



**TURAN BANK OPEN
JOINT - STOCK COMPANY**

Consolidated Financial Statements
For the Year Ended December 31, 2014

TuranBank OJSC

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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, 2014

Management is responsible for the preparation of the consolidated financial statements that present fairly the consolidated financial position of the Open Joint Stock Company TuranBank and its subsidiaries (the "Group") as at December 31, 2014, 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:

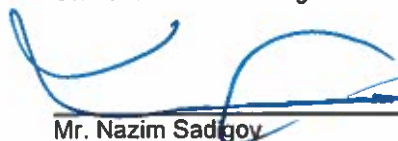
- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements in IFRSs are insufficient 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, 2014 were approved by management on April 7, 2015:

On behalf of the Management Board:



Mr. Nazim Sadigov

Chairman of the Management Board
Baku, the Republic of Azerbaijan

April 7, 2015



Mr. Alizaman Ibrahimov

Head of Financial Management Department
Baku, the Republic of Azerbaijan

April 7, 2015

INDEPENDENT AUDITORS' REPORT

To the Shareholders and Management Board of the Turan Bank Open Joint Stock Company:

We have audited the accompanying consolidated financial statements of Open Joint Stock Company TuranBank and its subsidiary (collectively – the "Group"), which comprise the consolidated statement of financial position as at December 31, 2014, 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 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 auditors' 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 financial position of the Group as at December 31, 2014, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other matter

The consolidated financial statements of the Group for the year ended December 31, 2013, were audited by another auditor who expressed an unmodified opinion on those statements on April 24, 2014.

Deloitte & Touche

April 7, 2015
Baku, the Republic of Azerbaijan

TURANBANK OJSC

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2014 (in thousands of Azerbaijan Manats)

	Notes	December 31, 2014	December 31, 2013
ASSETS			
Cash and cash equivalents	4	52,155	40,551
Available-for-sale financial assets	5	4,740	1,158
Loans to banks	6	27,767	12,388
Loans to customers	7,26	218,153	177,608
Property, equipment and intangible assets	8	11,761	11,696
Other assets	9	2,370	936
TOTAL ASSETS		316,946	244,337
LIABILITIES AND EQUITY			
LIABILITIES:			
Deposits and balances from banks	10	21,253	12,461
Customer accounts and deposits from customers	11,26	143,800	108,167
Other borrowed funds	12	97,938	74,639
Current tax liability		823	409
Deferred tax liabilities	20	282	236
Other liabilities	13	277	318
TOTAL LIABILITIES		264,373	196,230
EQUITY:			
Equity attributable to owners of the Bank:			
Share capital	14	47,002	44,002
Share premium	14	724	724
Revaluation surplus for buildings		1,224	1,327
Revaluation reserve for available-for-sale financial assets		-	58
Retained earnings		3,623	1,996
TOTAL EQUITY		52,573	48,107
TOTAL LIABILITIES AND EQUITY		316,946	244,337

On behalf of the Management Board:

Mr. Nazim Sadigov

Chairman of the Management Board
Baku, the Republic of Azerbaijan

April 7, 2015

The notes on pages 7-65 form an integral part of this consolidated financial statements.



Alizaman Ibrahimov

Mr. Alizaman Ibrahimov

Head of Financial Management Department
Baku, the Republic of Azerbaijan

April 7, 2015

TURANBANK OJSC

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31, 2014

(in thousands of Azerbaijan Manats, unless otherwise indicated)

	Notes	Year ended December 31, 2014	Year ended December 31, 2013
Interest income	16, 26	28,273	23,345
Interest expense	16, 26	(13,487)	(11,726)
Net interest income		14,786	11,619
Fee and commission income	17, 26	3,848	3,560
Fee and commission expense	17, 26	(663)	(640)
Net fee and commission income		3,185	2,920
Net gain from trading in foreign currency		1,016	935
Net foreign exchange income		54	44
Other operating income		48	16
Operating income		19,089	15,534
Impairment losses	7	(1,040)	(1,820)
Personnel expenses	18	(6,430)	(5,162)
Other general administrative expenses	19	(4,599)	(3,771)
Profit before income tax		7,020	4,781
Income tax expense	20	(1,457)	(967)
Profit for the year		5,563	3,814
Other comprehensive (loss)/income, net of income tax:			
Items that are or may be reclassified subsequently to profit or loss:			
Revaluation reserve for available-for-sale financial assets:			
-Net change in fair value, net of deferred tax		(58)	38
Total items that are or may be reclassified subsequently to profit or loss:		(58)	38
Items that will not be reclassified subsequently to profit or loss:			
Revaluation of buildings, net of deferred tax		-	660
Total items that will not be reclassified subsequently to profit or loss:		-	660
Other comprehensive (loss)/income for the year, net of income tax:		(58)	698
Total comprehensive income for the year		5,505	4,512

Earnings per share

Basic earnings per share (expressed in AZN)

On behalf of the Management Board:

Mr. Nazim Garibov

Chairman of the Management Board
Baku, the Republic of Azerbaijan

April 7, 2015



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Mr. Alizaman Ibrahimov

Mr. Alizaman Ibrahimov

Head of Financial Management Department
Baku, the Republic of Azerbaijan

April 7, 2015

The notes on pages 7-65 form an integral part of this consolidated financial statements.

TURANBANK OJSC

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31, 2014

(in thousands of Azerbaijan Manats)

	Notes	Share capital	Share premium	Revaluation surplus for buildings	Revaluation reserve for available-for-sale financial assets	Retained earnings	Total equity
December 31, 2012		30,001	-	667	20	1,182	31,870
Profit for the year		-	-	-	-	3,814	3,814
Other comprehensive income							
Net change in fair value of available-for-sale financial assets transferred to profit or loss, net of deferred tax		-	-	-	38	-	38
Revaluation of property and equipment, net of deferred tax		-	-	660	-	-	660
Shares issued	14	11,001	724	-	-	-	11,725
Transfer of profit and issue of share capital	14	3,000	-	-	-	(3,000)	-
Balance as at December 31, 2013		44,002	724	1,327	58	1,996	48,107
Profit for the year		-	-	-	-	5,563	5,563
Other comprehensive income							
Net change in fair value of available-for-sale financial assets transferred to profit or loss, net of deferred tax		-	-	-	(58)	-	(58)
Transfer of revaluation surplus for buildings upon disposal		-	-	(103)	-	103	-
Issue of share capital	14	3,000	-	-	-	(3,000)	-
Dividends paid	14	-	-	-	-	(1,039)	(1,039)
Balance as at December 31, 2014		47,002	724	1,224	-	3,623	52,573

On behalf of the Management

Mr. Nazim Sadigov

Chairman of the Management Board
Baku, the Republic of Azerbaijan

April 7, 2015



Mr. Alizaman Ibrahimov

Head of Financial Management Department
Baku, the Republic of Azerbaijan

April 7, 2015

The notes on pages 7-65 form an integral part of these consolidated financial statements.

TURANBANK OJSC
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2014
(in thousands of Azerbaijan Manats)

	Notes	Year ended December 31, 2014	Year ended December 31, 2013
CASH FLOWS FROM OPERATING ACTIVITIES:			
Interest receipts		29,201	22,996
Interest payments		(12,987)	(11,293)
Fees and commissions receipts		3,848	3,560
Fees and commissions payments		(663)	(640)
Income received from trading in foreign currencies		1,016	935
Other operating income received		48	7
Administrative and other operating expenses paid		(10,094)	(8,141)
(Increase) decrease in operating assets			
Loans and advances to banks		(15,383)	(5,151)
Loans to customers		(42,509)	(17,822)
Other assets		(872)	106
Increase (decrease) in operating liabilities			
Deposits and balances from banks		8,890	1,469
Current accounts and deposits from customers		35,340	5,060
Other liabilities		(41)	(34)
Net cash used in operating activities before income tax paid		(4,206)	(8,948)
Income tax paid		(997)	(857)
Cash flows used in operations		(5,203)	(9,805)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of property and equipment and intangible assets		(1,562)	(2,082)
Sales of property and equipment and intangible assets		-	10
Purchases of available-for-sale financial assets		(3,640)	-
Sale and repayment of available-for-sale financial assets		-	539
Cash flows used in investing activities		(5,202)	(1,533)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Receipt of other borrowed funds		23,299	27,981
Repayment of other borrowed funds		(305)	(24,166)
Proceeds from issuance of share capital		-	11,725
Dividends paid		(1,039)	-
Cash flows from financing activities:		21,955	15,540
Effect of exchange rate changes on cash and cash equivalents		54	44
Net increase in cash and cash equivalents		11,550	4,202
Cash and cash equivalents at the beginning of the period	3	40,551	36,305
Cash and cash equivalents at the end of the period	3	52,155	40,551

On behalf of the Management Board:

Mr. Nazim Sadigov

Chairman of the Management Board
 Baku, the Republic of Azerbaijan

April 7, 2015



(Handwritten signature)

Mr. Alizaman Ibrahimov

Head of Financial Management Department
 Baku, the Republic of Azerbaijan

April 7, 2015

The notes on pages 7-65 form an integral part of these consolidated financial statements.

TURANBANK OJSC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2014

(in thousands of Azerbaijan Manats, unless otherwise indicated)

1. ORGANIZATION

These consolidated financial statements include the financial statements of TuranBank Open Joint-Stock Company (the Bank) and its subsidiary Turanleasing LLC (together referred to as the Group). The subsidiary is a leasing company.

The Bank was established in the Republic of Azerbaijan as an Open Joint Stock Company on 12 June 1992. The principal activities are deposit taking and customer account maintenance, lending, issuing guarantees, cash and settlement operations and transactions with securities and foreign exchange, also in accordance with its banking license the Bank has a right to perform operations with precious metals. The activities of the Bank are regulated by the Central Bank of Azerbaijan (CBAR). The Bank has a general banking license, and is a member of the state deposit insurance system, which was introduced by the Azerbaijani Law, "Deposits of individuals insurance in Azerbaijan Republic" dated 29 December 2006. The State Deposit Insurance Fund guarantees repayment of 100% of individual deposits in the following order:

- until 1 January 2008 – up to AZN 4,000;
- from 1 January 2008 until 1 January 2010 – up to AZN 6,000;
- from 1 January 2010 until 1 August 2013 – up to AZN 30,000 for deposits with interest yield of 12% p.a. or less.
- from 1 August 2013 until 21 May 2014 - up to AZN 30,000 for deposits with interest yield of 10% p.a. or less.
- from 19 May 2014 and afterwards - up to AZN 30,000 for deposits with interest yield of 9% p.a. or less.

Deposits with interest yield above 12% are not covered by the programme.

The Bank has thirteen branches and one sub-branch (2013: thirteen branches and one sub-branch) within the Republic of Azerbaijan. Five branches are located in Baku, eight branches and one sub-branch are located in other regions of Azerbaijan. The majority of the assets and liabilities are located in the Republic of Azerbaijan.

On 21 August 2006, the Bank registered TuranLeasing LLC ("TuranLeasing") with the Ministry of Justice of the Republic of Azerbaijan. The company commenced its operations in September 2006, and is owned 100% by the Bank.

As at 31 December 2014 the Bank has 27 shareholders each having less than 10% ownership. The Bank has no ultimate controlling party who has the power to direct the transactions of the Group at his own discretion and for his own benefit.

The Bank's registered address is: 85 Ismail bey Gutgashinly street, AZ1073, Baku, the Republic of Azerbaijan.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2014

(in thousands of Azerbaijan Manats, unless otherwise indicated)

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").

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 financial instruments and buildings 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.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.

In addition, for financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

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

The Bank 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 22.

Functional currency. Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("Azerbaijan Manat"). The functional currency of the parent of the Group is the

TURANBANK OJSC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2014

(in thousands of Azerbaijan Manats, unless otherwise indicated)

Azerbaijan Manat ("AZN"). The presentational currency of the consolidated financial statements of the Group is the AZN. All values are rounded to the nearest thousand AZN's, except when otherwise indicated.

Offsetting

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 recognized amounts and there is an intention to settle on a net basis, or to realize 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.

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 those used by other members of the Group.

All intra-group transactions and balances are eliminated in full on consolidation.

Recognition of interest income

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. 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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2014 *(in thousands of Azerbaijan Manats, unless otherwise indicated)*

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.

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. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

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.

Derivative financial instruments

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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2014

(in thousands of Azerbaijan Manats, unless otherwise indicated)

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.

Financial assets

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' ("FVTPL"), 'held to maturity' ("HTM") 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.

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 or (b) held-to-maturity investments or (c) FVTPL.

