

**TURAN BANK  
OPEN JOINT - STOCK  
COMPANY**

**Consolidated Financial Statements**  
For the Year Ended December 31, 2015

# TuranBank OJSC

## TABLE OF CONTENTS

---

	Page
STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2015 .....	1
INDEPENDENT AUDITORS' REPORT .....	2
CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2015:	
Consolidated statement of financial position.....	3
Consolidated statement of comprehensive income .....	4
Consolidated statement of changes in equity .....	5
Consolidated statement of cash flows .....	6
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS:	
1. Organization.....	7
2. Significant accounting policies .....	8
3. Critical accounting judgements and key sources of estimation uncertainty .....	18
4. Application of new and revised International Financial Reporting Standards (IFRSs) .....	19
5. Cash and cash equivalents.....	26
6. Available-for-sale financial assets .....	26
7. Loans to banks.....	27
8. Loans and advances to customers .....	27
9. Property, equipment and intangible assets .....	36
10. Other assets.....	37
11. Deposits and balances from banks.....	37
12. Current accounts and deposits from customers .....	38
13. Other borrowed funds .....	38
14. Other liabilities .....	42
15. Share capital .....	42
16. (Loss)/Earnings per share .....	43
17. Net interest income .....	43
18. Net fee and commission income.....	44
19. Personnel expenses .....	44
20. Other general administrative expenses .....	44
21. Income taxes.....	45
22. Risk management .....	46
23. Capital management.....	57
24. Credit related commitments .....	58
25. Operating leases.....	58
26. Contingencies .....	59
27. Related party transactions .....	60
28. Fair value of financial instruments .....	61
29. Subsequent events .....	63

## TURANBANK OJSC

### STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2015

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 subsidiary (the "Group") as at December 31, 2015, 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:

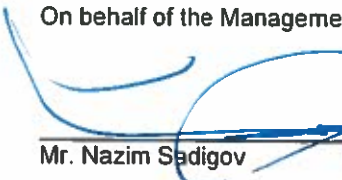
- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements in IFRSs are insufficient 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, 2015 were approved by management on May 18, 2016:

On behalf of the Management Board:

  
Mr. Nazim Sadigov

Chairman of the Management Board  
Baku, the Republic of Azerbaijan

May 18, 2016



  
Mr. Alizaman Ibrahimov

Head of Financial Management Department  
Baku, the Republic of Azerbaijan

May 18, 2016

## 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, 2015, 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, 2015, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

### *Emphasis of Matter*

We draw attention to Note 13 which describes that the Group has breached a number of borrowing covenants which resulted in the borrowings being shown as payable on demand within the liquidity maturity table in Note 22. Also as disclosed in Notes 13 and 29 the Group has received a number of waivers from its lenders subsequent to the year end. Our opinion is not qualified in respect of this matter.



May 18, 2016

Baku, the Republic of Azerbaijan

# TURANBANK OJSC

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2015

(in thousands of Azerbaijan Manats)

	Notes	December 31, 2015	December 31, 2014
<b>ASSETS</b>			
Cash and cash equivalents	5	113,613	52,155
Available-for-sale financial assets	6	786	4,740
Loans to banks	7	107,095	27,767
Loans to customers	8,27	280,800	218,153
Property, equipment and intangible assets	9	12,836	11,761
Current income tax assets		1,049	-
Deferred income tax assets	21	5	-
Other assets	10	1,557	2,370
<b>TOTAL ASSETS</b>		<b>517,741</b>	<b>316,946</b>
<b>LIABILITIES AND EQUITY</b>			
<b>LIABILITIES:</b>			
Deposits and balances from banks	11	21,068	21,253
Customer accounts and deposits from customers	12,27	246,923	143,800
Other borrowed funds	13	199,642	97,938
Current tax liability		523	823
Deferred tax liabilities	21	-	282
Other liabilities	14	604	277
<b>TOTAL LIABILITIES</b>		<b>468,760</b>	<b>264,373</b>
<b>EQUITY:</b>			
Equity attributable to owners of the Bank:			
Share capital	15	50,002	47,002
Share premium	15	724	724
Revaluation surplus for buildings		1,224	1,224
Retained earnings		(2,969)	3,623
<b>TOTAL EQUITY</b>		<b>48,981</b>	<b>52,573</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>517,741</b>	<b>316,946</b>

On behalf of the Management Board:

Mr. Nazim Sadıgov

Chairman of the Management Board  
Baku, the Republic of Azerbaijan

May 18, 2016



Mr. Alizaman Ibrahimov

Head of Financial Management Department  
Baku, the Republic of Azerbaijan

May 18, 2016

The notes on pages 7-63 form an integral part of these consolidated financial statements.

# TURANBANK OJSC

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31, 2015

(in thousands of Azerbaijan Manats, unless otherwise indicated)

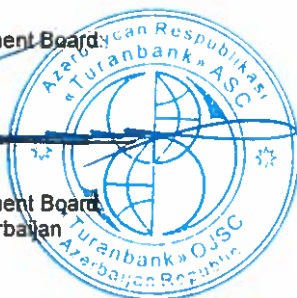
	Notes	Year ended December 31, 2015	Year ended December 31, 2014
Interest income	17, 27	35,174	28,273
Interest expense	17, 27	(19,168)	(13,487)
<b>Net interest income</b>		<b>16,006</b>	<b>14,786</b>
Impairment losses on interest bearing assets	8,27	(5,604)	(1,040)
<b>Net interest income</b>		<b>10,402</b>	<b>13,746</b>
Fee and commission income	18, 27	3,172	3,848
Fee and commission expense	18, 27	(922)	(663)
Net gain from trading in foreign currency		1,204	1,016
Net foreign exchange (loss)/gain		(1,584)	54
Other operating income		2	48
<b>Net non-interest income</b>		<b>1,872</b>	<b>4,303</b>
<b>Operating income</b>		<b>12,274</b>	<b>18,049</b>
Personnel expenses	19	(7,067)	(6,430)
Other general administrative expenses	20	(6,508)	(4,599)
<b>(Loss)/profit before income tax</b>		<b>(1,301)</b>	<b>7,020</b>
Income tax benefit/(expense)	21	169	(1,457)
<b>(Loss)/profit for the year</b>		<b>(1,132)</b>	<b>5,563</b>
<b>Other comprehensive loss, net of income tax:</b>			
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)
Total items that are or may be reclassified subsequently to profit or loss:		-	(58)
<b>Other comprehensive loss for the year, net of income tax:</b>		-	(58)
<b>Total comprehensive (loss)/income for the year</b>		<b>(1,132)</b>	<b>5,505</b>
<b>(Loss)/earnings per share</b>			
Basic (loss)/earnings per share (expressed in AZN)	16	(25)	134

On behalf of the Management Board

Mr. Nazim Sadigov

Chairman of the Management Board  
Baku, the Republic of Azerbaijan

May 18, 2016



*Alizaman Ibrahimov*

Mr. Alizaman Ibrahimov

Head of Financial Management Department  
Baku, the Republic of Azerbaijan

May 18, 2016

The notes on pages 7-63 form an integral part of these consolidated financial statements.

# TURANBANK OJSC

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31, 2015 (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
January 1, 2014		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)
Revaluation of property and equipment, net of deferred tax		-	-	(103)	-	103	-
Issue of share capital from retained earnings	15	3,000	-	-	-	(3,000)	-
Dividends paid	15	-	-	-	-	(1,039)	(1,039)
<b>Balance as at December 31, 2014</b>		<b>47,002</b>	<b>724</b>	<b>1,224</b>	<b>-</b>	<b>3,623</b>	<b>52,573</b>
Loss for the year		-	-	-	-	(1,132)	(1,132)
Other comprehensive income							
Net change in fair value of available-for-sale financial assets transferred to profit or loss, net of deferred tax		-	-	-	-	-	-
Issue of share capital from retained earnings		3,000	-	-	-	(3,000)	-
Dividends paid	15	-	-	-	-	(2,460)	(2,460)
<b>Balance as at December 31, 2015</b>		<b>50,002</b>	<b>724</b>	<b>1,224</b>	<b>-</b>	<b>(2,969)</b>	<b>48,981</b>

On behalf of the Management Board

Mr. Nazim Sadigov

Chairman of the Management Board  
Baku, the Republic of Azerbaijan

May 18, 2016



*Alizaman Ibrahimov*

Mr. Alizaman Ibrahimov

Head of Financial Management Department  
Baku, the Republic of Azerbaijan

May 18, 2016

The notes on pages 7-63 form an integral part of these consolidated financial statements.

