Other debt securities	22,822	-	22,822	-	22,822
Investments available for sale	10,338	-	10,338	-	10,338
Other financial and insurance assets	14,955	-	14,955	-	14,955
Guarantees issued	1,168,409	-	1,168,409	-	1,168,409
Import letters of credit	671,322	(152,821)	518,501	-	518,501
Commitments to extend credit and undrawn credit lines	159,488	-	159,488	-	159,488
December 31, 2012					
Cash and cash equivalents	489,142	-	489,142	-	489,142
Mandatory cash balances with the National/Central banks	14,665	-	14,665	-	14,665
Due from other banks	138,048	-	138,048	-	138,048
Loans and advances to customers	5,255,151	(116,011)	5,139,140	(2,108,336)	3,030,804
Financial assets at fair value through profit or loss	10,264	-	10,264	-	10,264
Other debt securities	20,220	-	20,220	-	20,220
Investments available for sale	6,300	-	6,300	-	6,300
Other financial and insurance assets	10,125	-	10,125	-	10,125
Guarantees issued	743,453	-	743,453	-	743,453
Import letters of credit	332,783	(202,620)	130,163	-	130,163
Commitments to extend credit and undrawn credit lines	172,383	-	172,383	-	172,383

Collateral and other credit enhancements

Exposure to credit risk is also assessed and managed, in part, by obtaining, controlling and monitoring collateral in the form of mortgage interests over property, pledge of assets and securities and other collateral including deposits, corporate and personal guarantees.

While collateral is an important mitigating factor in assessing the credit risk, it is the Group's policy to establish that loans are within the customer's capacity to repay rather than to rely solely on security. Collateral is considered as a secondary source of repayment. In limited cases, depending on the customer's standing or on the type of product or amounts, the facilities may be unsecured. The Group has in place various limits on the unsecured portions of its risk portfolio.

The principal types of collateral accepted by the Group are as follows:

- Real estate
- State guarantees
- Corporate guarantees
- Cash deposits
- Movable property and equipment
- Other including precious metals

Strict appraisal, documentation and, where applicable, registration procedures are in place for all forms of collaterals. Loan to value ratios are approved by the Executive Board and controlled by the Risk Management Department. The loan to value limits as of December 31, 2013 are as follows:

Type of collateral	**Ratio of loan amount to liquid value of collateral**
Real estate	up to 60%
Precious metals	up to 80%
Machinery, equipment	up to 50%
Inventory	up to 60%
Vehicles, transport	up to 70%
Term deposit	up to 90%

However, management notes that the above limits may at certain times be overridden based on commercial considerations.

The Risk Management Department is responsible for establishing a schedule of monitoring events, fulfilling this plan and notifying the appropriate parties if the monitoring results are unsatisfactory and recommending a plan of action. The Risk Management Department physically monitors all transactions above an established amount plus does selected checks of transactions below this amount. All transactions above a certain amount are first monitored either before or at least within one month of disbursement. Following this, risk exposures are monitored according to a schedule.

The Risk Management Department is charged with compiling and reporting on all counterparty credit risk issues, including compliance with all limits, risk concentrations, portfolio trends, past due and default statistics, loan loss reserves and collateral statistics. Besides regular monthly reporting, they also compile reports on adherence to selected credit procedures.

Related party lending
The CBAR has strict definitions regarding the category of "related parties". Mainly, these are corporate entities owned/controlled by the Shareholders or the private individual shareholders themselves or immediate family members. Also included are individuals with senior management/authority positions in the Group. The largest loan per related party private individual may not be more than 3% of the consolidated capital of the Group. Per related corporate entity, the limit is 10%. The overall limit for related party risk exposure is 20%. Pricing and other terms and conditions must be done on an arms-length basis. The Bank may at times be in breach of certain statutory covenants set out by the CBAR on related party balances. For information on potential consequences of those breaches refer to Note 30.

Past due, non-performing loans
The Group has in place procedures for reporting and dealing with past-due and non-performing loans from the first day past-due. Up to 60-day past-dues are all handled by the relevant business units unless obvious problems are identified earlier. Unsecured retail loans over 60-days past-due are automatically transferred to the Problematic Loans Department. Corporate loans over 90-days past-due are also transferred to this department. All loans are placed on non-accrual after 90 days past due for the purposes of the statutory financial statements as per requirement by the Central Bank. If the Problematic Loans Department is unsuccessful in collecting these obligations, then legal proceedings are instituted. When a loan is deemed uncollectible, recommendations to write-off these amounts are presented to the Credit Committee and the Executive Board. Final decisions regarding write-offs are taken by the Supervisory Board. All past-dues statistics are reported to the Credit Committee on at least a monthly basis. All corporate loan past-due issues are individually reported to the Credit Committee.

Provision for loan impairment – reserve policy
The Group establishes an allowance for loan losses that represents its estimate of losses incurred in its risk exposures.

The CBAR also has a reserving policy, which is a minimum standard for banks. The categories with reserve requirements are as follows:

Standard assets	2%
Controllable assets	10%
Unsatisfactory assets	30%
Assets-at-risk	60%
Hopeless assets	100%

These categories are strictly defined.

In its IFRS reporting, the Group utilises the methodology contained in IAS 39 – Financial Instruments: Recognition and Measurement.

Management of insurance risks

Insurance risk

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and, therefore, unpredictable for each individual insurance contract.

