1. 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, Russian, Georgian laws, the CBAR, CBRF, NBG 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 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 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 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 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 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 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, 2015, 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 Corporate Business 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 scoring 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, 2015					
Cash and cash equivalents (excluding cash on hand)	1,292,867	-	1,292,867	-	1,292,867
Mandatory cash balances with the National/Central banks	15,334	-	15,334	-	15,334
Due from other banks	102,028	-	102,028	-	102,028
Loans and advances to customers	5,635,583	(113,114)	5,522,469	(3,883,623)	1,638,846
Financial assets at fair value through profit or loss	906	-	906	-	906
Other debt securities	29,298	-	29,298	-	29,298
Available-for-sale investments	97	-	97	-	97
Receivables from Aqrarkredit	5,628,923	-	5,628,923	-	5,628,923
Other financial and insurance assets	210,028	-	210,028	-	210,028
Guarantees issued	1,504,316	-	1,504,316	-	1,504,316
Import letters of credit	349,245	(140,852)	208,393	-	208,393
Commitments to extend credit and undrawn credit lines	93,569	-	93,569	-	93,569
December 31, 2014					
Cash and cash equivalents (excluding cash on hand)	402,052	-	402,052	-	402,052
Mandatory cash balances with the National/Central banks	9,678	-	9,678	-	9,678
Due from other banks	303,639	(11,000)	292,639	-	292,639
Loans and advances to customers	7,854,991	(182,023)	7,672,968	(5,011,460)	2,661,508
Financial assets at fair value through profit or loss	14,997	-	14,997	-	14,997
Other debt securities	45,355	-	45,355	-	45,355
Available-for-sale investments	5,287	-	5,287	-	5,287
Other financial and insurance assets	23,650	-	23,650	-	23,650
Guarantees issued	1,335,398	-	1,335,398	-	1,335,398
Import letters of credit	772,597	(81,375)	691,222	-	691,222
Commitments to extend credit and undrawn credit lines	67,066	-	67,066	-	67,066

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 Corporate Business Department. The loan to value limits as of December 31, 2015 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 80%

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

The Corporate Business 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 32.

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. 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	1%
Controllable assets	5%
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 SWAP 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, 2015				December 31, 2014			
	Monetary financial and insurance assets	**Monetary financial and insurance liabilities**	**Foreign currency SWAP agreements**	**Net position**	**Monetary financial and insurance assets**	**Monetary financial and insurance liabilities**	**Foreign currency SWAP agreements**	**Net position**
AZN	9,787,665	2,392,032	-	7,395,633	4,502,986	2,717,272	-	1,785,714
USD	3,077,016	9,408,076	679,027	(5,652,033)	3,200,376	4,571,418	37,280	(1,333,762)
EUR	155,276	846,517	(663,413)	(1,354,654)	937,145	971,012	(129,491)	(163,358)
RR	147,786	185,763	-	(37,977)	180,663	101,684	-	78,979
Other	52,150	44,601	(14,708)	(7,159)	29,622	100,405	85,602	14,819
Total	**13,219,893**	**12,876,989**	**906**	**343,810**	**8,850,792**	**8,461,791**	**(6,609)**	**382,392**

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

Foreign currency SWAP agreements in the amount of EUR payables of AZN 675,022 thousand, GBP payables of AZN 11,566 thousand, CHF payables of AZN 3,148 thousand USD receivable of AZN 679,027 thousand and EUR receivables of AZN 11,609 thousand, resulted in net fair value gain on derivatives in the amount of AZN 906 thousand (December 31, 2014 USD payables of AZN 92,421, EUR payables of AZN 129,491 thousand, GBP receivables of AZN 13,999 thousand, XAU receivables of AZN 71,603 thousand and USD receivable of AZN 129,701 thousand resulted in net fair value loss on derivatives in the amount of AZN 6,609 thousand). Refer to Note 7 and 19. All foreign currency SWAP agreements are short-term which mature in January and February 2015 (December 31, 2014: January and February 2015). 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 35% increase and decrease in the AZN against the relevant foreign currencies (2014 – 35%). 35% is the sensitivity rate used due to recent devaluation of AZN. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 35% (2014 – 35%) 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. A negative number below indicates an increase in profit and other equity where the AZN strengthens 35 % against the relevant currency. For a 35% weakening of the AZN against the relevant currency, there would be a comparable impact on the profit and other equity, and the balances below would be positive.