**TURANBANK OJSC**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED DECEMBER 31, 2015**  
*(in thousands of Azerbaijan Manats)*

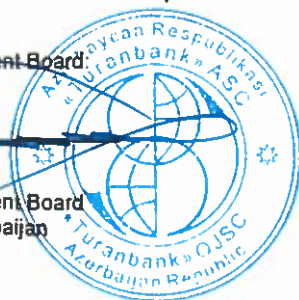
	Notes	Year ended December 31, 2015	Year ended December 31, 2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Interest receipts		37,900	29,201
Interest payments		(17,347)	(12,987)
Fees and commissions receipts		3,172	3,848
Fees and commissions payments		(922)	(663)
Income received from trading in foreign currencies		1,204	1,016
Other operating income received		2	48
Administrative and other operating expenses paid		<u>(12,499)</u>	<u>(10,094)</u>
<b>Cash flows from operating activities before changes in operating assets and liabilities</b>		<u><b>11,510</b></u>	<u><b>10,369</b></u>
<b>Changes in operating assets and liabilities</b>			
Net increase in loans and advances to banks		(66,058)	(15,383)
Net increase in loans to customers		(4,981)	(42,509)
Net decrease/(increase) in other assets		1,211	(872)
Net (decrease)/increase in deposits and balances from banks		(6,069)	8,890
Net increase in current accounts and deposits from customers		10,120	35,340
Net increase/(decrease) in other liabilities		<u>26</u>	<u>(41)</u>
<b>Net cash used in operating activities before income tax paid</b>		<u><b>(54,241)</b></u>	<u><b>(4,206)</b></u>
Income tax paid		(1,467)	(997)
<b>Cash flows used in operations</b>		<u><b>(55,708)</b></u>	<u><b>(5,203)</b></u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Purchases of property and equipment and intangible assets		(1,680)	(1,562)
Purchases of available-for-sale financial assets		-	(3,640)
Proceeds from disposal and redemption of available-for-sale financial assets		<u>3,954</u>	<u>-</u>
<b>Cash flows from/(used in) investing activities</b>		<u><b>2,274</b></u>	<u><b>(5,202)</b></u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Receipt of other borrowed funds		59,364	23,299
Repayment of other borrowed funds		(680)	(305)
Dividends paid		<u>(2,460)</u>	<u>(1,039)</u>
<b>Cash flows from financing activities:</b>		<u><b>56,224</b></u>	<u><b>21,955</b></u>
Effect of exchange rate changes on cash and cash equivalents		58,668	54
Net increase in cash and cash equivalents		2,790	11,550
Cash and cash equivalents at the beginning of the period	5	<u>52,155</u>	<u>40,551</u>
Cash and cash equivalents at the end of the period	5	<u><b>113,613</b></u>	<u><b>52,155</b></u>

On behalf of the Management Board:

Mr. Nazim Sadigov

Chairman of the Management Board  
 Baku, the Republic of Azerbaijan

May 18, 2016



*[Handwritten signature]*

Mr. Alizaman Ibrahimov

Head of Financial Management Department  
 Baku, the Republic of Azerbaijan

May 18, 2016

The notes on pages 7-63 form an integral part of these consolidated financial statements.

## TURANBANK OJSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2015 *(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, a license on precious metals, 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 fourteen branches and one sub-branch (2014: 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.

As at 31 December 2015 the Bank has 27 shareholders each having less than 10% ownership. (2014: 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

The Bank is a parent company of a banking group (the "Group") which consists of the following enterprises consolidated in the financial statements:

Name	Country of operation	Proportion of ownership interest/voting rights (%)		Type of operations
		December 31, 2015	December 31, 2014	
TuranBank	The Republic of Azerbaijan		Parent	Banking
<b>Subsidiary</b>				
Turan Leasing	The Republic of Azerbaijan	100%	100%	Leasing

On 21 August 2006, the Bank registered TuranLeasing LLC 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.

## TURANBANK OJSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2015 *(in thousands of Azerbaijan Manats, unless otherwise indicated)*

---

#### Going Concern

These financial statements have been prepared on the assumption that the Group will continue as a going concern for the foreseeable future, which implies the realisation of assets and settlement of liabilities in the normal course of business. For the year ended December 31, 2015 the Group had a total comprehensive loss in the amount of AZN 1,132 thousand and as at December 31, 2015 the Group was in breach of certain covenants with borrowing agreements from Lenders. These borrowings as disclosed in Note 13 became due and/or repayable on demand. As a result of these breaches, these borrowings have been reclassified to "Demand and less than 1 month" category within the table which shows an analysis by expected maturities in Note 22. Management believes that the Lenders are committed to supporting the Group and are not going to withdraw their borrowings due to the covenant breaches. Management is currently in discussions with the Lenders and seeking waivers for the covenant breaches at December 31, 2015. As at the date of the issuance of the financial statements there were no demands by Lenders for immediate repayment of funds. Management forecasts that the Group will return to profitability in 2016. Management has considered these factors in evaluating the Group's ability to continue as a going concern and believes the Group will be able to meet all of its financial obligations.

## 2. SIGNIFICANT ACCOUNTING POLICIES

#### Statement of Compliance

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

#### Basis of presentation

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

## TURANBANK OJSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2015

*(in thousands of Azerbaijan Manats, unless otherwise indicated)*

---

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 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 subsidiary. 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.

## TURANBANK OJSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2015 *(in thousands of Azerbaijan Manats, unless otherwise indicated)*

---

#### **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.

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.

## TURANBANK OJSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2015

*(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 28). Gains and losses arising from changes in fair value are recognized 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 recognized 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 recognized in profit or loss are determined based on the amortized cost of the monetary asset. Other foreign exchange gains and losses are recognized 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 amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

#### ***Impairment of financial assets***

Financial assets 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.

## TURANBANK OJSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2015 *(in thousands of Azerbaijan Manats, unless otherwise indicated)*

---

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

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

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

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognized 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.

## TURANBANK OJSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2015

*(in thousands of Azerbaijan Manats, unless otherwise indicated)*

---

#### ***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 recognize the financial asset and also recognized a collateralized borrowing for the proceeds received.

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 or 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 recognized 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 recognized and the sum of the consideration received for the part no longer recognized and any cumulative gain or loss allocated to it that had been recognized in other comprehensive income is recognized in profit or loss. A cumulative gain or loss that had been recognized in other comprehensive income is allocated between the part that continues to be recognized and the part that is no longer recognized 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 recognized 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.

## TURANBANK OJSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2015

*(in thousands of Azerbaijan Manats, unless otherwise indicated)*

---

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognized 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.

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 recognized 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.

## TURANBANK OJSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2015 *(in thousands of Azerbaijan Manats, unless otherwise indicated)*

---

Rental income from operating leases is recognized 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 recognized 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.

##### ***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 recognized as other comprehensive income except to the extent that it reverses a previous revaluation decrease recognized in profit or loss, in which case it is recognized in profit or loss. A revaluation decrease on a building is recognized in profit or loss except to the extent that it reverses a previous revaluation increase recognized as other comprehensive income directly in equity, in which case it is recognized 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 derecognized 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 recognized in profit or loss.

##### ***Intangible assets***

Acquired intangible assets are stated at cost less accumulated amortization and impairment losses. Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. Amortization 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 recognized in profit or loss when the asset is derecognized.

## TURANBANK OJSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2015 *(in thousands of Azerbaijan Manats, unless otherwise indicated)*

---

#### Provisions

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

The amount recognized 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 recognized 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 recognized 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 recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize 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 realized, 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.

## TURANBANK OJSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2015

*(in thousands of Azerbaijan Manats, unless otherwise indicated)*

---

#### 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 recognized 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, 2015	December 31, 2014
AZN/1 US Dollar	1.5594	0.7844
AZN/1 Euro	1.7046	0.9522

#### 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 recognized 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 recognized at their fair value, which is normally evidenced by the amount of fees received. This amount is amortized on a straight line basis over the life of the commitment, except for commitments to originate loans if it is probable that the 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.

## TURANBANK OJSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2015

*(in thousands of Azerbaijan Manats, unless otherwise indicated)*

---

#### **Equity reserves**

The reserves recorded in equity (other comprehensive income) on the Group's consolidated statement of financial position include revaluation surplus for buildings.

#### **Retirement benefit costs**

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

### **3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY**

In the application of the Group's accounting policies the Group management is 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 recognized 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 consolidated financial statements in future periods.

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

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

As at December 31, 2015 and 2014 the gross loans and receivables totaled AZN 297,929 thousand and AZN 229,678 thousand, respectively, and allowance for impairment losses amounted to AZN 17,129 thousand and AZN 11,525 thousand, respectively.

## TURANBANK OJSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2015

*(in thousands of Azerbaijan Manats, unless otherwise indicated)*

---

**Valuation of financial instruments.** As described in Note 28, 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 28 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.

**Tax legislation.** 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.

Azerbaijani tax, currency and customs legislation is subject to varying interpretations. Refer to Note 21.

**Property and equipment carried at revalued amounts.** Certain property (buildings) is measured at revalued amounts. The date of the latest appraisal was December 31, 2013. The next revaluation is preliminary scheduled as at December 31, 2016. The carrying value of revalued property amounted to AZN 8,937 and AZN 8,372 as at December 31, 2015 and 2014, respectively. Details of the valuation techniques used are set out (see Note 9).

**Recoverability of deferred tax assets.** The management of the Group is confident that no valuation allowance against deferred tax assets at the reporting date is considered necessary, because it is more likely than the deferred tax asset will be fully realized. The carrying value of deferred tax assets amounted to AZN 5 thousand and nil as at December 31, 2015 and 2014, respectively.

**Initial recognition of related party transactions.** In the normal course of business the Group enters into transactions with its related parties. IAS 39 requires initial recognition of financial instruments based on their fair values. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis. Transactions with related parties are disclosed in Note 27.