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 (see Note 27). Gains and losses arising from changes in fair value are recognised in other comprehensive income and accumulated in the revaluation reserve for available-for-sale financial assets, 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 revaluation reserve for available-for-sale financial assets 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, 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.

Securities repurchase and reverse repurchase agreements and securities lending transactions. In the normal course of business, the Group enters into financial assets sale and purchase back agreements ("repos") and financial assets purchase and sale back agreements ("reverse repos"). Repos and reverse repos are utilized by the Group as an element of its treasury management.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2014

(in thousands of Azerbaijan Manats, unless otherwise indicated)

A repo is an agreement to transfer a financial asset to another party in exchange for cash or other consideration and a concurrent obligation to reacquire the financial assets at a future date for an amount equal to the cash or other consideration exchanged plus interest. These agreements are accounted for as financing transactions. Financial assets sold under repo are retained in the consolidated financial statements and consideration received under these agreements is recorded as collateralized deposit received within depositary instruments with banks.

Assets purchased under reverse repos are recorded in the consolidated financial statements as cash placed on deposit collateralized by securities and other assets and are classified within due from banks and/or loans to customers.

The Group enters into securities repurchase agreements and securities lending transactions under which it receives or transfers collateral in accordance with normal market practice. Under standard terms for repurchase transactions in the Republic of Azerbaijan and other CIS states, the recipient of collateral has the right to sell or repledge the collateral, subject to returning equivalent securities on settlement of the transaction.

The transfer of securities to counterparties is only reflected on the statement of financial position if the risks and rewards of ownership are also transferred.

Impairment of financial assets

Financial assets 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
- 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.

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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 consolidated statement of comprehensive income.

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 revaluation reserve for available-for-sale financial assets. 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.

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

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On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain of loss that had been recognized in other comprehensive income and accumulated in equity is recognized in profit or loss.

On derecognition of a financial asset other than in its entirety (e.g. when the Group retains an option to repurchase part of a transferred asset), the Group allocates the previous carrying amount of the financial asset between the part it continues to recognize under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognized in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

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.

Other financial liabilities

Other financial liabilities, including depository instruments with the Central Bank of the Republic of Azerbaijan, due to other banks and customer accounts, debt securities in issue, term borrowings, subordinated debt 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 (including all fees and 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 financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

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.

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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.

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 or loss.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, unrestricted balances on corresponded and term deposits with the Central Bank of the Republic of Azerbaijan with original maturity of less or equal to 90 days and amounts due from credit institutions with original maturity of less or equal to 90 days and are free from contractual encumbrances.

Mandatory cash balance held with the CBAR

The CBAR has granted permission to the Bank to reduce its mandatory reserves account by the amount of mortgage loans issued by the Bank and not refinanced by the Azerbaijan Mortgage Fund to date. The Bank is entitled to withdraw all funds on its correspondent account on any particular dates provided that the average daily balance for calendar month will be higher than the required mandatory reserve for that month

Leases. Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor. Amounts due from lessees under finance leases are recognised as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

Property, equipment and intangible assets

Owned assets

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses, except for buildings, which are stated at revalued amounts as described below.

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

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Revaluation

Buildings are subject to revaluation on a regular basis. The frequency of revaluation depends on the movements in the fair values of the buildings being revalued. A revaluation increase on a building is recognised as other comprehensive income except to the extent that it reverses a previous revaluation decrease recognised in profit or loss, in which case it is recognised in profit or loss. A revaluation decrease on a building is recognised in profit or loss except to the extent that it reverses a previous revaluation increase recognised as other comprehensive income directly in equity, in which case it is recognised in other comprehensive income.

Depreciation

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. Land is not depreciated. The estimated useful lives are as follows:

- Buildings	33 to 34 years
- Leasehold improvement	14 years
- Fixtures and fittings	5 years
- Other fixed assets	5 years
- Equipment	4 years

Derecognition of property, plant and equipments

An item of property 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 property 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

Acquired intangible assets are stated at cost less accumulated amortisation and impairment losses. Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Amortisation is charged to profit or loss on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives range from 7 to 10 years.

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.

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.

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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.

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 before tax 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 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 the initial recognition (other than in a business combination) of 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 liabilities and assets 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

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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.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the Group'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.

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

	December 31, 2014	December 31, 2013
AZN/1 US Dollar	0.7844	0.7845
AZN/1 Euro	0.9522	1.0780

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

Repossessed collateral represents financial and non-financial assets acquired by the Group in settlement of overdue loans. The assets initially recognised at fair value when acquired and included in premises and equipment, other financial assets or inventories within other assets depending on their nature and the Group's intention in respect of recovery of these assets and are subsequently remeasured and accounted for in accordance with the accounting policies for these categories of assets.

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

Credit related commitments

The Group enters into credit related commitments, including letters of credit and financial guarantees. Financial guarantees represent irrevocable assurances to make payments in the event that a customer cannot meet its obligations to third parties and carry the same credit risk as loans. Financial guarantees and commitments to provide a loan are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the commitment, except for commitments to originate loans if it is probable that the Group will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination; such loan commitment fees are deferred and included in the carrying value of the loan on initial recognition.

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At the end of each reporting period, the commitments are measured at the higher of (i) the remaining unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the commitment at the end of each reporting period.

Equity reserves

The reserves recorded in equity (other comprehensive income) on the Group's consolidated statement of financial position include 'Available-for-sale' reserve which comprises changes in fair value of investment securities available-for-sale and revaluation surplus for buildings.

Retirement benefit costs.

Payments to defined contribution retirement benefit plans are recognised as an expense when employees have rendered service entitling them to the contributions.

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.

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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, 2014 and 2013 the gross loans and advances to customers totaled AZN 229,678 thousand and AZN 188,093 thousand, respectively, and provision for loan impairment amounted to AZN 11,525 thousand and AZN 10,485 thousand, respectively.

Valuation of financial instruments

As described in Note 27, the Bank uses valuation techniques that include inputs that are not based on observable market data to estimate the fair value of certain types of financial instruments. Note 27 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.

Taxation

Commercial legislation of the Republic of Azerbaijan where the Group operates, 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 Group believes that it has accrued all tax amounts due and therefore no allowance has been made in the consolidated financial statements

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. Judgment 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 judgment is pricing for similar types of transactions with unrelated parties and effective interest rate analysis. The management concluded that interest rates for transactions with related parties do not significantly differ from those applied to transactions with third parties. Terms and conditions of related party balances are disclosed in Note 27.

3. Application of new and revised International Financial Reporting Standards (IFRSs)

Amendments to IFRSs affecting amounts reported in the financial statements. In the current year, the following new and revised Standards and Interpretations have been adopted and have affected the amounts reported in these financial statements.

- Amendments to IFRS 10, IFRS 12 and IAS 27 – *Investment Entities*;
- Amendments to IAS 32 – *Offsetting Financial Assets and Financial Liabilities*;

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- Amendments to IAS 36 – *Recoverable Amount Disclosures for Non-Financial Assets*;
- Amendments to IAS 39 – *Novation of Derivatives and Continuation of Hedge Accounting*;
- IFRIC 21 *Levies*.

Amendments to IFRS 10, IFRS 12 and IAS 27 – *Investment Entities*. The amendments to IFRS 10 introduce an exception from the requirement to consolidate subsidiaries for an investment entity. Instead, an investment entity is required to measure its interests in subsidiaries at fair value through profit or loss in its consolidated and separate financial statements. The exception does not apply to subsidiaries of investment entities that provide services that relate to the investment entity's investment activities.

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.

These amendments do not have any effect on the Group's consolidated financial statements as the Company 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 realization and settlement'.

There is no effect of these amendments on the consolidated financial statements as the Group does not have any financial assets and financial liabilities that qualify for offset.

Amendments to IAS 36 – *Recoverable Amount Disclosures for Non-Financial Assets*. The amendments to IAS 36 restrict the requirement to disclose the recoverable amount of an asset or a cash-generating unit to periods in which an impairment loss has been recognized or reversed. In addition, they expand and clarify the disclosure requirements applicable to when recoverable amount of an asset or a cash-generating unit has been determined on the basis of fair value less costs of disposal. The new disclosures include the fair value hierarchy, key assumptions and valuation techniques used which are in line with the disclosure required by IFRS 13 *Fair Value Measurements*.

These amendments affect disclosures only which are presented in the Note 28.

Amendments to IAS 39 – *Novation of Derivatives and Continuation of Hedge Accounting*. These amendments allow the continuation of hedge accounting when a derivative is novated to a clearing counterparty and certain conditions are met. The amendments also clarify that any change to the fair value of the derivative designated as a hedging instrument arising from the novation should be included in the assessment and measurement of hedge effectiveness.

There is no effect of these amendments on these financial statements as the Group does not apply hedge accounting.

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IFRIC 21 Levies. The interpretation is applicable to all payments imposed by governments under legislation, other than income taxes that are within the scope of IAS 12 and fines and penalties for breaches of legislation. The interpretation clarifies that a liability to pay a levy should only be recognised when an obligating event has occurred and provides guidance on how to determine whether a liability should be recognized progressively over specific period or in full at a specific date.

There was no effect of the interpretation on these financial statements except for the change in Group's policy.

The Group did not early adopt any other standard, amendment or interpretation that has been issued and is not yet effective.

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:

- Amendments to IAS 19 - *Defined Benefit Plans: Employee contributions*¹;
- Annual Improvements to IFRSs 2010-2012 Cycle¹;
- Annual Improvements to IFRSs 2011-2013 Cycle¹;
- Annual Improvements to IFRSs 2012-2014 Cycle²;
- IFRS 14 *Regulatory Deferral Accounts*²;
- Amendments to IAS 16 and IAS 38 - *Clarification of Acceptable Methods of Depreciation and Amortisation*²;
- Amendments to IAS 27 - *Equity Method in Separate Financial Statements*²;
- Amendments to IAS 16 and IAS 41 - *Agriculture: Bearer Plants*²;
- Amendments to IFRS 11 - *Accounting for Acquisition of Interests in Joint Operations*²;
- Amendments to IFRS 10 and IAS 28 - *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*²;
- IFRS 15 *Revenue from Contracts with Customers*³;
- IFRS 9 *Financial Instruments*⁴.

¹ Effective for annual periods beginning on or after 1 July 2014, with earlier application permitted.

² Effective for annual periods beginning on or after 1 January 2016, with earlier application permitted.

³ Effective for annual periods beginning on or after 1 January 2017, with earlier application permitted.

⁴ Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.

Amendments to IAS 19 – *Defined Benefit Plans: Employee contributions.* The amendments to IAS 19 *Employee Benefits* clarify the requirements related to how contributions from employees or third parties that are linked to service should be attributed to periods of service. In addition, amendments permit a practical expedient if the amount of the contributions is independent of the number of years of service, such contributions, can, but are not required, to be recognised as a reduction in the service cost in the period in which the related service is rendered. The Group's management does not expect any impact of these amendments on the financial statements as the Group's defined benefit plans do not stipulate contributions from employees.

IFRS 14 *Regulatory Deferral Accounts.* IFRS 14 permits an entity which is a first-time adopter of International Financial Reporting Standards to continue to account, with some limited changes, for 'regulatory deferral account balances' in accordance with its previous GAAP, both on initial adoption of IFRS and in subsequent financial statements.

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The application of IFRS 14 will not have any impact on the Group's financial statements in the future as the Group is not an IFRS first-time adopter.

IFRS 15 Revenue from Contracts with Customers. In May 2014, IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and the related interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. Specifically, the standard provides a single, principles based five-step model to be applied to all contracts with customers.

The five steps in the model are as follows:

- Identify the contract with the customer;
- Identify the performance obligations in the contract;
- Determine the transaction price;
- Allocate the transaction price to the performance obligations in the contracts;
- Recognise revenue when (or as) the entity satisfies a performance obligation.

Under IFRS 15, an entity recognises revenue when or as a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added on topics such as the point in which revenue is recognised, accounting for variable consideration, costs of fulfilling and obtaining a contract and various related matters. New disclosures about revenue are also introduced.

The management of the Group anticipates that the application of IFRS 15 in the future may have a significant impact on amount and timing of revenue recognition. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 15 until a detailed review has been completed.

IFRS 9 Financial Instruments. IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. In July 2014 IASB issued a finalised version of IFRS 9 mainly introducing impairment requirements for financial assets and limited amendments to the classification and measurement requirements for financial assets. IFRS 9 is aiming at replacing IAS 39 *Financial Instruments: Recognition and Measurement*.