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Group faces under its insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of claims and benefits may be greater than estimated. Insured events are random and the actual number and amount of claims and benefits will vary from year to year from the level established using statistical techniques.

The Group manages its insurance risk by means of established internal procedures which include underwriting authority levels, pricing policy, approved reinsurers list and ongoing monitoring.

Estimation of insurance loss reserves

Loss provisions are calculated based on the Group's historical data. In calculating the estimated cost of unpaid claims (both reported and not), the Group's estimation techniques include a combination of loss ratio-based estimates (where the loss ratio is defined as the ratio between the ultimate cost of insurance claims and insurance premiums earned in a particular financial year in relation to such claims) and an estimate based upon actual claims experience using predetermined formulae where a greater weight is given to actual claims experience as time passes.

The initial loss ratio estimate is an important assumption in the estimation technique and is based on previous years' experience, adjusted for factors such as premium rate changes, anticipated market experience and historical claims inflation. The initial estimate of the loss ratios used for the current year (before reinsurance) are analysed by type of risk for current and prior year premiums earned.

Sources of uncertainty in the estimation of future claim payments

Claims on insurance contracts are payable on a claims-occurrence basis. The Group is liable for all insured events that occurred during the term of the contract. As a result, liability claims are settled within a short period of time, which historically has not exceeded 3 months from the end of the contract term. There are several variables that affect the amount and timing of cash flows from insurance contracts. These mainly relate to the inherent risks of the activities carried out by both corporate and individual contract holders and the risk management procedures they adopted. The compensation paid on insurance contracts in the Group's portfolio primarily consists of monetary awards granted for:

- medical insurance;
- physical damage to motor vehicles (for motor vehicle insurance covers); and
- financial loss, bodily injury and physical damage suffered by the third parties (caused by the vehicle owners).

Such awards are lump-sum payments that are calculated by the Group's in-house underwriters as the present value of the lost earnings and rehabilitation expenses that the injured party will incur as a result of the accident.

Reinsurance policy
An element of the Group's motor, property, third party liability, employer liability and cargo portfolios is reinsured with local and foreign insurance companies under reinsurance agreements that reduce the potential maximum exposure that the Group is subject to.

Diversification
Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected by a change in any subset of the portfolio. The Group has developed its insurance underwriting strategy to diversify the type of insurance risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome.

Market risk
The Group is exposed to market risks. Market risks arise from open positions in interest rates, currency and equity products, all of which are exposed to general and specific market movements. The Group manages market risk through policies of very limited exposures to these risks and periodic estimations of the Group's positions regarding these risks.

The Group does not have any trading positions in financial instruments. Its exposure to the securities market is the investment, from time to time, in the CBAR notes, Azerbaijan Ministry of Finance obligations and securities issued by other banks in order to help manage its consolidated liquidity position. The Group does not normally trade in the derivatives market, except for trading in currency forward agreements.

Currency risk
The Group is exposed to the effects of fluctuations in the prevailing local/foreign currency exchange rates on its consolidated financial position. Currency risk is the risk that movements in foreign exchange rates will affect the Group's income or the value of its portfolios of financial instruments.

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

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

The foreign exchange exposures are managed by the Chief Financial Officer and Central Treasury department. The reports on open currency positions prepared by the Treasury department are reviewed by ALCO.

The table below summarises the Group's consolidated exposure to foreign currency exchange rate risk at the end of the reporting period:

	December 31, 2013				**December 31, 2012**			
	Monetary financial and insurance assets	**Monetary financial and insurance liabilities**	**Foreign currency forward agreements**	**Net position**	**Monetary financial and insurance assets**	**Monetary financial and insurance liabilities**	**Foreign currency forward agreements**	**Net position**
AZN	3,506,278	2,233,784	-	1,272,494	2,313,380	1,681,234	-	632,146
USD	2,637,124	3,490,148	(124,707)	(728,317)	2,654,131	2,610,253	(98,325)	(54,447)
EUR	951,539	1,123,050	44,198	(215,709)	689,669	1,032,304	98,582	(244,053)
RR	255,264	206,328	-	48,936	219,139	170,133	-	49,006
Other	59,071	3,604	75,907	(20,440)	67,339	240,997	-	(173,658)
Total	**7,409,276**	**7,056,914**	**(4,602)**	**356,964**	**5,943,658**	**5,734,921**	**257**	**208,994**

In the above table, monetary financial and insurance assets and liabilities columns exclude the financial assets and liabilities arising from foreign currency forward agreements, which are disclosed in a separate column.

Foreign currency forward agreements in the amount of EUR receivables of AZN 44,198 thousand, GBP receivables of AZN 12,927 thousand, XAU receivables of AZN 62,980 thousand and USD payable of AZN 124,707 thousand resulted in net fair value gain on derivatives in the amount of AZN 4,602 thousand (EUR receivables of AZN 98,582 thousand and USD payable of AZN 98,325 thousand resulted in net fair value gain on derivatives in the amount of AZN 257 thousand). Refer to Note 11 and 17. All foreign currency forward agreements are short-term which mature in January 2013. The above analysis includes only monetary assets and liabilities. Investments in equities and non-monetary assets are not considered to give rise to any material currency risk.