#### 4. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSS)

The Group has adopted the following new or revised standards and interpretations issued by International Accounting Standards Board and the International Financial Reporting Interpretations Committee (the IFRIC) which became effective for the Group's annual consolidated financial statement for the year ended December 31, 2015:

##### **Standards affecting the financial statements**

**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 IAS 19 - *Defined Benefit Plans: Employee contributions*;
- Annual Improvements to IFRSs 2010-2012 Cycle;
- Annual Improvements to IFRSs 2011-2013 Cycle;

## TURANBANK OJSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2015

*(in thousands of Azerbaijan Manats, unless otherwise indicated)*

---

**Amendments to IAS 19 – Defined Benefit Plans: Employee contributions.** The amendments require the Group to account for employee contributions as follows:

- Discretionary employee contributions are accounted for as reduction of the service cost upon payments to the plans.
- Employee contributions specified in the defined benefit plans are accounted for as reduction of the service cost, only if such contributions are linked to services. Specifically, when the amount of such contribution depends on the number of years of service, the reduction to service cost is made by attributing the contributions to periods of service in the same manner as the benefit attribution. On the other hand, when such contributions are determined based on a fixed percentage of salary (i.e. independent of the number of years of service), the Group should recognise the reduction in the service cost in the period in which the related services are rendered.

These amendments do not have any effect on the Group's consolidated financial statements as the Company is not an investment entity.

**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.

These amendments do not 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.

## TURANBANK OJSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2015

(in thousands of Azerbaijan Manats, unless otherwise indicated)

---

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.

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 application of these amendments does not have a significant effect on the consolidated financial statements.

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:

- IFRS 9 *Financial Instruments*<sup>2</sup>;
- IFRS 14 *Regulatory Deferral Accounts*<sup>1</sup>;
- IFRS 15 *Revenue from Contracts with Customers*<sup>2</sup>;
- IFRS 16 *Leases*<sup>3</sup>;
- Amendments to IFRS 11 - *Accounting for Acquisition of Interests in Joint Operations*<sup>1</sup>;
- Amendments to IAS 1 – Disclosure initiative project<sup>1</sup>;
- Amendments to IAS 16 and IAS 38 - *Clarification of Acceptable Methods of Depreciation and Amortisation*<sup>1</sup>;
- Amendments to IAS 16 and IAS 41 - *Agriculture: Bearer Plants*<sup>1</sup>;
- Amendments to IAS 27 - *Equity Method in Separate Financial Statements*<sup>1</sup>;
- Amendments to IFRS 10 and IAS 28 - *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*<sup>1</sup>;
- Amendments to IFRS 10, IFRS 12 and IAS 28 - *Investment Entities: Applying the Consolidation Exception*<sup>1</sup>
- Annual Improvements to IFRSs 2012-2014 Cycle<sup>1</sup>;

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2016, with earlier application permitted.

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2019, with earlier application permitted.

**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*.

## TURANBANK OJSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2015

*(in thousands of Azerbaijan Manats, unless otherwise indicated)*

---

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 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 recognized 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 January 1, 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.

**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.

## TURANBANK OJSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2015 *(in thousands of Azerbaijan Manats, unless otherwise indicated)*

---

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. Furthermore, extensive disclosures are required by IFRS 15

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 16 Leases.** IFRS 16 establishes principles for the recognition, measurement, presentation and disclosure of leases, with the objective of ensuring that lessees and lessors provide relevant information that faithfully represents those transactions.

IFRS 16 Leases applies to all leases, including subleases, except for:

- leases to explore for or use minerals, oil, natural gas and similar non-regenerative resources;
- leases of biological assets held by a lessee (see IAS 41 Agriculture);
- service concession arrangements (see IFRIC 12 Service Concession Arrangements);
- licences of intellectual property granted by a lessor (see IFRS 15 Revenue from Contracts with Customers); and
- rights held by a lessee under licensing agreements for items such as films, videos, plays, manuscripts, patents and copyrights within the scope of IAS 38 Intangible Assets

A lessee can elect to apply IFRS 16 to leases of intangible assets, other than those items listed above.

An entity applies IFRS 16 for annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted if IFRS 15 Revenue from Contracts with Customers has also been applied.

## TURANBANK OJSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2015

*(in thousands of Azerbaijan Manats, unless otherwise indicated)*

---

**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 (e.g. IAS 12 Income Taxes regarding the recognition of deferred taxes at the time of acquisition and IAS 36 Impairment of Assets regarding impairment testing of a cash-generating unit to which goodwill on acquisition of a joint operation has been allocated) 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 amendments should be applied prospectively to acquisitions of interests in joint operations (in which the activities of the joint operations constitute businesses as defined in IFRS 3) occurring from the beginning of annual periods beginning on or after 1 January 2016. The management of the Group anticipates that the application of these amendments to IFRS 11 may have an impact on the Group's consolidated financial statements in future periods should such transactions arise.

#### **Amendments to IAS 1 – Disclosure initiative project**

The amendments clarify the principles of disclosing information. The definition of materiality is expanded. It specifies the requirements of aggregation and disaggregation of data, clarifies that materiality applies to all parts of financial statements and even in those cases when the standards require specific disclosures materiality criteria do apply. The standard also provides more guidance on presenting the information in the statement of financial position and statement of comprehensive income as well as on the order of the notes in the financial statements.

The amendments to IAS 1 are effective for annual periods beginning on or after 1 January 2016. The management of the Group does not anticipate that the application of these amendments to IAS 1 will have a material impact on 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 amortisation of an intangible asset. This presumption can only be rebutted in the following two limited circumstances:

- (a) when the intangible asset is expressed as a measure of revenue; or
- (b) 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 the straight-line method for depreciation and amortisation for its property, plant and equipment, and intangible assets respectively. The management of the Group believes that the straight-line method is the most appropriate method to reflect the consumption of economic benefits inherent in the respective assets and accordingly does not anticipate that the application of these amendments to IAS 16 and IAS 38 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.

## TURANBANK OJSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2015 *(in thousands of Azerbaijan Manats, unless otherwise indicated)*

---

**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 Bank 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 to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognised in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognised in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

**Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception.** The amendments to IFRS 10, IFRS 12 and IAS 28 clarify that the exemption from preparing consolidated financial statements is available to a parent entity that is a subsidiary of an investment entity, even if the investment entity measures all its subsidiaries at fair value in accordance with IFRS 10. The amendments also clarify that the requirement for an investment entity to consolidate a subsidiary providing services related to the former's investment activities applies only to subsidiaries that are not investment entities themselves.

The management of the Group does not anticipate that the application of these amendments to IFRS 10, IFRS 12 and IAS 28 will have a material impact on the Group's consolidated financial statements as the Group is not an investment entity and does not have any holding company, subsidiary, associate or joint venture that qualifies as an investment entity.

**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.

## TURANBANK OJSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2015

(in thousands of Azerbaijan Manats, unless otherwise indicated)

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.

#### 5. CASH AND CASH EQUIVALENTS

	December 31, 2015	December 31, 2014
Cash on hand	52,036	27,307
Nostro accounts with CBAR	17,745	17,118
Nostro accounts with other banks	43,832	7,730
<b>Total cash and cash equivalents</b>	<b>113,613</b>	<b>52,155</b>

No cash and cash equivalents are impaired or past due.

As at 31 December 2015 the Group has three banks (2014: one bank), whose balances exceed 10% of equity excluding balances with CBAR. The gross value of these balances as at 31 December 2015 is AZN 42,898 thousand (2014: AZN 6,009 thousand).

#### 6. AVAILABLE-FOR-SALE FINANCIAL ASSETS

		December 31, 2015	December 31, 2014
<b>Corporate Bonds</b>			
Corporate bonds of OJSC Bank of Baku	12%	166	1,035
Corporate bonds of AccessBank OJSC	9%	-	606
Corporate bonds of Bakcell LTD	9%	-	505
Corporate bonds of Embawood LLC	11%	-	513
<b>Total corporate bonds</b>		<b>166</b>	<b>2,659</b>
<b>Government and municipal bonds</b>			
Notes issued by Azerbaijan Mortgage Fund	3%	-	1,461
<b>Equity investments</b>			
Corporate shares at cost		620	620
<b>Total available for sale assets</b>		<b>786</b>	<b>4,740</b>

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.

## TURANBANK OJSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2015 (in thousands of Azerbaijan Manats, unless otherwise indicated)

#### 7. LOANS TO BANKS

	December 31, 2015	December 31, 2014
Mandatory reserve with CBAR	1,558	2,809
Blocked correspondent accounts in CBAR	74,227	-
Loans and deposits		
-rated from BB- to BB+	8,905	14,959
-not rated	22,405	9,999
<b>Total loans and deposits</b>	<b>107,095</b>	<b>27,767</b>

As at 31 December 2015, no loans and advances to banks are past due or impaired (2014: no past due or impaired).

As at 31 December 2015, placements with three local banks (2014: three) in the amount of AZN 276 thousand (2014: AZN 139 thousand) and nil annual interest rate (2014: nil) are blocked accounts.

#### Concentration of loans to banks

As at 31 December 2015 the Group has two banks excluding CBAR - Banque de Commerce et de Placements SA (BCP) and "Rabita Bank", whose balance in the amount of AZN 8,889 and 6,239 thousands respectively exceeds 10% of equity (2014: one bank – BCP, AZN 14,959 thousand).