The key requirements of IFRS 9 are:

- **Classification and measurement of financial assets.** Financial assets are classified by reference to the business model within which they are held and their contractual cash flow characteristics. Specifically, debt instruments that are held within the 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 after initial recognition. The 2014 version of

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IFRS 9 introduces a 'fair value through other comprehensive income' category for debt instruments held within the business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset giving rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding which are measured at fair value through other comprehensive income after initial recognition. All other debt and equity investments are measured at their fair values. 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.

- **Classification and measurement of financial liabilities.** Financial liabilities are classified in a similar manner to under IAS 39, however there are differences in the requirements applying to the measurement of an entity's own credit risk. 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 OCI 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.
- **Impairment.** The 2014 version of IFRS 9 introduces an 'expected credit loss' model for the measurement of the impairment of financial assets, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before a credit loss is recognized.
- **Hedge accounting.** Introduces a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principal of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.
- **Derecognition.** The requirements for the derecognition of financial assets and liabilities are carried forward from IAS 39.

The standard is effective from 1 January 2018 with early application permitted. Depending on the chosen approach to applying IFRS 9, the transition can involve one or more than one date of initial application for different requirements.

The management of the Group anticipates 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. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 until a detailed review has been completed.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2014

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Amendments to IFRS 11 – Accounting for Acquisitions of Interests in Joint Operations.

The amendments to IFRS 11 provide guidance on how to account for the acquisition of a joint operation that constitutes a business as defined in IFRS 3 *Business Combinations*. Specifically, the amendments state that the relevant principles on accounting for business combinations in IFRS 3 and other standards should be applied. The same requirements should be applied to the formation of a joint operation if and only if an existing business is contributed to the joint operation by one of the parties that participate in the joint operation. A joint operator is also required to disclose the relevant information required by IFRS 3 and other standards for business combinations.

The management of the Group does not anticipate that the application of these amendments will have a material impact of the Group's consolidated financial statements.

Amendments to IAS 16 and IAS 38 – Clarification of Acceptable Methods of Depreciation and Amortisation.

The amendments to IAS 16 prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. The amendments to IAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortization of an intangible asset. This presumption can only be rebutted when the intangible asset is expressed as a measure of revenue, or when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.

The amendments apply prospectively for annual periods beginning on or after 1 January 2016. Currently, the Group uses straight-line method for depreciation and amortization of its property, plant and equipment and intangible assets, respectively.

The management of the Group does not anticipate that the application of these amendments will have a material impact on the Group's consolidated financial statements.

Amendments to IAS 16 and IAS 41 – Agriculture: Bearer Plants. The amendments to IAS 16 and IAS 41 define a bearer plant and require biological assets that meet the definition of a bearer plant to be accounted for as a property, plant and equipment in accordance with IAS 16, instead of IAS 41. The produce growing on bearer plants continues to be accounted for as agricultural produce in accordance with IAS 41.

The management of the Group does not expect any impact of adoption of these amendments on the consolidated financial statements as the Group is not engaged in agricultural activities.

Amendments to IAS 27 – Equity Method in Separate Financial Statements. The amendments to IAS 27 allows entities to apply the equity method as one of the option for accounting for its investments in subsidiaries, joint ventures and associates in its separate financial statements. The amendments are effective from 1 January 2016 with earlier application permitted.

The management of the Group does not expect any impact of these amendments on the financial statements as the Company does not prepare its separate financial statements.

Amendments to IFRS 10 and IAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture. The amendments clarify that on a sale or contribution of assets to a joint venture or associate or on a loss of control when joint control or significant influence is retained in a transaction involving an associate or a joint venture, the extent of any gain or loss recognized depends on whether the assets or subsidiary constitute a business, as defined in IFRS 3. When the assets or subsidiary constitutes a business, any gain or loss is recognized in full; when the assets or subsidiary do not constitute a business, the entity's share of the gain or loss is eliminated.

The amendments apply prospectively to transactions occurring in annual periods beginning on or after 1 January 2016 with early application permitted.

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The management of the Group does not anticipate that the application of these amendments will have a material impact on the Group's consolidated financial statements.

Annual Improvements to IFRSs 2010-2012 Cycle. The Annual Improvements to IFRSs 2010-2012 Cycle include a number of amendments to various IFRSs, which are summarized below.

The amendments to IFRS 2 change the definition of 'vesting condition' and 'market condition' and add definitions for 'performance condition' and 'service condition' which were previously included within the definition of 'vesting condition'.

The amendments to IFRS 3 clarify that contingent consideration that is classified as an asset or liability should be measured at fair value at each reporting date, irrespective of whether the contingent consideration is a financial instrument within the scope of IAS 39 or IFRS 9 or a non-financial asset or liability.

The amendments to IFRS 8 require an entity to disclose the judgements made by management in applying the aggregation criteria to operating segments and clarify that a reconciliation of the total of the reportable segments' assets to the entity's assets should only be provided if the segment assets are regularly provided to the chief operating decision-maker.

The amendments to the basis for conclusions of IFRS 13 clarify that the issue of IFRS 13 and consequential amendments to IAS 39 and IFRS 9 did not remove the ability to measure short-term receivables and payables with no stated interest rate at their invoice amounts without discounting, if the effect of discounting is immaterial. These amendments are considered to be effective immediately.

The amendments to IAS 16 and IAS 38 remove perceived inconsistencies in the accounting for accumulated depreciation/ amortisation when an item of property, plant and equipment or an intangible asset is revalued. The amended standards clarify that the gross carrying amount is adjusted in a manner consistent with the revaluation of the carrying amount of the asset and that accumulated depreciation/ amortisation is the difference between the gross carrying amount and the carrying amount after taking into account accumulated impairment losses.

The amendments to IAS 24 clarify that a management entity providing key management personnel services to a reporting entity is a related party of the reporting entity. Consequently, the reporting entity should disclose as related party transactions the amounts incurred for the service paid or payable to the management entity for the provision of key management personnel services. However, disclosure of the components of such compensation is not required.

The management of the Group does not anticipate that the application of these amendments will have a significant effect on the consolidated financial statements.

Annual Improvements to IFRSs 2011-2013 Cycle. The Annual Improvements to IFRSs 2011-2013 Cycle include the following amendments to various IFRSs.

The amendments to IFRS 3 clarify that the standard does not apply to the accounting for the formation of all types of joint arrangement in the financial statements of the joint arrangement itself.

The amendments to IFRS 13 clarify that the scope of portfolio exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis includes all contracts that are within the scope of, and accounted for in accordance with, IAS 39 or IFRS 9, even if those contracts do not meet the definitions of a financial assets or financial liabilities within IAS 32.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2014

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The amendments to IAS 40 clarify that IAS 40 and IFRS 3 are not mutually exclusive and application of both standards may be required. Consequently, an entity acquiring investment property must determine whether the property meets the definition of investment property in terms of IAS 40, and whether the transaction meets the definition of a business combination under IFRS 3.

The management of the Group does not anticipate that the application of these amendments will have a significant effect on the consolidated financial statements.

Annual Improvements to IFRSs 2012-2014 Cycle. The Annual Improvements to IFRSs 2012-2014 Cycle include the following amendments to various IFRSs.

The amendments to IFRS 5 clarify that reclassification of an asset or a disposal group from held for sale to held to distribution to owners or vice versa should not be considered changes to a plan of sale or a plan of distribution to owners and that the classification, presentation and measurement requirements applicable to the new method of disposal should be applied. In addition, amendments clarify that assets that no longer meet the criteria for held for distribution to owners and do not meet the criteria for held for sale should be treated in the same way as assets that cease to be classified as held for sale. The amendments should be applied prospectively.

The amendments to IFRS 7 provide additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset for the purposes of the disclosures required in relation to transferred assets. In addition, amendments to IFRS 7 were made to clarify that the disclosure requirements on offsetting financial assets and financial liabilities are not explicitly required to be included in the condensed interim financial statements for all interim periods, however, the disclosures may need to be included in condensed interim financial statements to comply with IAS 34. The amendments should be applied retrospectively.

The amendments to IAS 19 clarify that the high quality corporate bonds used to estimate the discount rate for post-employment benefits should be issued in the same currency as the benefits to be paid. The amendments apply from the beginning of the earliest comparative period presented in the financial statements in which the amendments are first applied.

The amendments to IAS 34 clarify that information required by IAS 34 that is provided elsewhere within the interim financial report but outside the interim financial statements should be incorporated by way of a cross-reference from the interim financial statements to the other part of the interim financial report that is available to users on the same terms and at the same time as the interim financial statements.

The management of the Group does not anticipate that the application of these amendments will have a significant effect on the consolidated financial statements.

4. CASH AND CASH EQUIVALENTS

	December 31, 2014	December 31, 2013
Cash on hand	27,307	16,568
Nostro accounts with CBAR	17,118	7,844
Nostro accounts with other banks	7,730	16,139
Total cash and cash equivalents	52,155	40,551

No cash and cash equivalents are impaired or past due.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2014

(in thousands of Azerbaijan Manats, unless otherwise indicated)

As at 31 December 2014 the Group has one bank (2013: two banks), whose balances exceed 10% of equity. The gross value of these balances as at 31 December 2014 is AZN 6,009 thousand (2013: AZN 14,956 thousand).

5. AVAILABLE-FOR-SALE FINANCIAL ASSETS

		December 31, 2014	December 31, 2013
Corporate Bonds			
Corporate bonds of AccessBank OJSC	9%	606	-
Corporate bonds of Bakcell LTD	9%	505	-
Corporate bonds of OJSC Bank of Baku	12%	1,035	-
Corporate bonds of Embawood LLC	11%	513	-
Total corporate bonds		2,659	-
Government and municipal bonds			
Notes issued by Azerbaijan Mortgage Fund	3%	1,461	-
Equity investments			
Corporate shares at cost		620	1,158
Total available for sale assets		4,740	1,158

Notes issued by Mortgage Fund of the Republic of Azerbaijan are stated at fair value calculated based on quoted market price on the Baku Stock Exchange at the reporting date.

Available-for-sale investments stated at cost comprise unquoted equity securities in the Insurance and Card processing industries. There is no market for these investments and there have not been any recent transactions that provide evidence of the current fair value. In addition, discounted cash flow techniques yield a wide range of fair values due to the uncertainty regarding future cash flows in this industry. However, management believes it unlikely that the fair value at the year end would differ significantly from the carrying amount.

6. LOANS TO BANKS

	December 31, 2014	December 31, 2013
Mandatory reserve with CBAR	2,809	3,076
Loans and deposits		
-rated AAA	-	4,688
-rated from BB- to BB+	14,959	8
-not rated	9,999	4,616
Total loans and deposits	27,767	12,388

As at 31 December 2014, no loans and advances to banks are past due or impaired (2013: no past due or impaired).

As at 31 December 2014, placements with three local banks (2013: four) in the amount of AZN 139 thousand (2013: AZN 145 thousand) and nil annual interest rate (2013: nil) are blocked accounts.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2014

(in thousands of Azerbaijan Manats, unless otherwise indicated)

Concentration of loans to banks

As at 31 December 2014 the Group has one bank - Banque de Commerce et de Placements SA (BCP) (2013: no banks), whose balance in the amount of AZN 14,959 thousand exceeds 10% of equity.

Mandatory reserves with the CBAR

The CBAR has granted permission to the Bank to reduce its mandatory reserves account by the amount of mortgage loans issued by the Bank and not refinanced by the Azerbaijan Mortgage Fund to date. The Bank is entitled to withdraw all funds on its correspondent account on any particular date provided that the average daily balance for a calendar month will be higher than the required mandatory reserve for that month

7. LOANS AND ADVANCES TO CUSTOMERS

	December 31, 2014	December 31, 2013
Loans to corporate customers		
Business Loans - Large Corporations	63,952	58,151
Business Loans - SME	84,823	66,233
Business Loans -Micro	<u>22,823</u>	<u>15,503</u>
Total Loans to corporate customers	<u>171,598</u>	<u>139,887</u>
Loans to retail customers		
Loans to individuals - Entrepreneurs	28,280	22,883
Loans to individuals - Mortgage loans	27,586	22,304
Loans to individuals - Cars	1,874	2,817
Loans to individuals - Others	<u>340</u>	<u>202</u>
Total loans to retail customers	<u>58,080</u>	<u>48,206</u>
Gross loans to customers	229,678	188,093
Less: Provision for loan impairment	<u>(11,525)</u>	<u>(10,485)</u>
Total loans and advances to customers	<u>218,153</u>	<u>177,608</u>

As at December 31, 2014 the Bank doesn't have loans which individually exceeded 10% of the Bank's equity. As at December 31, 2013 the Bank granted 3 customers totaling AZN 16,752 thousand which individually exceeded 10% of the Bank's equity.