The Group has extended loans and advances denominated in foreign currencies. Depending on the revenue stream and cost structure of the borrower, the possible appreciation of the currencies, in which loans and advances have been extended against the Azerbaijani Manat may, adversely affect the borrower's repayment ability and, therefore, increase the potential of future loan losses.

Currency risk sensitivity

The following table details the Group's sensitivity to a 10 % increase and decrease in the AZN against the relevant foreign currencies. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. The sensitivity analysis includes external loans as well as loans to foreign operations with the Group where the denomination of the loan is in a currency other than the functional currency of the lender or the borrower.

Effect on profit or loss and equity:

	USD impact		**EUR impact**		**RR impact**	
	2013	**2012**	**2013**	**2012**	**2013**	**2012**
Strengthening by 10%	(72,832)	(5,445)	(21,571)	(24,405)	4,894	4,901
Weakening by 10%	72,832	5,445	21,571	24,405	(4,894)	(4,901)

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

Interest rate risk

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

At present, the Group manages its interest rate risk by matching, where possible, its maturity and/or repricing positions. In addition, the Group's monthly interest margins are continually reviewed in order to reprice its assets when deemed appropriate. Operational procedures set the acceptable interest rate margin usually at a minimum 5%. ALCO, Chief Financial Officer and the Accounting and Budgeting Department constantly monitor the maintenance of this margin. ALCO is also responsible for preparing interest rate movement reports and forecasts. At present, through the Group's matching policies for expected repricing and relatively high interest rate margins achieved in the Group's markets, the Group does not more actively manage this risk.

ALCO, Chief Financial Officer and Accounting and Budgeting Department are responsible for managing interest rate risk, the Risk Management Department is responsible for controlling the risk and the Executive Board must approve all guidelines and asset/liability repricing reports.

The sensitivity analyses below have been determined based on the exposure to interest rates at the end of the reporting period. For floating rate liabilities, the analysis is prepared assuming the amount of the liability outstanding at the end of the reporting period was outstanding for the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's profit and equity for the year ended December 31, 2013 would decrease/increase by AZN 9,129 thousand and AZN 7,303 thousand, respectively (December 31, 2012: decrease/increase by AZN 6,560 thousand and AZN 5,248 thousand ,respectively). This is mainly attributable to the Group's exposure to interest rates on its variable rate borrowings.

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

	2013					2012				
	USD	AZN	Euro	RR	Other	USD	AZN	Euro	RR	Other
Assets										
Cash and cash equivalents	0.2	-	-	-	-	0.2	-	-	-	-
Due from resident banks	6.5	-	-	-	-	3.0	0.8	-	-	-
Due from non-resident banks	-	7.7	6.8	-	-	1.5	-	-	-	-
Loans and advances to customers – individuals	19.0	20.8	18.0	16.1	18.7	19.1	21.0	16.3	15.9	14.0
Loans and advances to customers – corporate	11.1	12.1	10.8	16.3	14.4	11.2	12.3	10.5	16.1	17.0
Financial assets at fair value through profit or loss	-	-	-	11.1	-	-	-	-	8.2	-
Other debt securities	-	12.5	-	-	-	-	12.5	-	-	-
Liabilities										
Customer accounts – individuals	9.8	10.5	7.1	3.9	5.9	11.5	10.9	8.2	5.4	5.9
Customer accounts – corporate	6.3	4.1	5.5	-	-	4.9	7.6	5.7	2.0	-
Due to other banks	4.7	5.0	4.7	-	-	5.1	1.5	5.0	-	-
Debt securities in issue	12.5	25.0	-	-	-	0.1	0.3	-	-	-
Other borrowed funds	4.8	1.0	2.5	-	-	4.5	1.0	2.9	-	-
Subordinated debt	6.2	6.0	-	-	-	6.0	6.0	-	-	-

The sign "-" in the table above means that the Group does not have the respective assets or liabilities in the corresponding currency.

Geographical risk concentrations

The geographical concentration of the Group's consolidated financial assets and liabilities as at December 31, 2013 is set out below:

	The Republic of Azerbaijan	OECD countries	Other non-OECD countries	Total
FINANCIAL ASSETS:				
Cash and cash equivalents	154,320	211,354	57,411	423,085
Mandatory cash balances with the National/Central banks	-	-	15,555	15,555
Due from other banks	59,919	216,920	5,427	282,266
Loans and advances to customers	6,044,203	121,138	452,326	6,617,667
Financial assets at fair value through profit or loss	-	-	22,588	22,588
Other debt securities	22,822	-	-	22,822
Available-for-sale investments	-	8,080	2,258	10,338
Other financial and insurance assets	11,502	-	3,453	14,955
TOTAL FINANCIAL ASSETS	**6,292,766**	**557,492**	**559,018**	**7,409,276**
FINANCIAL LIABILITIES:				
Due to other banks	450,354	346,037	996,974	1,793,365
Customer accounts	3,186,928	41,291	272,635	3,500,854
Debt securities in issue	9,388	-	75,738	85,126
Other borrowed funds	195,601	937,517	86,845	1,219,963
Other financial and insurance liabilities	40,068	-	1,119	41,187
Subordinated debt	350,000	64,023	-	414,023
TOTAL FINANCIAL LIABILITIES	**4,232,339**	**1,388,868**	**1,433,311**	**7,054,518**
NET POSITION	**2,060,427**	**(831,376)**	**(874,293)**	
CREDIT RELATED COMMITMENTS	**1,610,137**	**-**	**129,186**	

Assets, liabilities and credit related commitments have generally been based on the country, in which the counterparty is located. Balances with Azerbaijani counterparties actually outstanding to/from off-shore companies of these Azerbaijani counterparties are allocated to the caption "Azerbaijan". Cash on hand and premises and equipment have been allocated based on the country, in which they are physically held.