#### 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.

The CBAR blocked USD denominated nostro account of the Bank in amount of USD 47,600 thousand (AZN 74,227 thousand) as collateral in respect to the AZN denominated loans granted to the Bank in the amount of AZN 45,000 thousand at an interest rate of 3,5% per annum. The loans are repayable to CBAR between the years 2016 and 2018.

#### 8. LOANS TO CUSTOMERS

	December 31, 2015	December 31, 2014
<b>Loans to corporate customers</b>		
Business Loans - Large Corporations	120,681	63,952
Business Loans – SME	101,560	84,823
Business Loans -Micro	17,269	22,823
<b>Total Loans to corporate customers</b>	<b>239,510</b>	<b>171,598</b>
<b>Loans to retail customers</b>		
Loans to individuals – Entrepreneurs	25,481	28,280
Loans to individuals – Mortgage loans	28,210	27,586
Loans to individuals – Cars	3,060	1,874
Loans to individuals – Others	1,668	340
<b>Total loans to retail customers</b>	<b>58,419</b>	<b>58,080</b>
<b>Gross loans to customers</b>	<b>297,929</b>	<b>229,678</b>
Less: Provision for loan impairment	(17,129)	(11,525)
<b>Total loans and advances to customers</b>	<b>280,800</b>	<b>218,153</b>

## TURANBANK OJSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2015 (in thousands of Azerbaijan Manats, unless otherwise indicated)

As at December 31, 2015 the Bank have 4 loans which individually exceeded 10% of the Bank's equity. As at December 31, 2014 the Bank doesn't have loans which individually exceeded 10% of the Bank's equity.

As at December 31, 2015 and 2014 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.

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

	Loans to customers
January 1, 2014	10,485
Provision charge	1,040
December 31, 2014	<u>11,525</u>
Provision charge	5,604
December 31, 2015	<u><u>17,129</u></u>

The following tables provides information by types of loan products as at 31 December 2015:

	Gross amount	Impairment allowance	Carrying amount
<b>Loans to corporate customers</b>			
Business Loans - Large Corporations	120,681	3,692	116,989
Business Loans – SME	101,560	10,081	91,479
Business Loans –Micro	17,269	986	16,283
<b>Total loans to corporate customers</b>	<u>239,510</u>	<u>14,759</u>	<u>224,751</u>
<b>Loans to retail customers</b>			
Loans to individuals – Entrepreneurs	25,481	2,308	23,173
Loans to individuals – Mortgage loans	28,210	56	28,154
Loans to individuals – Cars	3,060	6	3,054
Loans to individuals – Others	1,668	-	1,668
<b>Total loans to retail customers</b>	<u>58,419</u>	<u>2,370</u>	<u>56,049</u>
<b>Total loans to customers</b>	<u><u>297,929</u></u>	<u><u>17,129</u></u>	<u><u>280,800</u></u>

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

	Gross amount	Impairment allowance	Carrying amount
<b>Loans to corporate customers</b>			
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
<b>Total loans to corporate customers</b>	<u>171,598</u>	<u>10,397</u>	<u>161,201</u>
<b>Loans to retail customers</b>			
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
<b>Total loans to retail customers</b>	<u>58,080</u>	<u>1,128</u>	<u>56,952</u>
<b>Total loans to customers</b>	<u><u>229,678</u></u>	<u><u>11,525</u></u>	<u><u>218,153</u></u>

## TURANBANK OJSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2015 (in thousands of Azerbaijan Manats, unless otherwise indicated)

Analysis by credit quality of loans to large corporations outstanding as at 31 December 2015 was as follows:

Large corporations As at December 31, 2015	Gross loans	Provision for impairment	Net loans	Provision for impairment to gross loans
<b>Collectively assessed</b>				
Not past due	19,523	-	19,523	0.00%
Overdue:				
Up to 30 days	-	-	-	0.00%
31 to 60 days	1,576	-	1,576	0.00%
61 to 90 days	-	-	-	0.00%
91 to 180 days	-	-	-	0.00%
181 to 360 days	-	-	-	0.00%
over 360 days	836	348	488	41.63%
<b>Total collectively assessed loans</b>	<b>21,935</b>	<b>348</b>	<b>21,587</b>	<b>1.59%</b>
<b>Individually assessed</b>				
Not past due	95,394	1,636	93,758	1.71%
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	1,813	169	1,644	9.32%
over 360 days	1,539	1,539	-	100.00%
<b>Total individually assessed loans</b>	<b>98,746</b>	<b>3,344</b>	<b>95,402</b>	<b>3.39%</b>
<b>Total loans to large corporations</b>	<b>120,681</b>	<b>3,692</b>	<b>116,989</b>	<b>3.06%</b>

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
<b>Collectively assessed</b>				
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%
<b>Total collectively assessed loans</b>	<b>16,121</b>	<b>-</b>	<b>16,121</b>	<b>0.00%</b>
<b>Individually assessed</b>				
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%
<b>Total individually assessed loans</b>	<b>47,831</b>	<b>2,810</b>	<b>45,021</b>	<b>5.87%</b>
<b>Total loans to large corporations</b>	<b>63,952</b>	<b>2,810</b>	<b>61,142</b>	<b>4.39%</b>

## TURANBANK OJSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2015

(in thousands of Azerbaijan Manats, unless otherwise indicated)

Analysis by credit quality of loans to SME outstanding as at 31 December 2015 was as follows:

Loans to SME As at December 31, 2015	Gross loans	Provision for impairment	Net loans	Provision for impairment to gross loans
<b>Collectively assessed</b>				
Not past due	64,866	114	64,752	0.18%
Overdue:				
up to 30 days	2,796	26	2,770	0.93%
31 to 60 days	2,112	56	2,056	2.65%
61 to 90 days	1,997	110	1,887	5.51%
91 to 180 days	1,783	220	1,563	12.34%
181 to 360 days	5,159	2,055	3,104	39.83%
over 360 days	10,051	6,602	3,449	65.69%
<b>Total collectively assessed loans</b>	<b>88,764</b>	<b>9,183</b>	<b>79,581</b>	<b>10.35%</b>
<b>Individually assessed</b>				
Not past due	12,016	118	11,898	0.98%
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	780	780	-	100.00%
<b>Total individually assessed loans</b>	<b>12,796</b>	<b>898</b>	<b>11,898</b>	<b>7.02%</b>
<b>Total loans to SME</b>	<b>101,560</b>	<b>10,081</b>	<b>91,479</b>	<b>9.93%</b>

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
<b>Collectively assessed</b>				
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%
<b>Total collectively assessed loans</b>	<b>69,611</b>	<b>7,264</b>	<b>62,347</b>	<b>10.44%</b>
<b>Individually assessed</b>				
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%
<b>Total individually assessed loans</b>	<b>15,212</b>	<b>-</b>	<b>15,212</b>	<b>0.00%</b>
<b>Total loans to SME</b>	<b>84,823</b>	<b>7,264</b>	<b>77,559</b>	<b>8.56%</b>

## TURANBANK OJSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2015

(in thousands of Azerbaijan Manats, unless otherwise indicated)

Analysis by credit quality of loans to micro business outstanding as at 31 December 2015 was as follows:

Loans to micro business As at December 31, 2015	Gross loans	Provision for impairment	Net loans	Provision for impairment to gross loans
<b>Collectively assessed</b>				
Not past due	14,375	20	14,355	0.14%
Overdue:				
up to 30 days	324	9	315	2.78%
31 to 60 days	477	55	422	11.53%
61 to 90 days	458	62	396	13.54%
91 to 180 days	338	83	255	24.56%
181 to 360 days	811	357	454	44.02%
over 360 days	486	400	86	82.30%
<b>Total collectively assessed loans</b>	<b>17,269</b>	<b>986</b>	<b>16,283</b>	<b>5.71%</b>
<b>Total individually assessed loans</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>0.00%</b>
<b>Total loans to micro business</b>	<b>17,269</b>	<b>986</b>	<b>16,283</b>	<b>5.71%</b>

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
<b>Collectively assessed</b>				
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%
<b>Total collectively assessed loans</b>	<b>22,823</b>	<b>323</b>	<b>22,500</b>	<b>1.42%</b>
<b>Total individually assessed loans</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>0.00%</b>
<b>Total loans to micro business</b>	<b>22,823</b>	<b>323</b>	<b>22,500</b>	<b>1.42%</b>

Analysis by credit quality of loans to entrepreneurs outstanding as at 31 December 2015 was as follows:

Loans to entrepreneurs As at December 31, 2015	Gross loans	Provision for impairment	Net loans	Provision for impairment to gross loans
<b>Collectively assessed</b>				
Not past due	21,058	10	21,048	0.05%
Overdue:				
up to 30 days	477	3	474	0.63%
31 to 60 days	358	22	336	6.15%
61 to 90 days	528	48	480	9.09%
91 to 180 days	363	71	292	19.56%
181 to 360 days	702	330	372	47.01%
over 360 days	1,995	1,824	171	91.43%
<b>Total collectively assessed loans</b>	<b>25,481</b>	<b>2,308</b>	<b>23,173</b>	<b>9.06%</b>
<b>Total individually assessed loans</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>0.00%</b>
<b>Total loans to entrepreneurs</b>	<b>25,481</b>	<b>2,308</b>	<b>23,173</b>	<b>9.06%</b>

## TURANBANK OJSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2015

(in thousands of Azerbaijan Manats, unless otherwise indicated)