As at December 31, 2014 and 2013 a significant amount of loans (100% of total loans to customers) is granted to companies operating in the Republic of Azerbaijan, which represents a significant geographical concentration in one region.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2014 *(in thousands of Azerbaijan Manats, unless otherwise indicated)*

The movements in allowance for impairment losses on loans to customers were as follows:

	Loans to customers
December 31, 2012	8,665
Write off of loans (Recovery of provision) provision charge	-
	<u>1,820</u>
December 31, 2013	10,485
Write off of loans (Recovery of provision) provision charge	-
	<u>1,040</u>
December 31, 2014	<u><u>11,525</u></u>

The following tables provides information by types of loan products as at 31 December 2014:

	Gross Amount	Impairment allowance	Carrying amount
Loans to corporate customers			
Business Loans - Large Corporations	63,952	2,810	61,142
Business Loans - SME	84,823	7,264	77,559
Business Loans -Micro	22,823	323	22,500
Total loans to corporate customers	<u>171,598</u>	<u>10,397</u>	<u>161,201</u>
Loans to retail customers			
Loans to individuals - Entrepreneurs	28,280	980	27,300
Loans to individuals - Mortgage loans	27,586	94	27,492
Loans to individuals - Cars	1,874	6	1,868
Loans to individuals - Others	340	48	292
Total loans to retail customers	<u>58,080</u>	<u>1,128</u>	<u>56,952</u>
Total loans to customers	<u><u>229,678</u></u>	<u><u>11,525</u></u>	<u><u>218,153</u></u>

The following tables provides information by types of loan products as at 31 December 2013:

	Gross Amount	Impairment allowance	Carrying amount
Loans to corporate customers			
Business Loans - Large Corporations	58,151	1,347	56,804
Business Loans - SME	66,233	7,674	58,559
Business Loans -Micro	15,503	543	14,960
Total loans to corporate customers	<u>139,887</u>	<u>9,564</u>	<u>130,323</u>
Loans to retail customers			
Loans to individuals - Entrepreneurs	22,883	769	22,114
Loans to individuals - Mortgage loans	22,304	74	22,230
Loans to individuals - Cars	2,817	30	2,787
Loans to individuals - Others	202	48	154
Total loans to retail customers	<u>48,206</u>	<u>921</u>	<u>47,285</u>
Total loans to customers	<u><u>188,093</u></u>	<u><u>10,485</u></u>	<u><u>177,608</u></u>

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2014**

(in thousands of Azerbaijan Manats, unless otherwise indicated)

Analysis by credit quality of loans to large corporations outstanding as at 31 December 2014 was as follows:

Large corporations As at December 31, 2014	Gross loans	Provision for impairment	Net loans	Provision for impairment to gross loans
Collectively assessed				
Not past due	16,121	-	16,121	0,00%
Overdue:				
up to 30 days	-	-	-	0,00%
31 to 60 days	-	-	-	0,00%
61 to 90 days	-	-	-	0,00%
91 to 180 days	-	-	-	0,00%
181 to 360 days	-	-	-	0,00%
over 360 days	-	-	-	0,00%
Total collectively assessed loans	16,121	-	16,121	0,00%
Individually assessed				
Not past due	47,831	2,810	45,021	5,87%
Overdue:				
up to 30 days	-	-	-	0,00%
31 to 60 days	-	-	-	0,00%
61 to 90 days	-	-	-	0,00%
91 to 180 days	-	-	-	0,00%
181 to 360 days	-	-	-	0,00%
over 360 days	-	-	-	0,00%
Total individually assessed loans	47,831	2,810	45,021	5,87%
Total loans to large corporations	63,952	2,810	61,142	4,39%

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2014**
(in thousands of Azerbaijan Manats, unless otherwise indicated)

Analysis by credit quality of loans to large corporations outstanding as at 31 December 2013 was as follows:

Large corporations As at December 31, 2013	Gross loans	Provision for impairment	Net loans	Provision for impairment to gross loans
Collectively assessed				
Not past due	7,687	113	7,574	1,47%
Overdue:				
up to 30 days	-	-	-	0,00%
31 to 60 days	-	-	-	0,00%
61 to 90 days	-	-	-	0,00%
91 to 180 days	-	-	-	0,00%
181 to 360 days	272	129	143	47,43%
over 360 days	-	-	-	0,00%
Total collectively assessed loans	7,959	242	7,717	3,04%
Individually assessed				
Not past due	50,192	1,105	49,087	2,20%
Overdue:				
up to 30 days	-	-	-	0,00%
31 to 60 days	-	-	-	0,00%
61 to 90 days	-	-	-	0,00%
91 to 180 days	-	-	-	0,00%
181 to 360 days	-	-	-	0,00%
over 360 days	-	-	-	0,00%
Total individually assessed loans	50,192	1,105	49,087	2,20%
Total loans to large corporations	58,151	1,347	56,804	2,32%

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2014

(in thousands of Azerbaijan Manats, unless otherwise indicated)

Analysis by credit quality of loans to SME outstanding as at 31 December 2014 was as follows:

Loans to SME As at December 31, 2014	Gross loans	Provision for impairment	Net loans	Provision for impairment to gross loans
Collectively assessed				
Not past due	59,829	105	59,724	0.18%
Overdue:				
up to 30 days	-	-	-	0.00%
31 to 60 days	-	-	-	0.00%
61 to 90 days	-	-	-	0.00%
91 to 180 days	382	13	369	3.40%
181 to 360 days	811	342	469	42.17%
over 360 days	8,589	6,804	1,785	79.22%
Total collectively assessed loans	69,611	7,264	62,347	10.44%
Individually assessed				
Not past due	15,212	-	15,212	0.00%
Overdue:				
up to 30 days	-	-	-	0.00%
31 to 60 days	-	-	-	0.00%
61 to 90 days	-	-	-	0.00%
91 to 180 days	-	-	-	0.00%
181 to 360 days	-	-	-	0.00%
over 360 days	-	-	-	0.00%
Total individually assessed loans	15,212	-	15,212	0.00%
Total loans to SME	84,823	7,264	77,559	8.56%

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2014 (in thousands of Azerbaijan Manats, unless otherwise indicated)

Analysis by credit quality of loans to SME outstanding as at 31 December 2013 was as follows:

Loans to SME As at December 31, 2013	Gross loans	Provision for impairment	Net loans	Provision for impairment to gross loans
Collectively assessed				
Not past due	43,499	670	42,829	1.54%
Overdue:				
up to 30 days	840	9	831	1.07%
31 to 60 days	116	3	113	2.59%
61 to 90 days	136	4	132	2.94%
91 to 180 days	107	5	102	4.67%
181 to 360 days	3,677	3,007	670	81.78%
over 360 days	4,951	3,797	1,154	76.69%
Total collectively assessed loans	53,326	7,495	45,831	14.06%
Individually assessed				
Not past due	12,907	179	12,728	1.39%
Overdue:				
up to 30 days	-	-	-	0.00%
31 to 60 days	-	-	-	0.00%
61 to 90 days	-	-	-	0.00%
91 to 180 days	-	-	-	0.00%
181 to 360 days	-	-	-	0.00%
over 360 days	-	-	-	0.00%
Total individually assessed loans	12,907	179	12,728	1.39%
Total loans to SME	66,233	7,674	58,559	11.59%

Analysis by credit quality of loans to micro business outstanding as at 31 December 2014 was as follows:

Loans to micro business As at December 31, 2014	Gross loans	Provision for impairment	Net loans	Provision for impairment to gross loans
Collectively assessed				
Not past due	21,856	2	21,854	0.01%
Overdue:				
up to 30 days	168	1	167	0.60%
31 to 60 days	96	2	94	2.08%
61 to 90 days	44	2	42	4.55%
91 to 180 days	162	4	158	2.47%
181 to 360 days	83	23	60	27.71%
over 360 days	414	289	125	69.81%
Total collectively assessed loans	22,823	323	22,500	1.42%
Total individually assessed loans	-	-	-	0.00%
Total loans to micro business	22,823	323	22,500	1.42%

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2014 (in thousands of Azerbaijan Manats, unless otherwise indicated)

Analysis by credit quality of loans to micro business outstanding as at 31 December 2013 was as follows:

Loans to micro business As at December 31, 2013	Gross loans	Provision for impairment	Net loans	Provision for impairment to gross loans
Collectively assessed				
Not past due	14,718	280	14,438	1.90%
Overdue:				
up to 30 days	129	2	127	1.55%
31 to 60 days	28	1	27	3.57%
61 to 90 days	24	-	24	0.00%
91 to 180 days	30	9	21	30.00%
181 to 360 days	208	120	88	57.69%
over 360 days	366	131	235	35.79%
Total collectively assessed loans	15,503	543	14,960	3,50%
Total individually assessed loans	-	-	-	0,00%
Total loans to micro business	15,503	543	14,960	3,50%

Analysis by credit quality of loans to entrepreneurs outstanding as at 31 December 2014 was as follows:

Loans to entrepreneurs As at December 31, 2014	Gross loans	Provision for impairment	Net loans	Provision for impairment to gross loans
Collectively assessed				
Not past due	26,464	7	26,457	0.03%
Overdue:				
up to 30 days	189	4	185	2.12%
31 to 60 days	100	8	92	8.00%
61 to 90 days	79	8	71	10.13%
91 to 180 days	186	32	154	17.20%
181 to 360 days	200	87	113	43.50%
over 360 days	1,062	834	228	78.53%
Total collectively assessed loans	28,280	980	27,300	3,47%
Total individually assessed loans	-	-	-	0,00%
Total loans to entrepreneurs	28,280	980	27,300	3,47%

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2014 (in thousands of Azerbaijan Manats, unless otherwise indicated)

Analysis by credit quality of loans to entrepreneurs outstanding as at 31 December 2013 was as follows:

Loans to entrepreneurs As at December 31, 2013	Gross loans	Provision for impairment	Net loans	Provision for impairment to gross loans
Collectively assessed				
Not past due	21,055	207	20,848	0.98%
Overdue:				
up to 30 days	784	8	776	1.02%
31 to 60 days	95	1	94	1.05%
61 to 90 days	30	1	29	3.33%
91 to 180 days	103	40	63	38.83%
181 to 360 days	490	347	143	70.82%
over 360 days	326	165	161	50.61%
Total collectively assessed loans	22,883	769	22,114	3,36%
Total individually assessed loans	-	-	-	0,00%
Total loans to entrepreneurs	22,883	769	22,114	3,36%

Analysis by credit quality of mortgage loans outstanding as at 31 December 2014 was as follows:

Mortgage loans As at December 31, 2014	Gross loans	Provision for impairment	Net loans	Provision for impairment to gross loans
Collectively assessed				
Not past due	27,224	3	27,221	0.01%
Overdue:				
up to 30 days	55	-	55	0.00%
31 to 60 days	9	1	8	11.11%
61 to 90 days	50	-	50	0.00%
91 to 180 days	104	18	86	17.31%
181 to 360 days	35	24	11	68.57%
over 360 days	52	43	9	82.69%
Total collectively assessed loans	27,529	89	27,440	0,32%
Individually assessed				
Not past due	57	5	52	8,77%
Total individually assessed loans	57	5	52	8,77%
Total mortgage loans	27,586	94	27,492	0,34%

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Analysis by credit quality of mortgage loans outstanding as at 31 December 2013 was as follows:

Mortgage loans As at December 31, 2013	Gross loans	Provision for impairment	Net loans	Provision for impairment to gross loans
Collectively assessed				
Not past due	20,734	41	20,693	0.2%
Overdue:				
up to 30 days	1,367	3	1,364	0.2%
31 to 60 days	61	-	61	0.0%
61 to 90 days	17	-	17	0.0%
91 to 180 days	52	15	37	28.8%
181 to 360 days	33	15	18	45.5%
over 360 days	-	-	-	0.00%
Total collectively assessed loans	22,264	74	22,190	0,33%
Individually assessed				
Not past due	40	-	40	0,00%
Total individually assessed loans	40	-	40	0,00%
Total mortgage loans	22,304	74	22,230	0,33%

Analysis by credit quality of car loans outstanding as at 31 December 2014 was as follows:

Car loans As at December 31, 2014	Gross loans	Provision for impairment	Net loans	Provision for impairment to gross loans
Collectively assessed				
Not past due	1,868	-	1,868	0.00%
Overdue:				
up to 30 days	-	-	-	0,00%
31 to 60 days	-	-	-	0,00%
61 to 90 days	-	-	-	0,00%
91 to 180 days	-	-	-	0,00%
181 to 360 days	-	-	-	0,00%
over 360 days	6	6	-	100.00%
Total collectively assessed loans	1,874	6	1,868	0,32%
Total individually assessed loans	-	-	-	0,00%
Total car loans	1,874	6	1,868	0,32%

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Analysis by credit quality of car loans outstanding as at 31 December 2013 was as follows:

Car loans As at December 31, 2013	Gross loans	Provision for impairment	Net loans	Provision for impairment to gross loans
Collectively assessed				
Not past due	2,742	23	2,719	0.84%
Overdue:				
up to 30 days	69	1	68	1.45%
31 to 60 days	-	-	-	0,00%
61 to 90 days	-	-	-	0,00%
91 to 180 days	-	-	-	0,00%
181 to 360 days	6	6	-	100,00%
over 360 days	-	-	-	0,00%
Total collectively assessed loans	2,817	30	2,787	1,06%
Total individually assessed loans	-	-	-	0,00%
Total car loans	2,817	30	2,787	1,06%

Analysis by credit quality of other loans outstanding as at 31 December 2014 was as follows:

Other loans As at December 31, 2014	Gross loans	Provision for impairment	Net loans	Provision for impairment to gross loans
Collectively assessed				
Not past due	286	40	246	13.99%
Overdue:				
up to 30 days	-	-	-	0,00%
31 to 60 days	-	-	-	0,00%
61 to 90 days	-	-	-	0,00%
91 to 180 days	-	-	-	0,00%
181 to 360 days	-	-	-	0,00%
over 360 days	54	8	46	14,81%
Total collectively assessed loans	340	48	292	14,12%
Total individually assessed loans	-	-	-	0,00%
Total other loans	340	48	292	14,12%

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Analysis by credit quality of other loans outstanding as at 31 December 2013 was as follows:

Other loans As at December 31, 2013	Gross loans	Provision for impairment	Net loans	Provision for impairment to gross loans
Collectively assessed				
Not past due	180	40	140	22,22%
Overdue:				
up to 30 days	-	-	-	0,00%
31 to 60 days	-	-	-	0,00%
61 to 90 days	-	-	-	0,00%
91 to 180 days	-	-	-	0,00%
181 to 360 days	-	-	-	0,00%
over 360 days	22	8	14	36,36%
Total collectively assessed loans	202	48	154	23,76%
Total individually assessed loans	-	-	-	0,00%
Total other loans	202	48	154	23,76%

The table below summarizes carrying value of loans to customers analyzed by type of collateral obtained by the Group:

	December 31, 2014	December 31, 2013
Loans collateralized by real estate	138,695	113,229
Loans collateralized by guarantees of individuals	21,842	21,167
Loans collateralized by cash	11,563	6,427
Loans collateralized by vehicles	9,563	5,618
Loans collateralized by guarantees of legal entities	7,791	223
Loans collateralized by pledge of equipment and inventories	4,032	2,266
Loans collateralized by pledge of corporate shares	3,342	3,240
Loans collateralized by other	2,557	5,189
Loans collateralized by precious metals	1,537	3,439
Unsecured loans	28,756	27,295
	229,678	188,093
Less: allowance for impairment losses	(11,525)	(10,485)
Total loans to customers	218,153	177,608

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2014

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The table below summarizes carrying value of loans to customers analyzed by type of sector:

	December 31, 2014	December 31, 2013
Analysis by sector:	73,748	48,946
Trade and services	42,787	29,500
Agriculture, forestry and timber	35,333	26,781
Construction	19,779	30,216
Manufacturing	290	350
Other	57,741	52,300
Loans to retail customers	229,678	188,093
Less: allowance for impairment losses	(11,525)	(10,485)
Total loans to customers	218,153	177,608

The table below summarizes an analysis of loans to customers by type of impairment:

	December 31, 2014			December 31, 2013		
	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	1,718	356	1,362	1,865	654	1,211
Loans to customers collectively determined to be impaired	12,930	8,527	4,403	10,659	6,546	4,113
Unimpaired loans	215,030	2,642	212,388	175,569	3,285	172,284
Total	229,678	11,525	218,153	188,093	10,485	177,608

During the years ended December 31, 2014 and 2013 the Group received non-financial assets by taking possession of collateral it held as security. As at December 31, 2014 and 2013 such assets in amount of AZN 372 thousand and AZN 186 thousand, respectively, are included in other assets.

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8. PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS

	Buildings	Leasehold improvement	Equipment	Fixtures and fittings	Other fixed assets	Computer software	Total
At cost							
January 1, 2013	7,794	1,005	954	1,502	417	220	11,892
Additions	583	927	127	358	47	12	2,054
Disposals	-	-	(48)	(66)	(46)	-	(160)
Revaluation	176	-	-	-	-	-	176
December 31, 2013	8,553	1,932	1,033	1,794	418	232	13,962
Additions	185	477	177	216	28	23	1,106
Disposals	(105)	-	(7)	(35)	-	-	(147)
December 31, 2014	8,633	2,409	1,203	1,975	446	255	14,921
Accumulated depreciation and impairment							
January 1, 2013	(412)	(119)	(528)	(873)	(225)	(124)	(2,281)
Depreciation charge	(240)	(76)	(161)	(227)	(68)	(20)	(792)
Disposals	-	-	47	66	46	-	159
Revaluation	648	-	-	-	-	-	648
December 31, 2013	(4)	(195)	(642)	(1,034)	(247)	(144)	(2,266)
Depreciation charge	(258)	(150)	(190)	(257)	(65)	(15)	(935)
Disposals	1	-	7	33	-	-	41
December 31, 2014	(261)	(345)	(825)	(1,258)	(312)	(159)	(3,160)
Net book value							
As at December 31, 2014	8,372	2,064	378	717	134	96	11,761
As at December 31, 2013	8,549	1,737	391	760	171	88	11,696

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2014

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There are no capitalised borrowing costs related to the acquisition or construction of property and equipment during 2014 (2013: nil).

Revalued assets

The fair values of the Group's buildings are categorised into Level 3 of the fair value hierarchy, which was determined as at 31 December 2014. (2013: Level 3)

The last revaluation of buildings was held based on the results of an independent appraisal performed by "Real Prays" LLC at 31 December 2013.

The basis used for the appraisal is the market approach. The market approach is based upon an analysis of the results of comparable sales of similar buildings.

The values assigned to the key assumptions represent management's assessment of future business trends and are based on both external sources and internal sources of information.

The carrying value of buildings as at 31 December 2014, if the buildings would not have been revaluated, would be AZN 5,165 thousand (2013: AZN 5,329 thousand)

As at December 31, 2014 included in the closing balance of property, plant and equipment were fully depreciated assets still in use with the total initial cost of AZN 1,280 thousand (2013: AZN 997 thousand). Intangible assets include software and licenses.

9. OTHER ASSETS

	December 31, 2014	December 31, 2013
Receivables from plastic cards	121	42
Items in course of settlements	623	81
Other receivables	16	6
Total other financial assets	<u>760</u>	<u>129</u>
Repossessed collateral	372	186
Prepayments	1,029	467
Tax settlements, other than income tax	67	67
Sundry receivables	11	51
Other	131	36
Total other non-financial assets	<u>1,610</u>	<u>807</u>
Total other assets	<u>2,370</u>	<u>936</u>

Receivables from plastic cards represent net funds receivable from other local banks for cash withdrawn from the Bank's ATMs by customers of other banks.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2014 *(in thousands of Azerbaijan Manats, unless otherwise indicated)*

10. DEPOSITS AND BALANCES FROM BANKS

	December 31, 2014	December 31, 2013
Loro accounts	1	4
Term placement	<u>21,252</u>	<u>12,457</u>
Total deposits and balances from banks	<u>21,253</u>	<u>12,461</u>

As at 31 December 2014 the Group has one bank (2013: two banks), whose balance exceeds 10% of equity. The gross value of this balance as at 31 December 2014 is AZN 19,159 thousand (2013: AZN 8,258 thousand).

11. CURRENT ACCOUNTS AND DEPOSITS FROM CUSTOMERS

	December 31, 2014	December 31, 2013
Current accounts and demand from deposits		
- Retail	26,210	18,776
- Corporate	<u>28,465</u>	<u>13,435</u>
	54,675	32,211
Term deposits		
- Retail	74,696	63,452
- Corporate	<u>14,429</u>	<u>12,504</u>
	<u>89,125</u>	<u>75,956</u>
Total current accounts and deposits from customers	<u>143,800</u>	<u>108,167</u>

Economic sector concentrations within customer accounts are as follows:

	December 31, 2014	December 31, 2013
Analysis by economic sector/customer type:		
Individuals	100,878	82,212
Trade and service	19,322	11,762
Insurance	11,120	8,977
State organization	6,173	73
Non-bank credit organization	5,714	4,682
Construction and real estate	480	380
Other	<u>113</u>	<u>81</u>
Total customer accounts	<u>143,800</u>	<u>108,167</u>

As at 31 December 2014, the Group maintained customer deposit balances of AZN 13,127 thousand (2013: AZN 11,735 thousand) that serve as collateral for loans and unrecognized credit instruments granted by the Group.

As at 31 December 2014, the Group has three customers (2013: one customers), whose balances exceed 10% of equity. These balances as at 31 December 2014 are AZN 35,062 thousand (2013: AZN 9,801 thousand).

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2014 (in thousands of Azerbaijan Manats, unless otherwise indicated)

12. OTHER BORROWED FUNDS

	December 31, 2014	December 31, 2013
-Funds borrowed from the National Fund for Support of Entrepreneurship of the Republic of Azerbaijan	21,622	22,760
-Funds borrowed from Azerbaijan Mortgage Fund	16,451	14,040
-Funds borrowed from Black Sea Trade and Development Bank	11,138	3,245
-Funds borrowed from Central Bank of Azerbaijan	10,003	13,500
-Funds borrowed from the State Agency for Agricultural Credits	9,224	8,870
-Funds borrowed from World Business Capital Inc (WBS)	7,913	3,165
-Funds borrowed from Islamic Cooperation for Development of the private Sector (ICDPS)	6,852	4,088
-Funds borrowed from Monega Kapitalanlagegesellschaft Mbh Bank	4,012	-
-Funds borrowed from Microfinance Enhancement Facility SA	3,924	-
-Funds borrowed from Bank Im Bistum Essen	2,746	1,177
-Funds borrowed from ECO Trade and Development Bank	2,330	-
-Funds borrowed from International Finance Corporation (IFC)	1,723	3,626
-Funds borrowed from International Fund for Agricultural development (IFAD)	-	168
Total other borrowed funds	97,938	74,639

On September 2002, the Group signed an agreement with the National Fund for Support of Entrepreneurship of the Republic of Azerbaijan as part of a programme under the auspices of the Ministry for Economic Development of the Republic of Azerbaijan for financing of small and medium size enterprises. Under this programme, from time to time funds are made available to the Group at an interest rate of 1.0%-2.0% per annum and the Group lends these funds on to eligible borrowers at rates not higher than 7.0%-8.0% per annum. As at 31 December 2014 the Group has AZN 21,622 thousand (31 December 2013: AZN 22,760 thousand) payable to the fund, repayable up to 30 December 2019. The borrowing agreement does not include any financial covenants

On 17 February 2006, the Group signed an agreement with the Azerbaijan Mortgage Fund as part of a programme under the auspices of CBAR, on initial financing of mortgage loans to individuals. Under this programme, from time to time funds are made available to the Group at an interest rate of 2-8% per annum and the Group lends these funds on to eligible borrowers at a rate 8.0% per annum. As at 31 December 2014 the Group has AZN 16,451 thousand (31 December 2013: AZN 14,040 thousand) payable to the Fund. The borrowing agreement does not include any financial covenants.

On 5 December 2011, the Group signed a credit agreement with Black Sea Trade and Development Bank to obtain a revolving credit line in the amount of USD 4,000 thousand maturing on 22 July 2017 to be used for financing customers in the Republic of Azerbaijan who export goods to other Member or non-Member Countries and/or import goods from other Member Countries. On 21 May 2014, the Group signed an amendment agreement for augmentation of credit line amount in the aggregate principal amount consisting of USD 14,000 thousand. As at 31 December 2014, the outstanding amount of debt under this credit agreement was AZN 11,138 thousand (31 December 2013: AZN 3,245 thousand) at an interest rate of 7% per annum. The Group is obliged to comply with certain financial covenants stipulated by the aforementioned loan agreement.