The geographical concentration of the Group's consolidated assets and liabilities as at December 31, 2012 is set out below:

	The Republic of Azerbaijan	OECD countries	Other non-OECD countries	Total
FINANCIAL ASSETS:				
Cash and cash equivalents	196,030	289,683	3,429	489,142
Mandatory cash balances with the National/Central banks	-	-	14,665	14,665
Due from other banks	6,882	113,466	17,700	138,048
Loans and advances to customers	4,687,588	105,159	462,404	5,255,151
Financial assets at fair value through profit or loss	-	-	10,264	10,264
Other debt securities	20,220	-	-	20,220
Available-for-sale investments	60	-	6,240	6,300
Other financial and insurance assets	7,123	3,002	-	10,125
TOTAL FINANCIAL ASSETS	**4,917,903**	**511,310**	**514,702**	**5,943,915**
FINANCIAL LIABILITIES:				
Due to other banks	228,585	153,131	818,089	1,199,805
Customer accounts	2,944,574	8,308	151,258	3,104,140
Debt securities in issue	7,192	-	2,297	9,489
Other borrowed funds	131,656	564,194	260,980	956,830
Other financial and insurance liabilities	71,502	1,320	2,264	75,086
Subordinated debt	250,000	139,571	-	389,571
TOTAL FINANCIAL LIABILITIES	**3,633,509**	**866,524**	**1,234,888**	**5,734,921**
NET POSITION	**1,284,394**	**(355,214)**	**(720,186)**	
CREDIT RELATED COMMITMENTS	**1,149,267**	**2,418**	**96,934**	

Other risk concentrations

As a part of its management of risk concentrations, management monitors concentrations of credit risk on the basis of the statutory limits set by the CBAR, as follows:

- The aggregate amount of loans, the fair value of the collateral of which is greater than the carrying amount of the loan, may not exceed 20% of the total statutory capital calculated in accordance with the CBAR's guidance;
- The aggregate amount of loans, the fair value of the collateral, calculated as per CBAR guidelines, of which is less than the carrying amount of the loan, may not exceed 7% of the total statutory capital calculated in accordance with the CBAR's guidance; and
- The ratio of the aggregate amount of significant loans (loans with a carrying amount of AZN 1 million and above) to the statutory capital calculated in accordance with the CBAR's guidance may not be higher than 8.

For IFRS reporting purposes, the Group, monitors concentrations of credit risk by obtaining reports listing exposures to borrowers with aggregated loan balances in excess of 10% of net assets. The Group discloses any such concentrations within the respective notes in its consolidated financial statements.

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in settling its financial obligations. It refers to the availability of sufficient funds to meet deposit withdrawals and other financial commitments associated with financial instruments and insurance obligations as they actually fall due. Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of financial institutions.

In order to manage liquidity risk, the Group performs daily monitoring of future expected cash flows on clients' and banking operations, which is part of the assets/liabilities management process. The Executive Board and Supervisory Board set limits on the minimum proportion of maturing funds available to meet deposit withdrawals and on the minimum level of interbank and other borrowing facilities that should be in place to cover withdrawals under both normal and stressed conditions. They also set parameters for the risk diversification of the liability base.

The CBAR has in place minimum levels of liquidity required. Loan agreements with international financial institutions also have minimum liquidity covenants in their agreements with the Group. As at December 31, 2013, management consider that the Group was in compliance with all these covenants, except for those disclosed in Note 29.

The Chief Financial Officer, Central Treasury and Accounting and Budgeting Departments are charged with the following responsibilities:

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

ALCO is responsible for ensuring that Chief Financial Officer and Central Treasury department properly manages the Group's consolidated liquidity position. Decisions on liquidity positions and management are made by the Executive Board.

The undiscounted maturity analysis of liabilities as at December 31, 2013 is as follows:

	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 12 months to 5 years	Over 5 years	Total
Liabilities						
Due to other banks	1,029,689	281,893	497,363	39,076	-	1,848,021
Customer accounts	1,843,636	290,499	910,939	608,384	33,189	3,686,647
Debt securities in issue	2,950	1,752	2,719	6,966	79,006	93,393
Other borrowed funds	56,529	114,650	146,364	870,399	301,096	1,489,038
Other financial and insurance liabilities	29,194	10,257	1,524	212	-	41,187
Subordinated debt	3,183	4,177	21,119	287,055	215,650	531,184
Commitments to extend credit and undrawn credit lines	151,624	2,582	2,583	2,699	-	159,488
Import letters of credit	87,619	57,021	271,686	286,675	253	703,254
Guarantees issued	207,094	144,266	289,482	613,980	91,736	1,346,558
Total potential future payments for financial obligations	**3,411,518**	**907,097**	**2,143,779**	**2,715,446**	**720,930**	**9,898,770**

The undiscounted maturity analysis of liabilities as at December 31, 2012 is as follows:

	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 12 months to 5 years	Over 5 years	Total
Liabilities						
Due to other banks	552,335	409,178	252,902	-	-	1,214,415
Customer accounts	1,722,642	294,401	693,287	1,001,643	16,268	3,728,241
Debt securities in issue	589	1,231	6,495	2,872	4,001	15,188
Other borrowed funds	89,079	152,319	424,558	285,073	90,090	1,041,119
Other financial and insurance liabilities	49,007	26,164	218	1,391	5,189	81,969
Subordinated debt	1,933	3,867	17,400	372,276	110,600	506,076
Commitments to extend credit and undrawn credit lines	143,690	3,698	9,796	15,199	-	172,383
Import letters of credit	60,260	47,150	203,855	21,518	-	332,783
Guarantees issued	61,415	88,641	212,739	255,246	125,412	743,453
Total potential future payments for financial obligations	**2,680,950**	**1,026,649**	**1,821,250**	**1,955,218**	**351,560**	**7,835,627**

The Group does not use the above undiscounted maturity analysis to manage liquidity. Instead, the Group monitors contractual maturities of carrying values of assets and liabilities.

The following two tables show carrying amounts of financial assets and financial liabilities of the Group grouped on the basis of the remaining period from the end of the reporting period to their contractual maturity date.

The analysis of carrying values of assets and liabilities by contractual maturities may be summarised as follows as at December 31, 2013:

	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	Over 12 months	Total
FINANCIAL ASSETS:					
Cash and cash equivalents	423,085	-	-	-	423,085
Mandatory cash balances with the National/Central banks	15,555	-	-	-	15,555
Due from other banks	131,487	110,479	(601)	40,901	282,266
Loans and advances to customers	671,652	709,586	966,851	4,269,578	6,617,667
Financial assets at fair value through profit or loss	22,588	-	-	-	22,588
Other debt securities	11	-	-	22,811	22,822
Available-for-sale investments	-	-	-	10,338	10,338
Other financial and insurance assets	13,038	1,909	8	-	14,955
TOTAL FINANCIAL ASSETS	**1,277,416**	**821,974**	**966,258**	**4,343,628**	**7,409,276**
FINANCIAL LIABILITIES:					
Due to other banks	436,492	918,629	399,722	38,521	1,793,364
Customer accounts	1,701,109	499,795	659,064	640,886	3,500,854
Debt securities in issue	2,950	3,189	179	78,808	85,126
Other borrowed funds	43,156	111,792	66,968	998,047	1,219,963
Other financial and insurance liabilities	29,829	10,257	889	212	41,187
Subordinated debt	-	2,317	-	411,706	414,023
TOTAL FINANCIAL LIABILITIES	**2,213,536**	**1,545,979**	**1,126,822**	**2,168,180**	**7,054,517**
NET LIQUIDITY GAP AS AT DECEMBER 31, 2013	**(936,120)**	**(724,005)**	**(160,564)**	**2,175,448**	
CUMULATIVE LIQUIDITY GAP AS AT DECEMBER 31, 2013	**(936,120)**	**(1,660,125)**	**(1,820,689)**	**354,759**	

The analysis of carrying values of assets and liabilities by contractual maturities may be summarised as follows as at December 31, 2012:

	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	Over 12 months	Total
FINANCIAL ASSETS:					
Cash and cash equivalents	489,142	-	-	-	489,142
Mandatory cash balances with the National/Central banks	14,665	-	-	-	14,665
Due from other banks	87,491	29,152	19,545	1,860	138,048
Loans and advances to customers	520,328	737,721	910,638	3,086,464	5,255,151
Financial assets at fair value through profit or loss	10,264	-	-	-	10,264
Other debt securities	-	-	20,220	-	20,220
Available-for-sale investments	5,925	-	-	375	6,300
Other financial and insurance assets	8,937	288	206	694	10,125
TOTAL FINANCIAL ASSETS	**1,136,752**	**767,161**	**950,609**	**3,089,393**	**5,943,915**
FINANCIAL LIABILITIES:					
Due to other banks	549,863	489,660	160,282	-	1,199,805
Customer accounts	1,136,073	403,513	558,003	1,006,551	3,104,140
Debt securities in issue	562	278	2,543	6,106	9,489
Other borrowed funds	83,442	169,486	375,014	328,888	956,830
Other financial and insurance liabilities	48,970	26,116	-	-	75,086
Subordinated debt	1,782	-	-	387,789	389,571
TOTAL FINANCIAL LIABILITIES	**1,820,692**	**1,089,053**	**1,095,842**	**1,729,334**	**5,734,921**
NET LIQUIDITY GAP AS AT DECEMBER 31, 2012	**(683,940)**	**(321,892)**	**(145,233)**	**1,360,059**	
CUMULATIVE LIQUIDITY GAP AS AT DECEMBER 31, 2012	**(683,940)**	**(1,005,832)**	**(1,151,065)**	**208,994**	

The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Group. 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 Group and its exposure to changes in interest and exchange rates.

Management believes that in spite of a substantial portion of customers accounts being on demand, diversification of these deposits by number and type of depositors, and the past experience of the Group would indicate that these customer accounts provide a long-term and stable source of funding for the Group. Customer accounts are classified in the above analysis based on contractual maturities. However, in accordance with the Civil Code of the Republic of Azerbaijan, individuals have a right to withdraw their deposits prior to maturity if they forfeit their right to a certain portion of accrued interest.