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
<b>Collectively assessed</b>				
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%
<b>Total collectively assessed loans</b>	<b>28,280</b>	<b>980</b>	<b>27,300</b>	<b>3.47%</b>
<b>Total individually assessed loans</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>0.00%</b>
<b>Total loans to entrepreneurs</b>	<b>28,280</b>	<b>980</b>	<b>27,300</b>	<b>3.47%</b>

Analysis by credit quality of mortgage loans outstanding as at 31 December 2015 was as follows:

Mortgage loans As at December 31, 2015	Gross loans	Provision for impairment	Net loans	Provision for impairment to gross loans
<b>Collectively assessed</b>				
Not past due	27,546	3	27,543	0.01%
Overdue:				
up to 30 days	171	-	171	0.00%
31 to 60 days	145	2	143	1.38%
61 to 90 days	104	3	101	2.88%
91 to 180 days	183	24	159	13.11%
181 to 360 days	-	-	-	0.00%
over 360 days	58	24	34	41.38%
<b>Total collectively assessed loans</b>	<b>28,207</b>	<b>56</b>	<b>28,151</b>	<b>0.20%</b>
<b>Individually assessed</b>				
Not past due	3	-	3	0.00%
<b>Total individually assessed loans</b>	<b>3</b>	<b>-</b>	<b>3</b>	<b>0.00%</b>
<b>Total mortgage loans</b>	<b>28,210</b>	<b>56</b>	<b>28,154</b>	<b>0.20%</b>

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
<b>Collectively assessed</b>				
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%
<b>Total collectively assessed loans</b>	<b>27,529</b>	<b>89</b>	<b>27,440</b>	<b>0.32%</b>
<b>Individually assessed</b>				
Not past due	57	5	52	8.77%
<b>Total individually assessed loans</b>	<b>57</b>	<b>5</b>	<b>52</b>	<b>8.77%</b>
<b>Total mortgage loans</b>	<b>27,586</b>	<b>94</b>	<b>27,492</b>	<b>0.34%</b>

## TURANBANK OJSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2015

(in thousands of Azerbaijan Manats, unless otherwise indicated)

Analysis by credit quality of car loans outstanding as at 31 December 2015 was as follows:

Car loans As at December 31, 2015	Gross loans	Provision for impairment	Net loans	Provision for impairment to gross loans
<b>Collectively assessed</b>				
Not past due	2,652	-	2,652	0.00%
Overdue:				
up to 30 days	248	-	248	0.00%
31 to 60 days	83	-	83	0.00%
61 to 90 days	28	-	28	0.00%
91 to 180 days	43	-	43	0.00%
181 to 360 days	-	-	-	0.00%
over 360 days	6	6	-	100.00%
<b>Total collectively assessed loans</b>	<b>3,060</b>	<b>6</b>	<b>3,054</b>	<b>0.20%</b>
<b>Total individually assessed loans</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>0.00%</b>
<b>Total car loans</b>	<b>3,060</b>	<b>6</b>	<b>3,054</b>	<b>0.20%</b>

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
<b>Collectively assessed</b>				
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%
<b>Total collectively assessed loans</b>	<b>1,874</b>	<b>6</b>	<b>1,868</b>	<b>0.32%</b>
<b>Total individually assessed loans</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>0.00%</b>
<b>Total car loans</b>	<b>1,874</b>	<b>6</b>	<b>1,868</b>	<b>0.32%</b>

Analysis by credit quality of other loans outstanding as at 31 December 2015 was as follows:

Other loans As at December 31, 2015	Gross loans	Provision for impairment	Net loans	Provision for impairment to gross loans
<b>Collectively assessed</b>				
Not past due	1,668	-	1,668	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%
<b>Total collectively assessed loans</b>	<b>1,668</b>	<b>-</b>	<b>1,668</b>	<b>0.00%</b>
<b>Total individually assessed loans</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>0.00%</b>
<b>Total other loans</b>	<b>1,668</b>	<b>-</b>	<b>1,668</b>	<b>0.00%</b>

## TURANBANK OJSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2015

(in thousands of Azerbaijan Manats, unless otherwise indicated)

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
<b>Collectively assessed</b>				
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%
<b>Total collectively assessed loans</b>	<b>340</b>	<b>48</b>	<b>292</b>	<b>14.12%</b>
<b>Total individually assessed loans</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>0.00%</b>
<b>Total other loans</b>	<b>340</b>	<b>48</b>	<b>292</b>	<b>14.12%</b>

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

	December 31, 2015	December 31, 2014
Loans collateralized by real estate	190,546	138,695
Loans collateralized by guarantees of individuals	22,188	21,842
Loans collateralized by vehicles	16,928	9,563
Loans collateralized by cash	12,840	11,563
Loans collateralized by guarantees of legal entities	5,989	7,791
Loans collateralized by pledge of corporate shares	4,665	3,342
Loans collateralized by pledge of equipment and inventories	4,202	4,032
Loans collateralized by other	2,210	2,557
Loans collateralized by precious metals	571	1,537
Unsecured loans	37,790	28,756
	297,929	229,678
Less: allowance for impairment losses	(17,129)	(11,525)
<b>Total loans to customers</b>	<b>280,800</b>	<b>218,153</b>

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

	December 31, 2015	December 31, 2014
<b>Analysis by sector:</b>		
Trade and services	86,524	73,748
Agriculture, forestry and timber	42,414	42,787
Construction	52,401	35,333
Manufacturing	38,722	19,779
Other	1,537	290
Loans to retail customers	76,331	57,741
	297,929	229,678
Less: allowance for impairment losses	(17,129)	(11,525)
<b>Total loans to customers</b>	<b>280,800</b>	<b>218,153</b>

## TURANBANK OJSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2015

*(in thousands of Azerbaijan Manats, unless otherwise indicated)*

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

	December 31, 2015			December 31, 2014		
	Carrying value before allowance	Allowance for impairment losses	Carrying value	Carrying value before allowance	Allowance for impairment losses	Carrying value
Loans to customers individually determined to be impaired	5,438	3,106	2,332	1,718	356	1,362
Loans to customers collectively determined to be impaired	22,814	12,344	10,470	12,930	8,527	4,403
Unimpaired loans	269,677	1,679	267,998	215,030	2,642	212,388
<b>Total</b>	<b>297,929</b>	<b>17,129</b>	<b>280,800</b>	<b>229,678</b>	<b>11,525</b>	<b>218,153</b>

During the years ended December 31, 2015 and 2014 the Group received non-financial assets by taking possession of collateral it held as security. As at December 31, 2015 and 2014 such assets in amount of AZN 604 thousand and AZN 372 thousand, respectively, are included in other assets.

**TURANBANK OJSC**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED DECEMBER 31, 2015**  
*(in thousands of Azerbaijani Manats, unless otherwise indicated)*

**9. PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS**

	Buildings	Leasehold improvement	Equipment	Fixtures and fittings	Other fixed assets	Computer software	Total
<b>At cost</b>							
January 1, 2014	8,553	1,932	1,033	1,794	418	232	13,962
Additions	185	477	177	216	28	23	1,105
Disposals	(105)	-	(7)	(35)	-	-	(147)
December 31, 2014	8,633	2,409	1,203	1,975	446	255	14,921
Additions	831	381	427	325	64	128	2,156
Disposals	-	-	(78)	(28)	(8)	-	(114)
December 31, 2015	9,464	2,790	1,552	2,272	502	383	16,963
<b>Accumulated depreciation and impairment</b>							
January 1, 2014	(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)
Depreciation charge	(266)	(210)	(217)	(293)	(67)	(23)	(1,076)
Disposals	-	-	75	26	8	-	109
December 31, 2015	(527)	(555)	(967)	(1,525)	(371)	(182)	(4,127)
<b>Net book value</b>							
As at December 31, 2015	8,937	2,235	585	747	131	201	12,836
As at December 31, 2014	8,372	2,064	378	717	134	96	11,761

There are no capitalised borrowing costs related to the acquisition or construction of property and equipment during 2015 (2014: nil).

## TURANBANK OJSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2015 (in thousands of Azerbaijan Manats, unless otherwise indicated)

#### 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 2015. (2014: 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 2015, if the buildings would not have been revalued, would be AZN 5,846 thousand (2014: AZN 5,165 thousand)

As at December 31, 2015 included in the closing balance of property, plant and equipment were fully depreciated assets still in use with the total initial cost of AZN 1,530 thousand (2014: AZN 1,280 thousand).

Intangible assets include software and licenses.

#### 10. OTHER ASSETS

	December 31, 2015	December 31, 2014
Items in course of settlement	227	623
Receivables from plastic cards	47	121
Other receivables	14	16
<b>Total other financial assets</b>	<b>288</b>	<b>760</b>
Repossessed collateral	604	372
Prepayments	558	1,029
Tax settlements, other than income tax	3	67
Sundry receivables	-	11
Other	104	131
<b>Total other non-financial assets</b>	<b>1,269</b>	<b>1,610</b>
<b>Total other assets</b>	<b>1,557</b>	<b>2,370</b>

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.

#### 11. DEPOSITS AND BALANCES FROM BANKS

	December 31, 2015	December 31, 2014
Loro accounts	1	1
Term placement	21,067	21,252
<b>Total deposits and balances from banks</b>	<b>21,068</b>	<b>21,253</b>

As at 31 December 2015 the Group has one bank (2014: one bank), whose balance exceeds 10% of equity. The gross value of this balance as at 31 December 2015 is AZN 8,527 thousand at an interest rate of 0.75% (2014: AZN 19,159 thousand). The maturity date of term placement is 22 January 2016.

