

1. LOANS AND ADVANCES TO CUSTOMERS

	December 31, 2015	December 31, 2014
Corporate loans	5,287,915	7,650,654
State and public organisations	47	419
Loans to individuals – consumer loans	686,600	520,557
Loans to individuals – mortgage loans	395,307	263,064
Loans to individuals – purchase of motor vehicles	60,262	61,601
Loans to individuals – employees	13,107	94,104
Loans to individuals – other purposes	114,138	114,396
	<u>6.557.376</u>	<u>8.704.795</u>
Less: provision for loan impairment	<u>(921,793)</u>	<u>(849,804)</u>
Total loans and advances to customers	<u>5,635,583</u>	<u>7,854,991</u>

Movements in the provision for loan impairment during 2015 are as follows:

	Provision for loan impairment as at January 1, 2015	Increase in/ (recovery of) provision for impairment during the year	On disposal to Aqrarkredit	Effect of foreign currency exchange recognized	Provision for loan impairment as at December 31, 2015
Corporate loans	762,224	840,123	(774,879)	(75,900)	751,568
State and public organisations	111	(99)	-	-	12
Loans to individuals – consumer loans	62,382	85,229	(9,138)	(15,955)	122,518
Loans to individuals – mortgage loans	4,208	5,296	-	(90)	9,414
Loans to individuals – employees	6,434	(2,307)	-	(149)	3,978
Loans to individuals – purchase of motor vehicles	689	8,284	-	(9)	8,964
Loans to individuals – other purposes	13,756	11,993	-	(410)	25,339
Total	<u>849,804</u>	<u>948,519</u>	<u>(784,017)</u>	<u>(92,513)</u>	<u>921,793</u>

Movements in the provision for loan impairment during 2014 are as follows:

	Provision for loan impairment as at 1 January, 2014	Increase in/ (recovery of) provision for impairment during the year	Effect of foreign currency exchange recognized	Provision for loan impairment as at December 31, 2014
Corporate loans	619,694	196,654	(54,124)	762,224
State and public organisations	207	(78)	(18)	111
Loans to individuals – consumer loans	69,275	(842)	(6,051)	62,382
Loans to individuals – mortgage loans	4,364	225	(381)	4,208
Loans to individuals – employees	2,756	3,919	(241)	6,434
Loans to individuals – purchase of motor vehicles	378	344	(33)	689
Loans to individuals – other purposes	16,991	(1,751)	(1,484)	13,756
Total	<u>713,665</u>	<u>198,471</u>	<u>(62,332)</u>	<u>849,804</u>

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

	December 31, 2015		December 31, 2014	
	Amount	%	Amount	%
Construction and real estate development	2,012,175	30.7	3,391,931	39.0
Trade and service	1,549,585	23.6	1,932,875	22.2
Individuals	1,269,414	19.4	1,053,722	12.1
Manufacturing	946,525	14.4	1,849,879	21.3
Railroad and other transportation	499,630	7.6	243,018	2.8

Oil and gas sector, power production and distribution	99,388	1.5	84,427	1.0
Air transportation	62,952	1.0	59,254	0.7
Leasing companies	20,008	0.3	18,074	0.2
Communication	16,725	0.3	14,885	0.2
State and public organisations*	47	0.0	419	-
Other	80,927	1.2	56,311	0.5
Total loans and advances to customers (before impairment)	6,557,376	100.0	8,704,795	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, 2015, are the loans granted to thirty companies amounting to AZN 3,968,214 thousand (December 31, 2014: to thirty companies amounting to AZN 3,527,364 thousand) and representing a concentration of 61% (December 31, 2014: 40.5%) of the total loan portfolio of the Group.

As at December 31, 2015 and 2014 the Group granted loans to 13 and 17 customers/group of related customers, totaling AZN 3,175,510 thousand and AZN 2,755,941 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, 2015, are the loans granted to government institutions and state enterprises of the Republic of Azerbaijan amounting to AZN 437,553 thousand (December 31, 2014: AZN 246,859 thousand) and representing 6.1% (December 31, 2014: 2.8%) of the total loan portfolio of the Group.