The Group signed six loan agreements with Central Bank of Azerbaijan with starting dates ranging from May, 2012 to December, 2014 for financing of small and medium size enterprises with total amount of AZN 14,000 thousand. As at 31 December 2014, the outstanding amount of debt under these credit agreements was AZN 10,003 thousand (31 December 2013: AZN 13,500 thousand) at an interest rates from 4% to 5.69% per annum, repayable to the Bank from years of 2015 and 2016. The borrowing agreement does not include any financial covenants.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2014

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On 30 July 2007, the Group signed an agreement with the State Agency for Agricultural Credits as part of a programme under the auspices of the Ministry for Agriculture of the Republic of Azerbaijan, for financing of small and medium size enterprises. Under this programme, from time to time funds are made available to the Group at an interest rate of 2.0% per annum and the Group lends these funds on to eligible borrowers at rates not higher than 7.0% per annum. As at 31 December 2014 the Group has AZN 9,224 thousand (31 December 2013: AZN 8,870 thousand) payable to the Agency that is repayable from 2013 to 2015. The borrowing agreement does not include any financial covenants.

On 29 June 2009, the Group signed a loan agreement with WBC to obtain a credit line of up to USD 7,500 thousand to be used for financing small and medium-sized enterprises of the Republic of Azerbaijan. On 20 May 2014, WBS provided an additional seven years term credit facility, including a twenty-four month grace period, of up to USD 7,000 thousand to finance costs of the Group associated with its lending activities to qualified SME borrowers. As at 31 December 2014, the Group had drawn down credit in the amount of AZN 7,913 thousand (31 December 2013: AZN 3,165 thousand) at an interest rate of 3.75% and 5.25% (without LIBOR) per annum. The maturity date of the loan agreement is 25 June 2019. The Group is obliged to comply with certain financial covenants stipulated by the aforementioned loan agreement.

On 2 April 2008, the Group signed a revolving loan agreement with ICDPS on obtaining a credit line up to USD 1,000 thousand to be used for financing small and medium-sized enterprises of the Republic of Azerbaijan. On 1 August 2012, ICDPS extended an additional line facility in the amount of USD 3,500 thousand and, further, on 23 February 2014, ICDPS has approved the extension of a line of financing for an amount of up to USD 11,500 thousand. As at 31 December 2014, the outstanding amount under credit agreements was AZN 6,852 thousand (31 December 2013: AZN 4,088 thousand) that is repayable from 2013 to 2017. Interest is charged on ICDPS borrowings at 5 years USD Swap Rate plus 700 basis points per annum with a floor of 9% and a cap of 12% per annum. The Group is obliged to comply with certain financial covenants stipulated by the aforementioned loan agreement.

On 11 September 2014, the Group signed loan agreement with Monega Kapitalanlagegesellschaft Mbh Bank in the amount of USD 5,000 thousand and interest rate 7.25% to enable the Bank to grant micro-credit loans to poor or low-income clients with no intention to be used for the sake of refinancing or granting consumer credits. As at 31 December 2014 the Group has AZN 4,012 thousand (31 December 2013: nil) payable to the lender, repayable up to 11 September 2018. The borrowing agreement does not include any financial covenants

On 10 October 2014, the Group signed a loan agreement with MEF for two installments total USD 5,000 thousand to be used for financing small and medium-sized enterprises of the Republic of Azerbaijan. As at 31 December 2014 the Group has AZN 3,924 thousand with interest rate 6% payable to the Fund on 25 November 2017. The Group is obliged to comply with certain financial covenants stipulated by the aforementioned loan agreement.

On 26 March 2014, the Group signed two loan agreements with Bank Im Bistum in the aggregate amount of USD 3,500 thousand and interest rate 7.5% to enable the Bank to grant micro-credit loans to poor or low-income clients with no intention to be used for the sake of refinancing or granting consumer credits. As at 31 December 2014 the Group has AZN 2,746 thousand (31 December 2013: AZN 1,177 thousand) payable to the lender, repayable up to 11 April 2017. The borrowing agreement does not include any financial covenants.

On 19 December 2014, the Group signed a loan agreement with ECO Trade and Development Bank in total amount up to USD 3,000 thousand to be used for financing small and medium-sized enterprises of the Republic of Azerbaijan. As at 31 December 2014 the Group has AZN 2,330 thousand with interest rate 6% payable to the Fund on 30 December 2018. The Group is obliged to comply with certain financial covenants stipulated by the aforementioned loan agreement.

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On 27 May 2011, the Group signed a credit agreement with IFC to obtain a loan of USD 7,000 thousand maturing on 25 December 2015 to be used for financing the growth of its microfinance and small and medium enterprise portfolio. As at 31 December 2014, the outstanding amount of debt under this credit agreement was AZN 1,723 thousand (31 December 2013: AZN 3,626 thousand) at an interest rate of 6.06% per annum. The Group is obliged to comply with certain financial covenants stipulated by the aforementioned loan agreement.

On 12 October 2004, the Group signed an agreement with IFAD as part of a program under the auspices of the Ministry for Agriculture of the Republic of Azerbaijan for financing of small and medium size enterprises of the Republic of Azerbaijan. As at 31 December 2014, the Group had zero outstanding balance with IFAD (31 December 2013: AZN 168 thousand).

Covenant Compliance

As at 31 December 2014 and 2013, the Group was in compliance with all the financial covenants set by financial institutions mentioned above.

13. OTHER LIABILITIES

	December 31, 2014	December 31, 2013
Financial liabilities		
Amounts in course of settlement	191	245
Other financial liabilities	<u>40</u>	<u>26</u>
Total financial liabilities	231	271
Non-financial liabilities	<u>46</u>	<u>47</u>
Total other liabilities	<u>277</u>	<u>318</u>

14. SHARE CAPITAL

	Number of outstanding ordinary shares	Ordinary shares	Share premium	Total
As at December 31, 2012	27,727	30,001	-	30,001
Shares issued	10,167	11,001	724	11,725
Capitalized retained earnings	<u>2,773</u>	<u>3,000</u>	-	<u>3,000</u>
As at December 31, 2013	<u>40,667</u>	<u>44,002</u>	<u>724</u>	<u>44,726</u>
Capitalized retained earnings	<u>2,773</u>	<u>3,000</u>	-	<u>3,000</u>
As at December 31, 2014	<u>43,440</u>	<u>47,002</u>	<u>724</u>	<u>47,726</u>

The authorized, issued and outstanding share capital comprises 43,440 ordinary shares (2013: 40,667). All shares have a nominal value of AZN 1,082 per share. During 2014, 2,773 ordinary shares (2013: 12,940) were issued. All of these issued shares, 2,773 were settled through a transfer from retained earnings of AZN 3,000 thousand.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at annual and general meetings of the Bank. In 2014 the Bank declared and paid dividends totaling AZN 1,039 thousand on ordinary shares. (2013: nil)

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2014 (in thousands of Azerbaijan Manats, unless otherwise indicated)

15. EARNINGS PER SHARE

Basic earnings per share

	December 31, 2014	December 31, 2013
Earnings per share		
Basic earnings per share (AZN per share)	134	112

The calculation of basic earnings per share as at 31 December 2014 is based on the profit attributable to ordinary shareholders of AZN 5,563 thousand (2013: AZN 3,814 thousand), and weighted average number of ordinary shares outstanding of 41,634 (2013: 34,027) calculated as follows:

	December 31, 2014	December 31, 2013
Net profit attributable to ordinary shares	<u>5,563</u>	<u>3,814</u>
Issued ordinary shares at the beginning of the year	40,667	27,727
Effect of shares issued during the year	967	6,300
Weighted average number of ordinary shares for the year ended 31 December, 2014	<u>41,634</u>	<u>34,027</u>
Earnings per share (AZN)	<u>134</u>	<u>112</u>

16. NET INTEREST INCOME

	Year ended December 31, 2014	Year ended December 31, 2013
Interest income comprises:		
Loans to customers	27,781	22,822
Loans and advances to banks	319	479
Available-for-sale financial assets	161	32
Cash and cash equivalents	12	12
Total interest income	<u>28,273</u>	<u>23,345</u>
Interest expense comprises:		
Current accounts and deposits from customers	9,541	8,087
Other borrowed funds	2,989	2,229
Deposits and balances from banks	957	1,410
Total interest expense	<u>13,487</u>	<u>11,726</u>
Net interest income	<u>14,786</u>	<u>11,619</u>

Included within various line items under interest income for the year ended 31 December 2014 is total of AZN 1,707 thousand (2013 : AZN 2,388 thousand) accrued on impaired financials assets.

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17. NET FEE AND COMMISSION INCOME

	Year ended December 31, 2014	Year ended December 31, 2013
Fee and commission income:		
Cash withdrawal	2,703	2,290
Plastic cards	463	462
Servicing customers' accounts	260	362
Guarantee and letter of credit issuance	266	250
Foreign exchange	153	180
Settlement	3	4
Other	-	12
Total fee and commission income	3,848	3,560
Fee and commission expense:		
Cash collection	243	288
Plastic cards	255	216
Servicing corresponding accounts	99	103
Guarantee and letter of credit issuance	9	9
Other	57	24
Total fee and commission expense	663	640
Net fee and commission income	3,185	2,920

18. PERSONNEL EXPENSES

	Year ended December 31, 2014	Year ended December 31, 2013
Employee compensation	5,283	4,240
Payments to Social Security Fund	1,147	922
Total personnel expenses	6,430	5,162

19. OTHER GENERAL ADMINISTRATIVE EXPENSES

	Year ended December 31, 2014	Year ended December 31, 2013
Advertising and marketing	1,222	1,102
Depreciation and amortization	935	792
Operating lease expense	449	310
Security	352	312
Communications and information services	290	259
Professional services	290	134
Repairs and maintenance	250	199
Insurance	161	47
Office supplies	138	155
Taxes other than on income	91	83
Travel expenses	77	75
Utilities	44	41
Other	300	262
Total other general administrative expenses	4,599	3,771

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2014 *(in thousands of Azerbaijan Manats, unless otherwise indicated)*

20. INCOME TAXES

The Group measures and records its current income tax payable and its tax bases in its assets and liabilities in accordance with the tax regulations of the Republic of Azerbaijan where the Group operates, which may differ from IFRS. The Bank is subject to certain permanent tax differences due to the non-tax deductibility of certain expenses and certain income being treated as non-taxable for tax purposes.

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences as at December 31, 2014 and 2013 relate mostly to different methods/timing of income and expense recognition as well as to temporary differences generated by tax – book bases' differences for certain assets.

The tax rate used for the reconciliations below is the corporate tax rate of 20% payable by corporate entities in the Republic of Azerbaijan on taxable profits (as defined) under tax law in that jurisdiction.

Deferred tax assets as at December 31, 2014 and 2013 comprise:

	December 31, 2014	December 31, 2013
Deferred tax liabilities in relation to:		
Available-for-sale financial assets	-	(15)
Loans to customers	545	581
Property, equipment and intangible assets	(833)	(774)
Other assets	6	(28)
	<u>6</u>	<u>(28)</u>
Net deferred tax liabilities	<u>(282)</u>	<u>(236)</u>

The effective tax rate reconciliation is as follows for the years ended December 31, 2014 and 2013:

	Year ended December 31, 2014	Year ended December 31, 2013
Profit before income tax	<u>7,020</u>	<u>4,781</u>
Tax at the statutory tax rate (20%)	(1,404)	(956)
Adjustments recognized in the current year in relation to the current tax of prior years	<u>(53)</u>	<u>(11)</u>
Income tax expense	<u>(1,457)</u>	<u>(967)</u>
Current income tax expense	(1,411)	(937)
Change in the deferred tax liability	<u>(46)</u>	<u>(30)</u>
Income tax expense	<u>(1,457)</u>	<u>(967)</u>
Deferred income tax liabilities	<u>2014</u>	<u>2013</u>
As at January 1 – deferred tax liabilities	236	32
Changes in deferred income tax balances recognized in other comprehensive income	-	174
Change in deferred income tax balances recognized in consolidated profit or loss	<u>46</u>	<u>30</u>
As at December 31- deferred tax liabilities	<u>282</u>	<u>236</u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2014 *(in thousands of Azerbaijan Manats, unless otherwise indicated)*

21. RISK MANAGEMENT

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

Risk management policies and procedures

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

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

The Management Board is responsible for monitoring and implementation of risk mitigation measures and making sure that the Group operates within the established risk parameters. The Head of the Risk Department is responsible for the overall risk management and compliance functions, ensuring the implementation of common principles and methods for identifying, measuring, managing and reporting both financial and non-financial risks. He reports directly to the CEO and indirectly to the Supervisory Board.