During January and February 2014 customer accounts and due to other banks amounting to AZN 217,581 thousand and included into "Up to 1 month" or "From 1 to 6 months" categories have been already prolonged for periods up to 12 months. Management is currently in the process of negotiating new matutities of borrowings and amounts due to banks with an extension of maturities in a three to five year window. In addition they are looking at other potential financing methods such as public issuances.

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

The contractual maturity dates are set out in Note 16 for the individual term borrowings and in Note 19 for the subordinated debt of the Group.

Other price risks

Equity price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices whether those changes are caused by factors specific to the individual security or its issuer or factors affecting all securities traded in the market.
The sensitivity analyses below have been determined based on the exposure to equity price risks at the end of the reporting period.
If equity prices had been 5% higher/lower:

- Net profit for the year ended December 31, 2013 and 2012 would increase/decrease by AZN 315 427 thousand as a result of the changes in fair value of available-for-sale investments; and
- Other equity reserves would increase/decrease by AZN 517 thousand and by AZN 315 thousand as at December 31, 2013 and 2012, respectively, as a result of the changes in fair value of available-for-sale investments.

The Group's sensitivity to equity prices has not changed significantly from the prior year.

Operational risk

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

29. MANAGEMENT OF CAPITAL

The objectives of management when managing the Group's capital are (i) to comply with the capital requirements set by the CBAR, (ii) to safeguard the Group's ability to continue as a going concern and (iii) to maintain a sufficient capital base to achieve a capital adequacy ratio based on Basel I of at least 6%. Compliance with capital adequacy ratios set by the CBAR is monitored monthly with reports outlining their calculation reviewed and signed by the Head of Audit Committee, First Deputy of Chairman of the Board, Chief Financial Officer, Internal Audit Department and Accounting and Budgeting Department. The other objectives of capital management are evaluated on an ongoing basis.

Under the current capital requirements set by the CBAR banks have to: (a) hold the minimum level of total statutory capital of AZN 10,000 thousand (December 31, 2012: 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% (December 31, 2012: 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% (December 31, 2012: 6%).

Under the current capital requirements set by the CBRF, banks have to (i) comply with the capital requirements set by the Central Bank of the Russian Federation, (ii) safeguard the Bank's ability to continue as a going concern and (iii) maintain a sufficient capital base to achieve a capital adequacy ratios of total (8%) and Tier 1 capital (4%) to risk weighted assets.

As at December 31, 2013, the Bank has complied with all capital requirements imposed by CBAR. (The Bank was not in compliance with these requirements at December 31, 2012).

The Group and the Bank are also subject to requirements established by covenants stated in loan agreements, including capital adequacy levels calculated in accordance with the requirements of the Basel Accord, as defined in the International Convergence of Capital Measurement and Capital Standards (updated April 1998). The composition of the Group's capital calculated in accordance with Basel I, based on the consolidated financial statements of the Group, is as follows:

	December 31, 2013	December 31, 2012
Tier 1 capital		
Share capital	475,038	330,834
Retained earnings	75,810	58,503
Non-controlling interest	2,821	2,326
Less: Intangible assets	(7,548)	(5,295)
Total qualifying Tier 1 capital	**546,121**	**386,368**
Tier 2 capital		
Reserves (1.25% of total risk-weighted assets)	94,666	71,440
Revaluation reserve for premises	43,503	28,244
Subordinated debt	272,767	193,184
Total qualifying Tier 2 capital limited to 100% of Tier 1 capital	**410,936**	**292,868**
Less: Investments in equity shares	(489)	(575)
Total regulatory capital	**956,568**	**678,661**
Risk-weighted assets:		
On-balance sheet	6,631,360	5,257,262
Off-balance sheet	945,505	457,918
Total risk-weighted assets	**7,576,865**	**5,715,180**
Capital Ratios:		
Tier 1 capital	7.21%	6.76%
Total capital	12.62%	11.87%

As an integral part of the Bank's capital management procedures the Chief Financial Officer performs regular monitoring of compliance with the externally imposed capital requirements and the monitoring reports are reviewed and approved by Head of Audit Committee, Chairman of the Board of Directors and the Head of Internal Audit Department. As at December 31, 2013 the Group and Bank have complied with all externally imposed capital requirements.

30. CONTINGENCIES AND COMMITMENTS

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

Taxation – Commercial legislation of the Republic of Azerbaijan, including tax legislation, may allow more than one interpretation. In addition, there is a risk of tax authorities making arbitrary judgments of business activities. If a particular treatment, based on management's judgment of the Group's business activities, was to be challenged by the tax authorities, the Group may be assessed additional taxes, penalties and interest.

Such uncertainty may relate to the valuation of financial instruments, valuation of provision for impairment losses and the market pricing of deals. Additionally such uncertainty may relate to the valuation of temporary differences on the provision and recovery of the provision for impairment losses on loans to customers and receivables, as an underestimation of the taxable profit. The management of the Bank believes that it has accrued all tax amounts due and therefore no allowance has been made in the consolidated financial statements.

Generally, taxpayers are subject to tax audits with respect to three calendar years preceding the year of the audit. However, completed audits do not exclude the possibility of subsequent additional tax audits performed by upper-level tax inspectorates reviewing the results of tax audits of their subordinate tax inspectorates. In the case of criminal investigation statute of limitation may be extended up to seven years based on the court decision.