## TURANBANK OJSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2015 (in thousands of Azerbaijan Manats, unless otherwise indicated)

#### 12. CURRENT ACCOUNTS AND DEPOSITS FROM CUSTOMERS

	December 31, 2015	December 31, 2014
<b>Current accounts and demand deposits</b>		
- Retail	50,505	26,210
- Corporate	47,142	28,465
	<u>97,647</u>	<u>54,675</u>
<b>Term deposits</b>		
- Retail	133,840	74,696
- Corporate	15,436	14,429
	<u>149,276</u>	<u>89,125</u>
<b>Total current accounts and deposits from customers</b>	<u><u>246,923</u></u>	<u><u>143,800</u></u>

Economic sector concentrations within customer accounts are as follows:

	December 31, 2015	December 31, 2014
<b>Analysis by economic sector/customer type:</b>		
Individuals	184,345	100,878
Trade and service	21,565	19,322
Non-bank credit organization	14,638	5,714
Insurance	14,205	11,120
State organization	11,551	6,173
Construction and real estate	529	480
Other	90	113
<b>Total customer accounts</b>	<u><u>246,923</u></u>	<u><u>143,800</u></u>

As at 31 December 2015, the Group maintained customer deposit balances of AZN 20,917 thousand (2014: AZN 13,127 thousand) that serve as collateral for loans and unrecognized credit instruments granted by the Group.

As at 31 December 2015, the Group has six customers (2014: three customers), whose balances exceed 10% of equity. These balances as at 31 December 2015 are AZN 60,331 thousand (2014: AZN 35,062 thousand).

#### 13. OTHER BORROWED FUNDS

	December 31, 2015	December 31, 2014
-Funds borrowed from Central Bank of Azerbaijan (CBAR)	65,800	10,003
-Funds borrowed from Azerbaijan Mortgage Fund	18,836	16,451
-Funds borrowed from the National Fund for Support of Entrepreneurship of the Republic of Azerbaijan	18,465	21,622
-Funds borrowed from State Agency for Agricultural credits	13,722	9,224
-Funds borrowed from World Business Capital Inc (WBS)	13,267	7,913
-Funds borrowed from International Finance Corporation (IFC)	10,888	1,723
-Funds borrowed from Islamic Cooperation for Development of the private Sector (ICDPS)	9,634	6,852
-Funds borrowed from IIV-Mikrofinanzfonds	7,975	-
-Funds borrowed from Microfinance Enhancement Facility SA (MEF)	7,973	3,924
-Funds borrowed from Sus Bee Finance S.A.	7,796	-
-Funds borrowed from ECO Trade and Development Bank	7,661	2,330
-Funds borrowed from Black Sea Trade and Development Bank	5,559	11,138
-Funds borrowed from Bank Im Bistum Essen	5,483	2,746
-Funds borrowed from GLS Alternative Investments - Mikrofinanzfond	3,404	-
-Funds borrowed from ResponsAbility SICAV (Lux)	3,179	-
-Funds borrowed from Monega Kapitalanlagegesellschaft Mbh Bank	-	4012
<b>Total other borrowed funds</b>	<u><u>199,642</u></u>	<u><u>97,938</u></u>

## TURANBANK OJSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2015

*(in thousands of Azerbaijan Manats, unless otherwise indicated)*

---

The Group signed fourteen loan agreements with the Central Bank of Azerbaijan with starting dates ranging from October, 2014 to December, 2015 for financing of small and medium size enterprises with total amount of AZN 65,800 thousand. As at 31 December 2015, the outstanding amount of debt under these credit agreements was AZN 65,800 thousand (31 December 2014: AZN 10,003 thousand) at interest rates from 3% to 4% per annum, repayable to the Bank from years of 2016 and 2018. The borrowing agreements do 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 interest rate of 2-8% per annum and the Group lends these funds on to eligible borrowers at a rate of 8.0% per annum. As at 31 December 2015 the Group has AZN 18,836 thousand (31 December 2014: AZN 16,451 thousand) payable to the Fund. The borrowing agreement does not include any financial covenants.

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 2015 the Group has AZN 18,465 thousand (31 December 2014: AZN 21,622 thousand) payable to the fund, repayable up to 12 November 2020. The borrowing agreement does not include any financial covenants.

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 2015 the Group has AZN 13,722 thousand (31 December 2014: AZN 9,224 thousand) payable to the Agency that is repayable from 2015 to 2022. The borrowing agreement does not include any financial covenants.

On 29 June 2009, the Group signed a loan agreement with WBS 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 2015, the Group had drawn down credit in the amount of AZN 13,267 thousand (31 December 2014: AZN 7,913 thousand) at an interest rate of 3.5% and 5.0% (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 22 December 2014, the Group signed a credit agreement with IFC to obtain a loan of USD 7,000 thousand maturing on 15 March 2020 to be used for financing the growth of its microfinance and small and medium enterprise portfolio. As at 31 December 2015, the outstanding amount of debt under this credit agreement was AZN 10,888 (31 December 2014: 1,723) thousand at an interest rate of 6.5% per annum. 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 2015, the outstanding amount under these credit agreements was AZN 9,634 thousand (31 December 2014: AZN 6,852 thousand) that is repayable from 2016 to 2019. 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.

## TURANBANK OJSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2015

*(in thousands of Azerbaijan Manats, unless otherwise indicated)*

---

On 11 September 2014, the Group signed a loan agreement with IIV- Mikrofinanzfonds 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 2015 the Group has AZN 7,975 thousand 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 totaling USD 5,000 thousand to be used for financing small and medium-sized enterprises of the Republic of Azerbaijan. As at 31 December 2015 the Group has AZN 7,973 (31 December 2014: AZN 3,924 thousand) with an interest rate of 6.5% 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 01 December 2014, the Group signed a credit agreement with Guevoura Fund Ltd to obtain a loan from Sus Bee Finance S.A. in amount of USD 5,000 thousand maturing on 30 November 2017 to be used for financing the growth of its microfinance and small and medium enterprise portfolio. As at 31 December 2015, the outstanding amount of debt under this credit agreement was AZN 7,796 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.

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. In addition to the first loan, the Group, further, signed a short-term loan agreement on 23 February 2015 with amount of EUR 1,750 thousand with an interest rate of 6%. As at 31 December 2015 the Group has AZN 7,661 thousand (31 December 2014: AZN 2,330 thousand) with interest rate of 6% and 6.25% payable to the Fund from April 2016 to December 2018. The Group is obliged to comply with certain financial covenants stipulated by the aforementioned loan agreement.

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 not exceeding USD 14,000 thousand and consisting of USD 4,000 thousand. As at 31 December 2015, the outstanding amount of debt under this credit agreement was AZN 5,559 thousand (31 December 2014: AZN 11,138 thousand) at the fixed interest rate of 6.5% per annum (without LIBOR). 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 an interest rate of 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 2015 the Group has AZN 5,483 thousand (31 December 2014: AZN 2,746, thousand) payable to the lender, repayable up to 11 September 2018. The borrowing agreement does not include any financial covenants.

On 1 December 2014, the Group signed a credit agreement with Guevoura Fund Ltd to obtain a loan from GLS Alternative Investments-Mikrofinanzfonds in amount of USD 2,200 thousand maturing on 15 December 2018 to be used for financing the growth of its microfinance and small and medium enterprise portfolio. As at 31 December 2015, the outstanding amount of debt under this credit agreement was AZN 3,404 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.

On 13 October 2015, the Group signed a credit agreement with Responsibility SICAV (Lux) to obtain a loan of USD 2,000 thousand maturing on 15 October 2018 to be used for financing the growth of its microfinance and small and medium enterprise portfolio. As at 31 December 2015, the outstanding amount of debt under this credit agreement was AZN 3,179 thousand at an interest rate of 8.78% per annum. The Group is obliged to comply with certain financial covenants stipulated by the aforementioned loan agreement.

## TURANBANK OJSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2015

*(in thousands of Azerbaijan Manats, unless otherwise indicated)*

---

The Management of the Group believes that there are no other similar financial instruments and due to its specific nature, the loans from the above mentioned financial institutions represent separate segments in SME lending. As a result, the loans from these financial institutions were received in an orderly transaction and as such have been recorded at fair value at the recognition date which was determined to be the cash consideration transferred to the customers.