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

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

Market risk

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

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

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

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

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Interest rate risk

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

Interest rate gap analysis

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

	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Non- interest bearing	Carrying amount
31 December 2014							
ASSETS							
Cash and cash equivalents	-	-	-	-	-	52,155	52,155
Available-for-sale financial assets	4,120	-	-	-	-	620	4,740
Loans to banks	16,311	800	7,847	-	-	2,809	27,767
Loans to customers	28,914	29,146	49,098	94,323	12,140	4,532	218,153
Other financial assets	-	-	-	-	-	-	760
	49,345	29,946	56,945	94,323	12,140	60,876	303,575
LIABILITIES							
Deposits and balances from banks	21,252	-	-	-	-	1	21,253
Current accounts and deposits from customers	36,391	10,546	31,317	29,039	30	36,477	143,800
Other borrowed funds	10,884	9,860	19,720	44,604	12,870	-	97,938
Other financial liabilities	231	-	-	-	-	-	231
	68,527	20,406	51,037	73,643	12,900	36,709	263,222
	(19,182)	9,540	5,908	20,680	(760)	24,167	40,353
31 December 2013							
ASSETS							
Cash and cash equivalents	-	-	-	-	-	40,551	40,551
Available-for-sale financial assets	-	-	-	-	-	1,158	1,158
Loans to banks	6,164	1,000	2,000	-	-	3,224	12,388
Loans to customers	21,472	22,505	44,534	74,594	10,826	3,677	177,608
Other financial assets	-	-	-	-	-	129	129
	27,636	23,505	46,534	74,594	10,826	48,739	231,834
LIABILITIES							
Deposits and balances from banks	8,934	2,461	-	785	-	281	12,461
Current accounts and deposits from customers	24,142	13,184	19,687	28,221	27	22,906	108,167
Other borrowed funds	9,380	9,307	11,927	33,993	9,807	225	74,639
Other financial liabilities	-	-	-	-	-	271	271
	42,456	24,952	31,614	62,999	9,834	23,683	195,538
	(14,822)	(1,447)	14,920	11,595	992	25,056	36,296

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Average effective interest rates

The table below displays average effective interest rates for interest bearing assets and liabilities as at 31 December 2014 and 2013. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	2014			2013		
	Average effective interest rate, %			Average effective interest rate, %		
	AZN	USD	Other currencies	AZN	USD	Other currencies
Interest bearing assets						
Available-for-sale financial assets	7.82	-	-	-	-	-
Loans to banks	8.00	3.60	0.10	7.71	0.21	-
Loans to customers	14.09	15.08	-	13.73	15.43	-
Interest bearing liabilities						
Deposits and balances from banks						
- Vostro accounts	-	-	-	-	-	-
- Term deposits	-	5.90	2.33	6.64	7.69	3.68
Current accounts and deposits from customers						
- Current accounts and demand deposits	3.60	3.32	3.75	1.85	0.50	0.04
- Term deposits	10.70	11.34	13.27	10.49	12.19	11.96
Other borrowed funds	1.62	7.19	-	1.97	6.32	-

Interest rate sensitivity analysis

The Group is exposed to interest rate risk because entity borrows at both floating and fixed interest rates. The Group manages the risk by maintaining a mix between fixed and floating rate borrowings.

The sensitivity analyses below have been determined based on the exposure to interest rates for both derivatives and non-derivative instruments 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 100 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 100 basis points higher/lower and all other variables were held constant, the Bank's total comprehensive income and equity for the year ended December 31, 2014 would decrease/increase by AZN 129 thousand (2013: total comprehensive income would decrease/increase by AZN 90 thousand). This is mainly attributable to the Group's exposure to interest rates on its variable and fixed rates borrowings.

Currency risk

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

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

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The following table shows the foreign currency exposure structure of financial assets and liabilities as at 31 December 2014:

	AZN	USD	EUR	Other curr encies	Total
FINANCIAL ASSETS					
Cash and cash equivalents	22,625	14,920	14,394	216	52,155
Available-for-sale financial assets	4,740	-	-	-	4,740
Loans to banks	3,610	19,396	4,761	-	27,767
Loans to customers	162,908	55,210	35	-	218,153
Other financial assets	666	94	-	-	760
Total assets	194,549	89,620	19,190	216	303,575
FINANCIAL LIABILITIES					
Deposits and balances from banks	-	5,811	15,442	-	21,253
Current accounts and deposits from customers	95,646	45,412	2,531	211	143,800
Other borrowed funds	57,204	40,734	-	-	97,938
Other financial liabilities	194	37	-	-	231
Total liabilities	153,044	91,994	17,973	211	263,222
Net position	41,505	(2,374)	1,217	5	40,353

The following table shows the currency structure of financial assets and liabilities as at 31 December 2013:

	AZN	USD	EUR	Other curr encies	Total
FINANCIAL ASSETS					
Cash and cash equivalents	17,626	11,726	10,599	600	40,551
Available-for-sale financial assets	1,158	-	-	-	1,158
Loans to banks	7,556	4,832	-	-	12,388
Loans to customers	146,961	30,626	21	-	177,608
Other financial assets	109	20	-	-	129
Total assets	173,410	47,204	10,620	600	231,834
FINANCIAL LIABILITIES					
Deposits and balances from banks	1,500	3,009	7,563	389	12,461
Current accounts and deposits from customers	76,023	28,916	3,111	117	108,167
Other borrowed funds	59,016	15,623	-	-	74,639
Other financial liabilities	260	11	-	-	271
Total liabilities	136,799	47,559	10,674	506	195,538
Net position	36,611	(355)	(54)	94	36,296

Credit Risk

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

The credit policy establishes:

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

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

Corporate loan credit applications are originated by the relevant client managers and are then passed on to the Loan Department, which is responsible for the corporate loan portfolio.

Analysis reports are based on a structured analysis focusing on the customer's business and financial performance. The loan credit application and the report are then independently reviewed by the Risk Department and a second opinion is given accompanied by a verification that credit policy requirements are met. The Credit Committee reviews the loan credit application on the basis of submissions by the Loan Department and the Risk Department. Individual transactions are also reviewed by the Legal, Accounting and Tax departments depending on the specific risks and pending final approval of the Credit Committee.

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

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

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

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

	December 31, 2014	December 31, 2014
FINANCIAL ASSETS		
Cash and cash equivalents (excluding CBAR balances)	7,730	16,139
Available-for-sale financial assets	4,740	1,158
Loans to banks	27,767	12,388
Loans to customers	218,153	177,608
Other financial assets	760	129
Total maximum exposure	259,150	206,264

Off-balance sheet risk

The Bank applies fundamentally the same risk management policies for off-balance sheet risks as it does for its on-balance sheet risks. In the case of commitments to lend, customers and counterparties will be subject to the same credit management policies as for loans and advances. Collateral may be sought depending on the strength of the counterparty and the nature of the transaction.

Geographical concentration

The Assets and Liabilities Management Committee ("ALMC") exercises control over the risk in the legislation and regulatory arena and assesses its influence on the Bank's activity. This approach allows the Bank to minimize potential losses from the investment climate fluctuations in the Republic of Azerbaijan.

The geographical concentration of assets and liabilities is set out below:

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2014

(in thousands of Azerbaijan Manats, unless otherwise indicated)

	The Republic of Azerbaijan	OECD countries	Other non-OECD countries	December 31, 2014 Total
FINANCIAL ASSETS				
Cash and cash equivalents	52,155	-	-	52,155
Available-for-sale financial assets	4,740	-	-	4,740
Loans to banks	12,808	14,959	-	27,767
Loans to customers	218,153	-	-	218,153
Other financial assets	760	-	-	760
Total financial assets	288,616	14,959	-	303,575
FINANCIAL LIABILITIES				
Deposits and balances from banks	1,148	19,159	946	21,253
Current accounts and deposits from customers	143,800	-	-	143,800
Other borrowed funds	57,300	33,786	6,852	97,938
Other financial liabilities	231	-	-	231
Total financial liabilities	202,479	52,945	7,798	263,222
NET POSITION ON FINANCIAL INSTRUMENTS	86,137	(37,986)	(7,798)	

	The Republic of Azerbaijan	OECD countries	Other non-OECD countries	December 31, 2013 Total
FINANCIAL ASSETS				
Cash and cash equivalents	40,551	-	-	40,551
Available-for-sale financial assets	1,158	-	-	1,158
Loans to banks	7,700	4,688	-	12,388
Loans to customers	177,608	-	-	177,608
Other financial assets	129	-	-	129
Total financial assets	227,146	4,688	-	231,834
FINANCIAL LIABILITIES				
Deposits and balances from banks	1,500	10,961	-	12,461
Current accounts and deposits from customers	108,167	-	-	108,167
Other borrowed funds	59,170	11,381	4,088	74,639
Other financial liabilities	271	-	-	271
Total financial liabilities	169,108	22,342	4,088	195,538
NET POSITION ON FINANCIAL INSTRUMENTS	58,038	(17,654)	(4,088)	

Collateral

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters. The main types of collateral obtained are as follows:

- For commercial lending, charges over real estate properties, inventory
- For retail lending, mortgages over residential properties.

At December 31, 2014, the fair value of collateral that the Bank holds relating to loans individually determined to be impaired amounts to nil. (2013: AZN 2,187 thousand). The collateral consists of real estate and equipment.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2014 *(in thousands of Azerbaijan Manats, unless otherwise indicated)*

During the year, the Bank took possession of real estate with a carrying value of AZN 371 thousand at the statement of financial position date, which the Bank is in the process of selling.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses.

Renegotiated loans and advances.

Loans and advances are generally renegotiated either as part of an ongoing customer relationship or in response to an adverse change in the circumstances of the borrower. In the latter case, renegotiation can result in an extension of the due date of payment or repayment plans under which the Group offers a concessionary rate of interest to genuinely distressed borrowers. This will result in the asset continuing to be overdue and will be individually impaired where the renegotiated payments of interest and principal will not recover the original carrying amount of the asset. In other cases, renegotiation will lead to a new agreement, which is treated as a new loan.

Credit quality by class of financial asset

The following table details credit ratings of financial assets held by the Bank:

December 31, 2014	A	BBB	<BBB	Not rated	Total
Available-for-sale financial assets	-	-	-	4,740	4,740
Loans to banks	-	17,768	-	9,999	27,767
Loans to customers	-	-	-	218,153	218,153
Other financial assets	-	-	-	760	760
December 31, 2013					
Available-for-sale financial assets	-	-	-	1,158	1,158
Loans to banks	4,688	3,084	-	4,616	12,388
Loans to customers	-	-	-	177,608	177,608
Other financial assets	-	-	-	129	129

The Bank enters into numerous transactions where the counterparties are not rated by international rating agencies. The Bank has developed internal models, which allow it to determine the rating of counterparties, which are comparable to rating of international rating agencies.

A model of the borrower's scoring assessment has been developed in the Bank to assess and decide on loans to corporate customers as well as small and medium-sized businesses. The scoring model is developed relating to standard loan products and includes key performance indicators of borrowers: financial situation, relations with the borrower, management quality, target use, location, credit history, collateral, etc.

The scoring assessment based on the borrower's parameters is one of the main factors for the decision-making process relating to loans.

A methodology of evaluation of borrowers-individuals is based on following criteria: education, occupancy, financial position, credit history, property owned by the borrower. Based on information obtained the maximum limit of a loan is calculated. The maximum limit of a loan is calculated using a ratio of debt pressure on a borrower.

The Bank applies internal methodologies to specific corporate loans and groups of retail loans. The scoring methodologies are tailor-made for specific products and are applied at various stages over the life of the loan. As a result, it is not possible to make a cross-product score comparison which would agree to the outstanding balance of loans to customers per the statement of financial position. As such, more detailed information is not being presented.

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(in thousands of Azerbaijan Manats, unless otherwise indicated)

Financial assets other than loans to customers are graded according to the current credit rating they have been issued by an internationally regarded agency such as Fitch, Standard & Poor's and Moody's. The highest possible rating is AAA. Investment grade financial assets have ratings from AAA to BBB. Financial assets which have ratings lower than BBB are classed as speculative grade.

As at December 31, 2014 and 2013 the balances with the CBAR amounted to AZN 19,927 thousand and AZN 10,920 thousand, respectively. The credit rating of the Republic of Azerbaijan according to the international rating agencies in 2014 corresponded to BBB. (2013: BBB).