Included in the gross amount of total loans and advances to customers as at December 31, 2015, are loans granted to 32 borrowers amounting to AZN 633,449 thousand (December 31, 2014: 15 borrowers, AZN 272,267 thousand) with interest rates being less than or equal to 5% (December 31, 2014: less than or equal to 5%) and representing 9.6% (December 31, 2014: 2.2%) 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, 2015 are outstanding balances drawn on credit cards of AZN 176,151 thousand (December 31, 2014: AZN 128,070 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, 2015 is as follows:

	Corporate loans	State and public organisations	Loans to individuals - consumer loans	Loans to individuals - mortgage loans	Loans to individuals – employees	Loans to individuals - purchase of motor vehicles	Loans to individuals - other purposes	Total
Unsecured loans	1,498,754	47	293,884	35,984	8,129	1,717	68,897	1,907,412
Loans collateralised by:								
- real estate	1,404,188	-	39,833	76,053	2,218	6	40,072	1,562,370
- corporate guarantee	1,428,205	-	230,665	282,366	373	-	63	1,941,672
- cash deposits	35,209	-	93,222	862	60	8	2,255	131,616
- movable property and equipment	871,379	-	664	-	62	58,487	2,197	932,789
- other	50,180	-	28,332	42	2,265	44	654	81,517
Total loans and advances to customers	5,287,915	47	686,600	395,307	13,107	60,262	114,138	6,557,376

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, 2014 is as follows:

	Corporate loans	State and public organisations	Loans to individuals - consumer loans	Loans to individuals - mortgage loans	Loans to individuals – employees	Loans to individuals - purchase of motor vehicles	Loans to individuals - other purposes	Total
Unsecured loans	795,982	380	214,344	52,657	7,707	1,050	24,470	1,096,590
Loans collateralised by:								
- real estate	3,451,341	-	45,458	74,666	1,335	10	46,272	3,619,082
- corporate guarantee	1,052,218	-	169,275	134,616	1,238	-	25	1,357,372
- cash deposits	122,459	-	54,166	1,104	2,137	9	4,910	184,785
- movable property and equipment	2,117,861	-	2,707	-	55	60,506	2,958	2,184,087
- other	110,793	39	34,607	21	81,632	26	35,761	262,879
Total loans and advances to customers	7,650,654	419	520,557	263,064	94,104	61,601	114,396	8,704,795

The analysis by credit quality of loans outstanding as at December 31, 2015 is as follows:

	Corporate loans	State and public organisations	Loans to individuals - consumer loans	Loans to individuals - mortgage loans	Loans to individuals – employees	Loans to individuals - purchase of motor vehicles	Loans to individuals - other purposes	Total
<i>Current and not impaired</i>								
Secured loans	2,465,173	-	513,255	357,871	4,696	35,081	18,426	3,394,502
Unsecured loans	1,200,022	-	105,343	35,890	6,636	-	9,103	1,356,994
Loans renegotiated in 2015	501,532	-	-	-	-	-	-	501,532
Total current and not impaired	4,166,727	-	618,598	393,761	11,332	35,081	27,529	5,253,028
<i>Past due but not impaired</i>								
- up to 90 days overdue	209,524	-	11,271	47	3	1,349	53	222,247
- 90 to 180 days overdue	56,769	-	3,293	-	14	2,073	70	62,219
- 180 to 360 days overdue	51,311	-	4,139	-	11	3,029	109	58,599
- over 360 days overdue	256,706	46	32,189	1,499	366	14,934	20,488	326,228
Total past due but not impaired	574,310	46	50,892	1,546	394	21,385	20,720	669,293
<i>Impaired loans</i>								
- up to 90 days overdue	522,102	-	12,589	-	104	793	58,670	594,258
- 90 to 180 days overdue	3,903	-	44	-	51	253	-	4,251
- 180 to 360 days overdue	1,600	-	120	-	-	587	-	2,307
- over 360 days overdue	19,273	1	4,357	-	1,226	2,163	7,219	34,239
Loans renegotiated in 2015	-	-	-	-	-	-	-	-
Total impaired loans	546,878	1	17,110	-	1,381	3,796	65,889	635,055
Total loans to customers (before impairment)	5,287,915	47	686,600	395,307	13,107	60,262	114,138	6,557,376
Less: provision for loan impairment	(751,568)	(12)	(122,518)	(9,414)	(3,978)	(8,964)	(25,339)	(921,793)
Total loans and advances to customers	4,536,347	35	564,082	385,893	9,129	51,298	88,799	5,635,583

The analysis by credit quality of loans outstanding as at December 31, 2014 is as follows:

	Corporate loans	State and public organisations	Loans to individuals - consumer loans	Loans to individuals - mortgage loans	Loans to individuals – employees	Loans to individuals - purchase of motor vehicles	Loans to individuals - other purposes	Total
<i>Current and not impaired</i>								
Secured loans	5,521,162	38	266,367	208,776	61,804	49,280	52,754	6,160,181
Unsecured loans	586,464	273	186,692	52,526	4,515	145	10,554	841,169
Loans renegotiated in 2014	526,559	-	26,725	152	21,419	243	1,363	576,461
Total current and not impaired	6,634,185	311	479,784	261,454	87,738	49,668	64,671	7,577,811
<i>Past due but not impaired</i>								
- up to 90 days overdue	121,254	1	6,284	49	7	1,082	46	128,723
- 90 to 180 days overdue	82,377	2	859	26	-	1,179	104	84,547
- 180 to 360 days overdue	81,812	-	3,518	-	382	3,139	129	88,980
- over 360 days overdue	374,276	105	29,603	1,460	3,491	6,533	31,505	446,973
Total past due but not impaired	659,719	108	40,264	1,535	3,880	11,933	31,784	749,223
<i>Impaired loans</i>								
- up to 90 days overdue	353,453	-	-	75	2,477	-	8,397	364,402
- 90 to 180 days overdue	43	-	-	-	9	-	10	62
- 180 to 360 days overdue	642	-	2	-	-	-	2	646
- over 360 days overdue	2,612	-	507	-	-	-	9,484	12,603
Loans renegotiated in 2014	-	-	-	-	-	-	48	48
Total impaired loans	356,750	-	509	75	2,486	-	17,941	377,761
Total loans to customers (before impairment)	7,650,654	419	520,557	263,064	94,104	61,601	114,396	8,704,795
Less: provision for loan impairment	(762,224)	(111)	(62,382)	(4,208)	(6,434)	(689)	(13,756)	(849,804)
Total loans and advances to customers	6,888,430	308	458,175	258,856	87,670	60,912	100,640	7,854,991

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 the 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 when determining 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, 2015, total estimated value of collaterals pledged by borrowers was AZN 2,209,233 thousand (December 31, 2014: AZN 3,801,911 thousand).

	December 31, 2015	December 31, 2014
<i>Fair value of collateral for past due but not impaired loans</i>		
- real estate	1,434,935	1,511,135
- movable property	443,895	2,002,250
- securities	8,785	36,591
- other assets	15,223	133,264
<i>Fair value of collateral for impaired loans</i>		
- movable property	303,539	-
- real estate	2,856	118,671
Total	2,209,233	3,801,911

The carrying value of each class of loans and advances to customers approximates fair value as at December 31, 2015 and 2014. As at December 31, 2015, the estimated fair value of loans and advances to customers was AZN 5,633,400 thousand (December 31, 2014: AZN 7,851,240 thousand). Refer to Note 33.

Geographical, currency, liquidity and interest rate analyses analysis of loans and advances to customers is disclosed in Note 30. The information on related party balances is disclosed in Note 34.

During the years ended December 31, 2015 and 2014 the Group received non-financial assets by taking possession of collateral it held as security. As at December 31, 2015 and 2014 such assets in amount of AZN 17,322 thousand and AZN 8,735 thousand, respectively, are included in other assets (Note 14).

As at December 31, 2015 and 2014 loans to customers included loans totaling AZN 501,532 thousand and AZN 576,509 thousand, respectively, whose terms were renegotiated. Otherwise these loans would be past due or impaired.

	December 31, 2015			December 31, 2014		
	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	504,099	(265,496)	238,603	356,750	(235,126)	121,624
Loans to customers collectively determined to be impaired	130,956	(67,680)	63,276	21,011	(11,609)	9,402
Unimpaired loans	<u>5,922,321</u>	<u>(588,617)</u>	<u>5,333,704</u>	<u>8,327,034</u>	<u>(603,069)</u>	<u>7,723,965</u>
Total	<u>6,557,376</u>	<u>(921,793)</u>	<u>5,635,583</u>	<u>8,704,795</u>	<u>(849,804)</u>	<u>7,854,991</u>

As at December 31, 2015 and 2014 loans totaling AZN 504,099 thousand and AZN 356,750 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 356,395 thousand and AZN 118,671 thousand, respectively.