#### **Covenant Compliance**

The Bank is subject to certain covenants related primarily to its term borrowings. Non-compliance with such covenants may result in negative consequences for the Group including, growth in the cost of borrowings and timing of repayment of existing facilities. Management believes that the Group has materially complied with the covenants that were in force as at December 31, 2015 at certain times during the period then ended except for several covenants as described below:

- At December 31, 2015 the Group did not meet the capital to risk weighted assets covenant included in the term borrowing agreement with Black Sea Trade and Development Bank ("BSTDB"). Therefore, the Group classified the outstanding balance of loans payable to the bank as on demand within the maturity table included in Note 22. On May 4, 2016 the Group received a waiver from BSTDB for breached financing arrangements, outstanding at December 31, 2015 amounting to AZN 5,559 thousand. This waiver is active for the period from 1 October 2015 to 31 December 2015.
- At December 31, 2015 the Group did not meet the ratio of operating expenses to operating income, the capital to risk weighted assets, liquid assets to short term liabilities and bad and doubtful loans to aggregate of all loans covenant included in the term borrowing agreement with Islamic Cooperation for Development of private Sector ("ICDPS"). Therefore, the Group classified the outstanding balance of loans payable to the bank as on demand within the maturity table included in Note 22. On May 23, 2016 the Group received a waiver from ICDPS, for breached financing arrangements, outstanding at December 31, 2015 amounting to AZN 9,634 thousand.
- At December 31, 2015 the Group did not meet the portfolio quality, open loan position and microcredit portfolio representation covenants included in the term borrowing agreement with Microfinance Enhancement Facility SA. Therefore, the Group classified the outstanding balance of loans payable to the bank as on demand within the maturity table included in Note 22.
- At December 31, 2015 the Group did not meet the aggregate exposure to any single or related party and ratio of loans (90) days or more past due to total loan portfolio covenants included in the term borrowing agreement with World Business Capital Inc ("WBS"). Therefore, the Group classified the outstanding balance of loans payable to the bank as on demand within the maturity table included in Note 22.
- At December 31, 2015 the Group did not meet portfolio quality covenant included in the term borrowing agreement with Responsibility SICAV (Lux), Sus Bee Finance SA and GLS Alternative Investments-Mikrofinanzfonds respectively. Therefore, the Group classified the outstanding balance of loans payable to the bank as on demand within the maturity table included in Note 22. On May 4, 2016 the Group received a waiver from Responsibility SICAV (Lux), for breached financing arrangements, outstanding at December 31, 2015 amounting to AZN 3,179 thousand. This waiver is active for the period from 31 December 2015 to 31 May 2016. On April 22, 2016 the Group received notification letter for the breached financing arrangements with Sus Bee Finance SA and GLS Alternative Investments-Mikrofinanzfonds outstanding at December 31, 2015 amounting to AZN 7,796 and AZN 3,404 respectively regarding to continue working together towards a solution by mutual consent.

## TURANBANK OJSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2015

(in thousands of Azerbaijan Manats, unless otherwise indicated)

#### 14. OTHER LIABILITIES

	December 31, 2015	December 31, 2014
<b>Financial liabilities</b>		
Amounts in the course of settlement	324	191
Other financial liabilities	25	40
<b>Total financial liabilities</b>	<u>349</u>	<u>231</u>
<b>Non-financial liabilities</b>	<u>255</u>	<u>46</u>
<b>Total other liabilities</b>	<u>604</u>	<u>277</u>

#### 15. SHARE CAPITAL

	Number of outstanding ordinary shares	Ordinary shares	Share premium	Total
As at January 1, 2014	40,667	44,002	724	44,726
Shares issued				
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>
Capitalized retained earnings	<u>2,773</u>	<u>3,000</u>	-	<u>3,000</u>
As at December 31, 2015	<u>46,213</u>	<u>50,002</u>	<u>724</u>	<u>50,726</u>

The authorized, issued and outstanding share capital comprises 46,213 ordinary shares (2014: 43,440). All shares have a nominal value of AZN 1,082 per share. During 2015, 2,773 ordinary shares (2014: 2,773) 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 2015 the Bank declared and paid dividends totaling AZN 2,460 thousand on ordinary shares. (2014: AZN 1,039 thousand)

## TURANBANK OJSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2015 *(in thousands of Azerbaijan Manats, unless otherwise indicated)*

#### 16. (LOSS)/EARNINGS PER SHARE

##### Basic earnings per share

	December 31, 2015	December 31, 2014
(Loss)/earnings per share		
Basic (loss)/earnings per share (AZN per share)	(25)	134

The calculation of basic earnings per share as at 31 December 2015 is based on the loss attributable to ordinary shareholders of AZN 1,132 thousand ( 2014: profit AZN 5,563 thousand), and weighted average number of ordinary shares outstanding of 44,810 (2014: 41,634) calculated as follows:

	December 31, 2015	December 31, 2014
Net (loss)/profit attributable to ordinary shares	<u>(1,132)</u>	<u>5,563</u>
Issued ordinary shares at the beginning of the year	41,634	40,667
Effect of shares issued during the year	<u>3,176</u>	<u>967</u>
Weighted average number of ordinary shares for the year ended 31 December, 2015	<u>44,810</u>	<u>41,634</u>
(Loss)/earnings per share (AZN)	<u>(25)</u>	<u>134</u>

#### 17. NET INTEREST INCOME

	Year ended December 31, 2015	Year ended December 31, 2014
Interest income comprises:		
Loans to customers	33,983	27,781
Loans and advances to banks	1,079	319
Available-for-sale financial assets	108	161
Cash and cash equivalents	<u>4</u>	<u>12</u>
Total interest income	<u>35,174</u>	<u>28,273</u>
Interest expense comprises:		
Current accounts and deposits from customers	11,511	9,541
Other borrowed funds	4,983	2,989
Deposits and balances from banks	<u>2,674</u>	<u>957</u>
Total interest expense	<u>19,168</u>	<u>13,487</u>
Net interest income	<u>16,006</u>	<u>14,786</u>

Included within various line items under interest income for the year ended 31 December 2015 is total of AZN 2,209 thousand ( 2014 : AZN 1,707 thousand) accrued on impaired financials assets.

## TURANBANK OJSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2015 *(in thousands of Azerbaijan Manats, unless otherwise indicated)*

#### 18. NET FEE AND COMMISSION INCOME

	Year ended December 31, 2015	Year ended December 31, 2014
<b>Fee and commission income:</b>		
Cash withdrawal	1,940	2,703
Plastic cards	604	463
Servicing customers' accounts	317	260
Foreign exchange	156	153
Guarantee and letter of credit issuance	146	266
Settlement	6	3
Other	3	-
<b>Total fee and commission income</b>	<b>3,172</b>	<b>3,848</b>
<b>Fee and commission expense:</b>		
Cash collection	426	243
Plastic cards	311	255
Servicing corresponding accounts	101	99
Guarantee and letter of credit issuance	6	9
Other	78	57
<b>Total fee and commission expense</b>	<b>922</b>	<b>663</b>
<b>Net fee and commission income</b>	<b>2,250</b>	<b>3,185</b>

#### 19. PERSONNEL EXPENSES

	Year ended December 31, 2015	Year ended December 31, 2014
Employee compensation	5,800	5,283
Payments to Social Security Fund	1,267	1,147
<b>Total personnel expenses</b>	<b>7,067</b>	<b>6,430</b>

#### 20. OTHER GENERAL ADMINISTRATIVE EXPENSES

	Year ended December 31, 2015	Year ended December 31, 2014
Advertising and marketing	2,229	1,222
Depreciation and amortization	1,076	935
Operating lease expense	485	449
Security	394	352
Insurance	373	290
Communications and information services	339	290
Professional services	322	250
Taxes other than on income	290	161
Repairs and maintenance	245	138
Office supplies	238	91
Travel expenses	135	77
Utilities	46	44
Other	336	300
<b>Total other general administrative expenses</b>	<b>6,508</b>	<b>4,599</b>

## TURANBANK OJSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2015

(in thousands of Azerbaijan Manats, unless otherwise indicated)

#### 21. 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, 2015 and 2014 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, 2015 and 2014 comprise:

	December 31, 2015	December 31, 2014
Deferred tax liabilities in relation to:		
Loans to customers	804	545
Property, equipment and intangible assets	(791)	(833)
Other assets	(8)	6
	<u>5</u>	<u>(282)</u>
<b>Net deferred tax assets/(liabilities)</b>	<b><u>5</u></b>	<b><u>(282)</u></b>

The effective tax rate reconciliation is as follows for the years ended December 31, 2015 and 2014:

	Year ended December 31, 2015	Year ended December 31, 2014
(Loss)/profit before income tax	(1,301)	7,020
Tax at the statutory tax rate (20%)	260	(1,404)
Adjustments recognized in the current year in relation to the current tax of prior years	(91)	(53)
<b>Income tax benefit/(expense)</b>	<b><u>169</u></b>	<b><u>(1,457)</u></b>
Current income tax expense	(118)	(1,411)
Change in the deferred tax liability	287	(46)
<b>Income tax benefit/(expense)</b>	<b><u>169</u></b>	<b><u>(1,457)</u></b>
<b>Deferred income tax liabilities</b>	<b>2015</b>	<b>2014</b>
As at January 1 – deferred tax liabilities	(282)	(236)
Changes in deferred income tax balances recognized in other comprehensive income	-	-
Change in deferred income tax balances recognized in consolidated profit or loss	287	(46)
<b>As at December 31- deferred tax assets/(liabilities)</b>	<b><u>5</u></b>	<b><u>(282)</u></b>

## TURANBANK OJSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2015

*(in thousands of Azerbaijan Manats, unless otherwise indicated)*

---

#### 22. 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 according to the set limits.

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 Management 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.

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 Management 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 Deputy of CEO. Market risk limits are approved by ALCO based on recommendations of the Risk Management 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 Supervisory Board.