Effect on profit or loss and equity:

	USD impact		EUR impact		RR impact	
	2015	2014	2015	2014	2015	2014
Strengthening by 35% (2014:35%)	(1,978,212)	(466,817)	(474,129)	(57,175)	13,292	27,643
Weakening by 35% (2014:35%)	1,978,212	466,817	474,129	57,175	(13,292)	(27,643)

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, 2015 would decrease/increase by AZN 35,447 thousand and AZN 28,358 thousand, respectively (December 31, 2014: decrease/increase by AZN 1,184 thousand and AZN 947 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:

	2015					2014				
	USD	AZN	EUR	RR	Other	USD	AZN	EUR	RR	Other
Assets										
Cash and cash equivalents	0.3	-	-	-	-	0.3	-	-	-	-

Due from resident banks	13.92	6.26	-	-	9.0	6.4	6.3	-	-	-
Due from non-resident banks	4.77	-	-	-	-	4.1	-	6.4	-	-
Loans and advances to customers – individuals	12.91	13.91	12.67	17.15	4.78	16.2	21.3	14.8	16.0	15.3
Loans and advances to customers – corporate	10.91	7.53	13.08	16.48	4.52	12.9	10.6	12.5	16.2	13.7
Financial assets at fair value through profit or loss	-	-	-	-	-	-	-	-	8.7	-
Other debt securities	-	11.4	-	-	-	-	12.1	-	-	-
Receivables from Aqrarkredit	-	-	-	-	-	-	-	-	-	-
Liabilities										
Customer accounts – individuals	9.5	11.1	7.0	14.6	8.0	10.8	10.1	7.5	4.4	7.1
Customer accounts – corporate	6.9	4.0	5.5	10.6	-	8.3	4.5	-	-	-
Due to other banks	6.9	-	2.9	-	-	6.2	5.8	3.9	-	5.5
Debt securities in issue – Eurobonds	5.7	-	-	-	-	5.6	-	-	-	-
Debt securities in issue – deposit certificates	16.0	25.0	-	-	-	14.1	25.0	-	-	-
Other borrowed funds	6.8	1.4	2.4	-	-	3.2	1.0	2.3	-	-
Subordinated debt	6.2	5.3	-	-	-	6.2	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, 2015 is set out below:

	The Republic of Azerbaijan	**OECD countries**	**Other non-OECD countries**	**Total**
FINANCIAL ASSETS:				
Cash and cash equivalents	1,357,086	157,743	82,867	1,597,696
Mandatory cash balances with the National/Central banks	-	-	15,334	15,334
Due from other banks	65,869	8,269	27,890	102,028
Loans and advances to customers	5,392,415	-	243,168	5,635,583
Financial assets at fair value through profit or loss	-	906	-	906
Other debt securities	29,298	-	-	29,298
Available-for-sale investments	62	-	35	97
Receivables from Agrakredit	5,628,923	-	-	5,628,923
Other financial and insurance assets	207,714	-	2,314	210,028
TOTAL FINANCIAL ASSETS	**12,681,367**	**166,918**	**371,608**	**13,219,893**
FINANCIAL LIABILITIES:				
Due to other banks	99,351	968,141	733,352	1,800,844
Customer accounts	6,329,383	7,339	757,392	7,094,114
Debt securities in issue	16,707	872,807	4,140	893,654
Other borrowed funds	253,447	1,934,687	74,845	2,262,979
Other financial and insurance liabilities	64,486	-	1,869	66,355
Subordinated debt	600,176	158,867	-	759,043
TOTAL FINANCIAL LIABILITIES	**7,363,550**	**3,941,841**	**1,571,598**	**12,876,989**
NET POSITION	**5,317,817**	**(3,774,923)**	**(1,199,990)**	
CREDIT RELATED COMMITMENTS	**1,947,130**	**-**	**-**	