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

Because Azerbaijan produces and exports large volumes of oil and gas, its economy is particularly sensitive to the price of oil and gas on the world market.

In March 2014, sanctions have been imposed by the U.S. and E.U. on certain Russian officials, businessmen and companies. These official actions, particularly if further extended, may result in reduced access of the Russian businesses to international capital and export markets, capital flight, weakening of the Ruble and other negative economic consequences. The impact of these developments on future operations and financial position of the Group is at this stage difficult to determine.

Compliance with covenants – The Bank is obligated to comply with certain financial covenants in relation to borrowed funds. These covenants include stipulated ratios, debt to equity ratios and various other financial performance ratios. The Bank has not breached any of these covenants as at December 31, 2013.

As at December 31, 2013, the Group and the Bank has complied with all externally imposed capital requirements as per Basel I and CBAR statutory capital. (As at December 31, 2012 the Group and the Bank has complied with all externally imposed capital requirements as per Basel I and CBAR statutory capital).

The Bank did not achieve full compliance with certain statutory ratios neither as at December 31, 2013 nor as at December 31, 2012. As a result of this non-compliance the Bank provided to CBAR an action plan on how these breaches are going to be rectified. The plan contains a complete list of measures that would rectify current breaches and will bring IBAR into full compliance with all CBAR statutory requirements by December 31, 2015."

Credit related commitments – The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods, to which they relate, or cash deposits and, therefore, carry less risk than a direct borrowing.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group monitors the term to maturity of credit related commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments. Outstanding credit related commitments are, as follows:

	December 31, 2013	**December 31, 2012**
Guarantees issued	1,168,409	743,453
Import letters of credit	400,046	332,783
Commitments to extend credit and undrawn credit lines	159,488	172,383
Total credit related commitments	**1,727,943**	**1,248,619**

The total outstanding contractual amount of undrawn credit lines, letters of credit, and guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded. Credit related commitments are denominated in currencies as follows:

	December 31, 2013	**December 31, 2012**
Azerbaijani Manats	338,017	178,862
US Dollars	824,364	694,783
Euro	510,375	330,956
Other	55,187	44,018
Total	**1,727,943**	**1,248,619**

As at December 31, 2013, the Group had a significant concentration of import letters of credit of AZN 589,933 thousand issued to 20 entities or 93.7% of total import letters of credit (December 31, 2012: import letters of credit of AZN 305,538 thousand issued to 20 entities or 91.8% of total import letters of credit). As at December 31, 2013, the Group also had a significant concentration of guarantees of AZN 1,101,350 thousand issued to 20 entities or 94.0% of total guarantees issued (December 31, 2012: guarantees of AZN 643,619 thousand issued to 20 entities or 86.5% of total guarantees issued).

As at December 31, 2013, credit related commitments of AZN 159,488 thousand (December 31, 2012: AZN 202,620 thousand) are secured by blocked customer deposits. Refer to Note 15.

Intermediary loans – As at December 31, 2013, the Group had borrowed funds amounting to AZN 744,698 thousand (December 31, 2012: AZN 744,698 thousand) on behalf of the Government of the Republic of Azerbaijan from certain financial institutions and state organizations for the purposes of providing intermediary loans to state-owned enterprises and government bodies of the Republic of Azerbaijan. The loan agreements signed between the Group and these financial institutions and state organizations are secured by unconditional letters of guarantee of the Government of the Republic of Azerbaijan, whereby the Government acts as the primary obligor in relation to these borrowings or secured by customer deposits of the borrowing state organization. As a result, the Group acts as a loan-servicing agent for the Government of the Republic of Azerbaijan by transferring collected principal and interest payments to financial institutions and state organizations and earns commission income on servicing these intermediary loans.

As the Group does not receive any interest margin and does not bear the risks for these intermediary loans, the Group has recorded these intermediary loans on off-balance sheet accounts. Similarly funds received by the Group to finance these intermediary loans in the corresponding amounts have also been recorded on off balance sheet accounts.

Funds borrowed by the Group for the purposes of providing intermediary loans are as follows:

	December 31, 2013	December 31, 2012
Funds borrowed from CBAR and given to two state organizations	744,698	744,698
Total funds borrowed for the purposes of providing intermediary loans and transferred to off-balance sheet accounts	**744,698**	**744,698**

31. FAIR VALUE OF FINANCIAL INSTRUMENTS

IFRS defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used).

Financial assets/ financial liabilities	Fair value as at		Fair value hierar-chy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
	December 31, 2013	**December 31, 2012**				
1) Non-derivative financial assets at fair value through profit or loss (see Note 7)	22,588	10,264	Level 1	Quoted bid prices in an active market.	N/A	N/A
2) Available-for-sale investments (see Note 9)	10,338	6,300	Level 1	Quoted bid prices in an active market.	N/A	N/A
3) Currency forward agreements	(4,602)	257	Level 2	Discounted cash flows. Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contract forward rates, discounted at a rate that reflects the credit risk of various counterparties.	N/A	N/A

There were no transfers between Level 1 and 2 in the period.

Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis (but fair value disclosures are required)

Except as detailed in the following table, the directors consider that the carrying amounts of financial assets and financial liabilities recognised in the consolidated financial statements approximate their fair values.