Liquidity Risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to liquidity management. It is unusual for financial institutions ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

The Group maintains liquidity management with the objective of ensuring that funds will be available at all times to honor all cash flow obligations as they become due. The liquidity policy is reviewed and approved by the Management Board

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

The liquidity management policy requires:

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

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

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2014

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The following tables detail the Group's remaining contractual maturity for its financial liabilities with agreed repayment periods. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The tables include both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curves at the end of the reporting period. The contractual maturity is based on the earliest date on which the Group may be required to pay.

	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	December 31, 2014 Total
Non-derivative liabilities						
Deposits and balances from banks	19,180	2,100	-	-	-	21,280
Current accounts and deposits from customers	64,736	10,253	12,093	33,231	34,720	155,033
Other borrowed funds	2,239	10,108	15,637	17,984	66,769	112,737
Other financial liabilities	231	-	-	-	-	231
Total financial liabilities	86,386	22,461	27,730	51,215	101,489	289,281
Credit related commitments	22,728	-	-	-	-	22,728

	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	December 31, 2013 Total
Non-derivative liabilities						
Deposits and balances from banks	6,156	4,439	1,467	188	785	13,035
Current accounts and deposits from customers	39,895	6,241	14,898	22,959	33,122	117,115
Other borrowed funds	1,576	7,116	11,008	12,660	47,003	79,363
Other financial liabilities	271	-	-	-	-	271
Total financial liabilities	47,898	17,796	27,373	35,807	80,910	209,784
Credit related commitments	34,347	-	-	-	-	34,347

In accordance with Azerbaijani legislation, individuals and legal entities can withdraw their term deposits at any time, forfeiting in most of the cases the accrued interest. These deposits are classified in accordance with their stated maturity dates.

Management expects that the cash flows from certain financial assets and liabilities will be different from their contractual terms either because management has the discretionary ability to manage the cash flows or because past experience indicates that cash flows will differ from contractual terms.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2014 (in thousands of Azerbaijan Manats, unless otherwise indicated)

The table below shows an analysis, by expected maturities, of the amounts recognized in the statement of financial position as at 31 December 2014

	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Total
ASSETS							
Cash and cash equivalents	52,155	-	-	-	-	-	52,155
Available-for-sale financial assets	-	-	2,000	659	1,461	620	4,740
Loans to banks	15,099	1,212	8,647	-	-	2,809	27,767
Loans to customers	13,726	19,720	78,244	94,323	12,140	-	218,153
Other assets	913	794	291	-	-	372	2,370
Total assets	81,893	21,726	89,182	94,982	13,601	3,801	305,185
LIABILITIES							
Deposits and balances from banks	19,161	2,092	-	-	-	-	21,253
Current accounts and deposits from customers	63,916	8,917	41,898	29,039	30	-	143,800
Other borrowed funds	1,972	8,912	29,580	44,604	12,870	-	97,938
Current tax liability	-	-	823	-	-	-	823
Deferred tax liabilities	-	-	-	-	-	282	282
Other liabilities	193	19	-	65	-	-	277
Total liabilities	85,242	19,940	72,301	73,708	12,900	282	264,373
Net position	(3,349)	1,786	16,881	21,274	701	3,519	40,812
Cumulative net position up to 5 years	(3,349)	(1,563)	15,318	36,592			

The table below shows an analysis, by expected maturities, of the amounts recognized in the statement of financial position as at 31 December 2013:

	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Total
ASSETS							
Cash and cash equivalents	40,551	-	-	-	-	-	40,551
Available-for-sale financial assets	-	-	-	-	-	1,158	1,158
Loans to banks	6,167	-	3,000	-	-	3,221	12,388
Loans to customers	7,630	14,138	68,271	76,456	11,113	-	177,608
Other assets	292	67	47	-	-	530	936
Total assets	54,640	14,205	71,318	76,456	11,113	4,909	232,641
LIABILITIES							
Deposits and balances from banks	6,153	4,234	1,284	785	-	5	12,461
Current accounts and deposits from customers	40,022	5,466	34,059	28,593	27	-	108,167
Other borrowed funds	1,503	6,792	22,543	33,993	9,808	-	74,639
Current tax liability	-	-	409	-	-	-	409
Deferred tax liabilities	-	-	-	-	-	236	236
Other liabilities	318	-	-	-	-	-	318
Total liabilities	47,996	16,492	58,295	63,371	9,835	241	196,230
Net position	6,644	(2,287)	13,023	13,085	1,278	4,668	36,411
Cumulative net position up to 5 years	6,644	4,357	17,380	30,465			

The key measure used by the Bank for managing liquidity risk is the liquidity ratio stipulated by CBAR. The Bank calculates this mandatory liquidity ratio on a daily basis in accordance with the requirement of the CBAR. This ratio is represented by the instant liquidity ratio, which is calculated as the ratio of highly liquid assets to liabilities payable on demand.

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.

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22. CAPITAL MANAGEMENT

The CBAR sets and monitors capital requirements for the Bank.

The Bank defines as capital those items defined by statutory regulation as capital for credit institutions. Under the current capital requirements set by the CBAR, banks have to hold a minimum level of capital of AZN 50,000 thousand (2013: AZN 10,000 thousand). Banks also have to maintain a ratio of total regulatory capital to risk weighted assets (statutory capital ratio) above the prescribed minimum level. As at 31 December 2014, this minimum level is 12% (31 December 2013: 12%). Further, the CBAR requires that Banks have to maintain a ratio of Tier 1 Capital to risk weighted assets at the prescribed minimum level of 6%. The Bank is in compliance with the statutory capital ratio as at 31 December 2014 and 2013.

The Group also monitors its 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) and Amendment to the Capital Accord to incorporate market risks (updated November 2007), commonly known as Basel I.

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

	2014 AZN'000	2013 AZN'000
Tier 1 capital		
Share capital	47,002	44,002
Share premium	724	724
Retained earnings	3,637	1,996
Less: Intangible assets	(96)	(88)
Total tier 1 capital	51,267	46,634
Tier 2 capital		
Reserves (1.25% of Risk-weighted assets)	3,495	2,971
Asset revaluation reserve	1,210	1,327
Revaluation reserve for available-for sale assets	-	58
Total tier 2 capital	4,705	4,356
Less: Investments	(620)	(1,158)
Total capital	55,352	49,832
Risk-weighted assets		
On-balance sheet	250,192	196,666
Off-balance sheet	29,395	41,015
Total risk weighted assets	279,587	237,681
Total capital expressed as a percentage of risk-weighted assets (total capital ratio) (minimum 12%)	19.80%	20.97%
Total tier 1 capital expressed as a percentage of risk-weighted assets (tier 1 capital ratio) (minimum 6%)	18.34%	19.62%

The risk-weighted assets are measured by means of a hierarchy of risk weights classified according to the nature and reflecting an estimate of credit, market and other risks associated with each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for unrecognized contractual commitments, with some adjustments to reflect the more contingent nature of the potential losses.

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The Group is subject to minimum capital adequacy requirements calculated in accordance with the Basle Accord established by covenants under liabilities incurred by the Group. The Group has complied with all externally imposed capital requirements as at 31 December 2014 and 2013.

23. CREDIT RELATED COMMITMENTS

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

The Group provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to five years. The Group also provides guarantees by acting as settlement agent in securities borrowing and lending transactions.

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

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

	2014 AZN'000	2013 AZN'000
Contracted amount		
Loan and credit line commitments	13,042	17,720
Guarantees and letters of credit	9,686	16,627
	<u>22,728</u>	<u>34,347</u>

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

24. OPERATING LEASES

Leases as lessee

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

25. CONTINGENCIES

Insurance

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

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Litigation

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

Taxation contingencies

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

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

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, which decreased significantly during 2014. Management is unable to reliably estimate the effects of any further price fluctuations on the Company's financial position.

26. RELATED PARTY TRANSACTIONS

a) Control Relationships

The bank does not have an ultimate controlling party.

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

Total remuneration included in personnel expenses for the years ended 31 December 2014 and 2013 is as follows:

	2014	2013
Short term employee benefits	382	427
	<u>382</u>	<u>427</u>

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

The outstanding balances and average effective interest rates as at 31 December 2014 and 2013 for transactions with the members of the Management Board are as follows:

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(in thousands of Azerbaijan Manats, unless otherwise indicated)

	2014 AZN'000	Average effective interest rate, %	2013 AZN'000	Average effective interest rate, %
Consolidated statement of financial position				
Loans issued (gross)	2,030	6.5	200	7.2
Loan impairment allowance	(23)		(1)	
Current accounts and deposits received	1,484	12.9	4,703	14.9
Payables for unused vacations	-	-	36	-

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

	2014	2013
Profit or loss		
Interest income	31	14
Interest expense	(51)	(147)
Impairment losses	(23)	(1)

c) Transactions with shareholders

In addition to its related party disclosures, the Bank disclosed outstanding balances and the related average interest rates as at 31 December 2014 and 2013 and related profit or loss amounts of transactions for the year ended 31 December 2014 and 2013 with other shareholders (holding 5% or more of shares of the Bank):

	2014		2013	
	2014	Average interest rate, %	2013	Average interest rate, %
Consolidated statement of financial position				
ASSETS				
Loans to customers				
- In AZN:				
Principal balance	1,375	14.0	885	15.0
Impairment allowance	(84)		(20)	
LIABILITIES				
Current accounts and deposits from customers	412	11.6	1,731	11.5
Profit (loss)				
Interest income	329		248	
Interest expense	(49)		(136)	
Fee and commission income	20		14	
Impairment losses	(84)		(20)	

The majority of balances resulting from transactions with related parties mature within one year.

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27. 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 financial assets and financial liabilities that are not 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 hierarchy	Valuation technique(s) and key input(s)	Significant unobservab le input(s)	Relationship of unobservable inputs to fair value
	December 31, 2014	December 31, 2013				
1) AFS – corporate bonds (see Note 5)	4,120	-	Level 1	Quoted bid prices in an active market.	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, 2014		December 31, 2013	
	Carrying value	Fair value	Carrying value	Fair value
Cash and cash equivalents	52,155	52,155	40,551	40,551
Loans to banks	27,767	28,012	12,388	12,555
Equity investments	620	620	1,158	1,158
Loans to customers	218,153	218,733	177,608	177,862
Other financial assets	760	760	129	129
Deposits and balances from banks	21,253	21,410	12,461	12,568
Current accounts and deposits from customers	143,800	144,434	108,167	108,542
Other borrowed funds	97,938	98,876	74,639	75,345
Other financial liabilities	231	231	271	271

	31 December 2014			
	Level 1	Level 2	Level 3	Total
Financial assets:				
Cash and cash equivalents	52,155	-	-	52,155
Loans to banks	-	28,012	-	28,012
Equity investments	-	-	620	620
Loans to customers	-	218,733	-	218,733
Other financial assets	-	760	-	760
Financial liabilities:				
Deposits and balances from banks	-	21,410	-	21,410
Current accounts and deposits from customers	-	144,434	-	144,434
Other borrowed funds	-	98,876	-	98,876
Other financial liabilities	-	231	-	231

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	31 December 2013			Total
	Level 1	Level 2	Level 3	
Financial assets:				
Cash and cash equivalents	40,551	-	-	40,551
Loans to banks	-	12,555	-	12,555
Equity investments	-	-	1,158	1,158
Loans to customers	-	177,862	-	177,862
Other financial assets	-	129	-	129
Financial liabilities:				
Deposits and balances from banks	-	12,568	-	12,568
Current accounts and deposits from customers	-	108,542	-	108,542
Other borrowed funds	-	75,345	-	75,345
Other financial liabilities	-	271	-	271

As at December 31, 2014 and 2013 available-for-sale financial assets include equity investments of AZN 620 thousands and AZN 1,158 thousands, which are carried at cost.

The fair values of the financial assets and financial liabilities included in the level 2 and 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.

28. SUBSEQUENT EVENTS

On 21 February 2015, the Central Bank of the Republic of Azerbaijan devalued the Azerbaijani Manat (AZN). As a result, the official exchange rate of AZN to the U.S. dollar fell to AZN 1.05 per U.S. dollar, and the official exchange rate of AZN to the Euro fell to AZN 1.19 per Euro, i.e. by approximately 34% from the exchange rates at the balance sheet date. To prevent the destabilization of the financial market and economy as a whole, the Central Bank plans to set a daily exchange rate for the AZN against a dual currency basket comprised of the U.S. dollar and the Euro.