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 has 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, 2014 is set out below:

	The Republic of Azerbaijan	OECD countries	Other non-OECD countries	Total
FINANCIAL ASSETS:				
Cash and cash equivalents	267,726	284,934	40,535	593,195
Mandatory cash balances with the National/Central banks	-	-	9,678	9,678
Due from other banks	119,549	23,630	160,460	303,639
Loans and advances to customers	7,136,743	151,126	567,122	7,854,991
Financial assets at fair value through profit or loss	-	-	14,997	14,997
Other debt securities	45,355	-	-	45,355
Available-for-sale investments	2,109	-	3,178	5,287
Other financial and insurance assets	20,132	-	3,518	23,650
TOTAL FINANCIAL ASSETS	**7,591,614**	**459,690**	**799,488**	**8,850,792**
FINANCIAL LIABILITIES:				
Due to other banks	265,515	668,183	931,264	1,864,962
Customer accounts	3,276,880	29,334	838,464	4,144,678
Debt securities in issue	9,229	389,161	2,537	400,927
Other borrowed funds	232,047	1,041,607	289,712	1,563,366
Other financial and insurance liabilities	59,635	-	6,718	66,353
Subordinated debt	350,000	71,505	-	421,505
TOTAL FINANCIAL LIABILITIES	**4,193,306**	**2,199,790**	**2,068,695**	**8,461,791**
NET POSITION	**3,398,308**	**(1,740,100)**	**(1,269,207)**	
CREDIT RELATED COMMITMENTS	**2,175,061**	**-**	**-**	

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 100% of the carrying amount of the loan and greater than 150% of the carrying amount of the loan in case if collateral is real estate, 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 100% of the carrying amount of the loan, and less than 150% of the carrying amount of the loan in case if the collateral is real estate, 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. Management's consideration on compliance with these covenants is disclosed in Note 32.

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, 2015 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	509,960	687,938	635,076	12,348	-	1,845,322
Customer accounts	5,221,308	451,389	948,323	635,015	617,910	7,873,945
Debt securities in issue	4,184	116,385	34,682	1,017,553	-	1,172,804
Other borrowed funds	187,642	92,700	897,196	1,154,943	283,034	2,615,515
Other financial and insurance liabilities	46,791	1,001	4,294	28,800	-	80,886
Subordinated debt	3,448	8,475	31,029	594,738	252,568	890,258
Commitments to extend credit and undrawn credit lines	93,569	-	-	-	-	93,569
Import letters of credit	95,288	34,880	204,901	23,255	-	358,324
Guarantees issued	87,315	232,597	627,120	568,892	84,667	1,600,591
Total potential future payments for financial obligations	**6,249,505**	**1,625,365**	**3,382,621**	**4,035,544**	**1,238,179**	**16,531,214**

The undiscounted maturity analysis of liabilities as at December 31, 2014 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	638,845	530,345	613,940	146,054	-	1,929,184
Customer accounts	1,989,098	326,915	1,022,658	835,132	381,743	4,555,546
Debt securities in issue	2,058	3,677	16,546	481,364	-	503,645
Other borrowed funds	75,012	156,529	378,923	884,367	290,689	1,785,520
Other financial and insurance liabilities	42,161	1,560	6,141	16,491	-	66,353
Subordinated debt	2,110	4,220	18,988	385,804	103,700	514,822
Commitments to extend credit and undrawn credit lines	67,066	-	-	-	-	67,066
Import letters of credit	211,185	77,304	454,118	51,540	-	794,147
Guarantees issued	77,568	206,632	557,115	505,387	75,216	1,421,918
Total potential future payments for financial obligations	**3,105,103**	**1,307,182**	**3,068,429**	**3,306,139**	**851,348**	**11,638,201**

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, 2015:

	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	1,597,696	-	-	-	1,597,696
Mandatory cash balances with the National/Central banks	15,334	-	-	-	15,334
Due from other banks	15,780	2,752	3,580	79,916	102,028
Loans and advances to customers	119,448	759,866	492,122	4,264,147	5,635,583
Financial assets at fair value through profit or loss	906	-	-	-	906
Other debt securities	4	-	-	29,294	29,298
Available-for-sale investments	35	-	-	62	97
Receivables from Aqrarkredit	500,000	2,177,776	2,951,147	-	5,628,923
Other financial and insurance assets	8,195	8,146	193,384	303	210,028
TOTAL FINANCIAL ASSETS	**2,257,398**	**2,948,540**	**3,640,233**	**4,373,722**	**13,219,893**
FINANCIAL LIABILITIES:					
Due to other banks	503,837	967,593	317,396	12,018	1,800,844
Customer accounts	4,860,884	796,862	449,546	986,822	7,094,114
Debt securities in issue	96	108,675	1,750	783,133	893,654
Other borrowed funds	163,496	411,784	423,051	1,264,648	2,262,979
Other financial and insurance liabilities	46,791	1,001	4,294	14,269	66,355
Subordinated debt	-	1,580	-	757,463	759,043
TOTAL FINANCIAL LIABILITIES	**5,575,104**	**2,287,495**	**1,196,037**	**3,818,353**	**12,876,989**
NET LIQUIDITY GAP AS AT DECEMBER 31, 2015	**(3,317,706)**	**661,045**	**2,444,196**	**555,369**	

CUMULATIVE LIQUIDITY GAP AS AT DECEMBER 31, 2015	**(3,317,706)**	**(2,656,661)**	**(212,465)**	**342,904**

The analysis of carrying values of assets and liabilities by contractual maturities may be summarised as follows as at December 31, 2014:

	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	593,195	-	-	-	593,195
Mandatory cash balances with the National/Central banks	9,678	-	-	-	9,678
Due from other banks	120,455	72,700	39,845	70,639	303,639
Loans and advances to customers	539,955	621,896	706,625	5,986,515	7,854,991
Financial assets at fair value through profit or loss	-	1,502	2,829	10,666	14,997
Other debt securities	116	-	-	45,239	45,355
Available-for-sale investments	23	-	-	5,264	5,287
Other financial and insurance assets	14,556	6,358	439	2,297	23,650
TOTAL FINANCIAL ASSETS	**1,277,978**	**702,456**	**749,738**	**6,120,620**	**8,850,792**
FINANCIAL LIABILITIES:					
Due to other banks	415,698	978,070	311,443	159,751	1,864,962
Customer accounts	1,973,422	628,310	646,174	896,772	4,144,678
Debt securities in issue	4	654	186	400,083	400,927
Other borrowed funds	74,171	201,898	286,985	1,000,312	1,563,366
Other financial and insurance liabilities	42,161	1,560	6,141	16,491	66,353
Subordinated debt	-	-	-	421,505	421,505
TOTAL FINANCIAL LIABILITIES	**2,505,456**	**1,810,492**	**1,250,929**	**2,894,914**	**8,461,791**
NET LIQUIDITY GAP AS AT DECEMBER 31, 2014	**(1,227,478)**	**(1,108,036)**	**(501,191)**	**3,225,706**	
CUMULATIVE LIQUIDITY GAP AS AT DECEMBER 31, 2014	**(1,227,478)**	**(2,335,514)**	**(2,836,705)**	**389,001**	

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.

The short-term liquidity gap of the Group at 31 December 2015 has been negatively impacted by the increase in demand and less than 1 month category of customer deposits amounting to AZN 2,903,873 thousand. This increase has been driven by customer demand to place funds in either foreign exchange denominated deposit or demand accounts as a result of the devaluations of the

Manat in February and December 2015. These balances even though significant have remained stable during 2015.

During January and February 2016 customer accounts and due to other banks amounting to AZN 587,395 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 maturities 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 18 for the individual term borrowings and in Note 21 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, 2015 and 2014 would increase/decrease by AZN 2 and AZN 53 thousand, respectively as a result of the changes in fair value of equity investments; and

• Other equity reserves would increase/decrease by AZN 5 thousand and by AZN 453 thousand as at December 31, 2015 and 2014, respectively, as a result of the changes in fair value of equity 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.