		December 31, 2013		December 31, 2012
	Carrying value	Fair value	Carrying value	Fair value
Cash and cash equivalents	423,085	423,085	489,142	489,142
Mandatory cash balances with the National/Central banks	15,555	15,555	14,665	14,665
Due from other banks	282,266	282,266	138,048	138,048
Loans and advances to customers	6,617,667	6,617,667	5,255,151	5,255,151
Other debt securities	22,822	22,822	20,220	20,220
Other financial and insurance assets	14,955	14,955	10,125	10,125
Due to other banks	1,793,365	1,793,365	1,199,805	1,199,805
Customer accounts	3,500,854	3,500,854	3,104,140	3,104,140
Debt securities in issue	85,126	85,126	9,489	9,489
Other borrowed funds	1,219,963	1,219,963	956,830	956,830
Other financial and insurance liabilities	48,737	48,737	82,408	82,408
Subordinated debt	414,023	414,023	389,571	389,571

				December 31, 2013
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	-	423,085	-	423,085
Mandatory cash balances with the National/Central banks	-	15,555	-	15,555
Due from other banks	-	282,266	-	282,266
Loans and advances to customers	-	6,617,667	-	6,617,667
Other debt securities	-	22,822	-	22,822
Other financial and insurance assets	-	14,955	-	14,955
Due to other banks	-	1,793,365	-	1,793,365
Customer accounts	-	3,500,854	-	3,500,854
Debt securities in issue	-	85,126	-	85,126
Other borrowed funds	-	1,219,963	-	1,219,963
Other financial and insurance liabilities	-	48,737	-	48,737
Subordinated debt	-	414,023	-	414,023

The fair values of the financial assets and financial liabilities included in the level 2 and level 3 categories above have been determined in accordance with generally accepted pricing models based on a discounted cash flow analysis, with the most significant inputs being the discount rate that reflects the credit risk of counterparties.

32. RELATED PARTY TRANSACTIONS

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

As at December 31, 2013, the outstanding balances with shareholders are substantially all with the Parent.

	Shareholders	Management	Government bodies and state-owned entities	Associates
Cash and cash equivalents	-	-	41,782	-
Gross amount of loans and advances to customers (contractual interest rate: 1 - 25% p.a.)	22,944	518	205,967	22,713
Provisions for loan impairment	(317)	(56)	(24,125)	(73)
Investment in associates	-	-	-	489
Due to other banks				
Correspondent accounts of other banks	-	-	222,306	-
Customer accounts				
Current/settlement accounts	-	57	458,125	2,000
Term deposits (contractual interest rate: 0.18 - 9% p.a.)	-	20	377,324	1,914
Subordinated debt	-	-	350,117	-

The income and expense items with related parties for the year 2013 were as follows:

	Shareholders	Management	Government bodies and state-owned entities	Associates
Interest income	73	-	53,197	2,281
Interest expense	-	-	(402)	-
Provision for impairment of loans to customers	623	(37)	45,463	7,345
Fee and commission income	6	-	44,364	36
Staff costs	-	(656)	-	-
Operating expenses	-	-	(477)	-
Share of loss of associates	-	-	-	(86)

As at December 31, 2013, other rights and obligations with related were as follows:

	Government bodies and state-owned entities
Guarantees issued	335,207
Import letters of credit	906
Commitments to extend credit and undrawn credit lines	-

As at December 31, 2012, the outstanding balances with shareholders are substantially all with the Parent.

	Shareholders	Management	Government bodies and state-owned entities	Associates
Cash and cash equivalents	-	-	52,563	-
Mandatory cash balances with the CBAR	-	-	14,665	-
Gross amount of loans and advances to customers (contractual interest rate: 1 - 25% p.a.)	23,001	332	284,674	24,466
Provisions for loan impairment	(940)	(19)	(69,588)	(7,418)
Investment in associates	-	-	-	575
Due to other banks				
Correspondent accounts of other banks	-	-	492,506	-
Customer accounts				
Current/settlement accounts	-	-	364,876	-
Term deposits (contractual interest rate: 0.18 - 9% p.a.)	-	67	62,803	-
Subordinated debt	-	-	250,000	-

The income and expense items with related parties for the year 2012 were as follows:

	Shareholders	Management	Government bodies and state-owned entities	Associates
Interest income	1,466	-	19,382	1,652
Interest expense	-	-	(312)	-
Provision for impairment of loans to customers	(459)	(14)	8,761	(2,091)
Fee and commission income	13	-	14,524	624
Insurance related commission expense	-	-	(9)	-
Staff costs	-	(632)	-	-
Operating expenses	-	-	(114)	-
Share of loss of associates	-	-	-	(74)

As at December 31, 2012, other rights and obligations with related parties were as follows:

	Government bodies and state-owned entities
Guarantees issued	95,556
Import letters of credit	613
Commitments to extend credit and undrawn credit lines	18,864

The Group is controlled by the Government of the Republic of Azerbaijan. Therefore, in accordance with IAS 24 transactions with the Government, the Ministry of Finance of the Republic of Azerbaijan and state-owned companies of the Republic of Azerbaijan are included in the above related party balances and transactions.

During the year ended December 31, 2013, the total remuneration of members of the Board of Directors and key management personnel of the Group including discretionary compensation amounted to AZN 656 thousand (2012: AZN 632 thousand) and comprised of:

	Year ended December 31, 2013	Year ended December 31, 2012
Short-term benefits:		
- salaries	463	432
- performance bonuses	193	200
Total	**656**	**632**