##### **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.

## TURANBANK OJSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2015

(in thousands of Azerbaijan Manats, unless otherwise indicated)

#### Interest rate gap analysis

Interest rate risk is managed principally through monitoring interest rate gaps. A summary of the interest 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
<b>31 December 2015</b>							
<b>ASSETS</b>							
Cash and cash equivalents	-	-	-	-	-	113,613	113,613
Available-for-sale financial assets	-	-	166	-	-	620	786
Loans to banks	20,607	5,748	4,679	-	-	76,061	107,095
Loans to customers	27,850	37,877	65,315	129,329	20,429	-	280,800
Other financial assets	288	-	-	-	-	-	288
	<b>48,745</b>	<b>43,625</b>	<b>70,160</b>	<b>129,329</b>	<b>20,429</b>	<b>190,294</b>	<b>502,582</b>
<b>LIABILITIES</b>							
Deposits and balances from banks	10,073	4,263	6,732	-	-	-	21,068
Current accounts and deposits from customers	67,925	27,385	38,297	48,854	57	64,405	246,923
Other borrowed funds	5,085	23,212	12,294	128,587	30,464	-	199,642
Other financial liabilities	349	-	-	-	-	-	349
	<b>83,432</b>	<b>54,860</b>	<b>57,323</b>	<b>177,441</b>	<b>30,521</b>	<b>64,405</b>	<b>467,982</b>
	<b>(34,687)</b>	<b>(11,235)</b>	<b>12,837</b>	<b>(48,112)</b>	<b>(10,092)</b>	<b>125,889</b>	<b>34,600</b>
<b>31 December 2014</b>							
<b>ASSETS</b>							
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	760
	<b>49,345</b>	<b>29,946</b>	<b>56,945</b>	<b>94,323</b>	<b>12,140</b>	<b>60,876</b>	<b>303,575</b>
<b>LIABILITIES</b>							
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
	<b>68,758</b>	<b>20,406</b>	<b>51,037</b>	<b>73,643</b>	<b>12,900</b>	<b>36,478</b>	<b>263,222</b>
	<b>(19,413)</b>	<b>9,540</b>	<b>5,908</b>	<b>20,680</b>	<b>(760)</b>	<b>24,398</b>	<b>40,353</b>

## TURANBANK OJSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2015

(in thousands of Azerbaijan Manats, unless otherwise indicated)

#### Average effective interest rates

The table below displays average effective interest rates for interest bearing assets and liabilities as at 31 December 2015 and 2014. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	2015			2014		
	Average effective interest rate, % AZN	USD	Other currencies	Average effective interest rate, % AZN	USD	Other currencies
<b>Interest bearing assets</b>						
Available-for-sale financial assets	11.70	-	-	7.82	-	-
Loans to banks	-	6.75	-	8.00	3.60	0.10
Loans to customers	12.01	15.37	0.19	14.09	15.08	-
<b>Interest bearing liabilities</b>						
Deposits and balances from banks						
- Nostro accounts	-	-	-	-	-	-
- Term deposits	14.00	4.60	3.25	-	5.90	2.33
Current accounts and deposits from customers						
- Current accounts and demand deposits	3.45	2.71	2.00	3.60	3.32	3.75
- Term deposits	12.59	10.99	11.90	10.70	11.34	13.27
Other borrowed funds	1.88	7.78	6.02	1.62	7.19	-

#### 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, 2015 would decrease/increase by AZN 332 thousand (2014: total comprehensive income would decrease/increase by AZN 129 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.

The ALMC controls currency risk managing the open currency position on the estimated basis of USD devaluation and other macroeconomic indicators, which gives the Group an possibility to minimize losses from significant currency rates fluctuations toward its national currency. The Treasury Department performs daily monitoring of the Group's open currency position with the aim to match the requirements of CBAR.

## TURANBANK OJSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2015

(in thousands of Azerbaijan Manats, unless otherwise indicated)

The following table shows the foreign currency exposure structure of financial assets and liabilities as at 31 December 2015:

	AZN	USD	EUR	Other currencies	Total
<b>FINANCIAL ASSETS</b>					
Cash and cash equivalents	29,179	64,434	19,130	870	113,613
Available-for-sale financial assets	786	-	-	-	786
Loans to banks	1,558	105,537	-	-	107,095
Loans to customers	157,130	123,482	188	-	280,800
Other financial assets	256	31	1	-	288
<b>Total assets</b>	<b>188,909</b>	<b>293,484</b>	<b>19,319</b>	<b>870</b>	<b>502,582</b>
<b>FINANCIAL LIABILITIES</b>					
Deposits and balances from banks	4,057	6,941	10,070	-	21,068
Current accounts and deposits from customers	37,968	201,533	6,681	741	246,923
Other borrowed funds	116,807	79,802	3,016	17	199,642
Other financial liabilities	253	95	1	-	349
<b>Total liabilities</b>	<b>159,085</b>	<b>288,371</b>	<b>19,768</b>	<b>758</b>	<b>467,982</b>
<b>Net position</b>	<b>29,824</b>	<b>5,113</b>	<b>(449)</b>	<b>112</b>	<b>34,600</b>

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

	AZN	USD	EUR	Other currencies	Total
<b>FINANCIAL ASSETS</b>					
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
<b>Total assets</b>	<b>194,549</b>	<b>89,620</b>	<b>19,190</b>	<b>216</b>	<b>303,575</b>
<b>FINANCIAL LIABILITIES</b>					
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
<b>Total liabilities</b>	<b>153,044</b>	<b>91,994</b>	<b>17,973</b>	<b>211</b>	<b>263,222</b>
<b>Net position</b>	<b>41,505</b>	<b>(2,374)</b>	<b>1,217</b>	<b>5</b>	<b>40,353</b>

#### 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 Supervisory Board.

## TURANBANK OJSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2015

(in thousands of Azerbaijan Manats, unless otherwise indicated)

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;
- 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 Management 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 Management Department. Individual transactions are also reviewed by the Legal and Accounting 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 Management Department.

Apart from individual customer analysis, the credit portfolio is assessed by the Risk Management 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 unrecognized 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 as at 31/12/2015:

	December 31, 2015	Offset	Net exposure after offset	Collateral pledged	Net exposure
<b>FINANCIAL ASSETS</b>					
Cash and cash equivalents (excluding CBAR balances)	113,613	-	113,613	-	113,613
Available-for-sale financial assets	786	-	786	-	786
Loans to banks	107,095	-	107,095	-	107,095
Loans to customers	280,800	12,840	267,960	247,299	20,661
Other financial assets	288	-	288	-	288
<b>Total maximum exposure</b>	<b>502,582</b>	<b>12,840</b>	<b>489,742</b>	<b>247,299</b>	<b>242,443</b>

## TURANBANK OJSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2015 *(in thousands of Azerbaijan Manats, unless otherwise indicated)*

The maximum exposure to credit risk from financial assets excluding CBAR balances as at 31/12/2014:

	December 31, 2014	Offset	Net exposure after offset	Collateral pledged	Net exposure
<b>FINANCIAL ASSETS</b>					
Cash and cash equivalents (excluding CBAR balances)	7,730	-	7,730	-	7,730
Available-for-sale financial assets	4,740	-	4,740	-	4,740
Loans to banks	27,767	-	27,767	-	27,767
Loans to customers	218,153	11,563	206,590	189,359	17,231
Other financial assets	760	-	760	-	760
<b>Total maximum exposure</b>	<b>259,150</b>	<b>11,563</b>	<b>247,587</b>	<b>189,359</b>	<b>58,228</b>

#### 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:

	The Republic of Azerbaijan	OECD countries	Other non-OECD countries	December 31, 2015 Total
<b>FINANCIAL ASSETS</b>				
Cash and cash equivalents	113,613	-	-	113,613
Available-for-sale financial assets	786	-	-	786
Loans to banks	98,205	8,890	-	107,095
Loans to customers	280,800	-	-	280,800
Other financial assets	288	-	-	288
<b>Total financial assets</b>	<b>493,692</b>	<b>8,890</b>	<b>-</b>	<b>502,582</b>
<b>FINANCIAL LIABILITIES</b>				
Deposits and balances from banks	7,165	13,903	-	21,068
Current accounts and deposits from customers	246,923	-	-	246,923
Other borrowed funds	116,818	73,190	9,634	199,642
Other financial liabilities	349	-	-	349
<b>Total financial liabilities</b>	<b>371,255</b>	<b>87,093</b>	<b>9,634</b>	<b>467,982</b>
<b>NET POSITION ON FINANCIAL INSTRUMENTS</b>	<b>122,437</b>	<b>(78,203)</b>	<b>(9,634)</b>	

## TURANBANK OJSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2015 (in thousands of Azerbaijan Manats, unless otherwise indicated)

	The Republic of Azerbaijan	OECD countries	Other non-OECD countries	December 31, 2014 Total
<b>FINANCIAL ASSETS</b>				
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
<b>Total financial assets</b>	<b>288,616</b>	<b>14,959</b>	<b>-</b>	<b>303,575</b>
<b>FINANCIAL LIABILITIES</b>				
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
<b>Total financial liabilities</b>	<b>202,479</b>	<b>52,945</b>	<b>7,798</b>	<b>263,222</b>
<b>NET POSITION ON FINANCIAL INSTRUMENTS</b>	<b>86,137</b>	<b>(37,986)</b>	<b>(7,798)</b>	

#### 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 and inventory.
- For retail lending, mortgages over residential properties.

At December 31, 2015, the fair value of collateral that the Bank holds relating to loans individually determined to be impaired amounts to AZN 6,116 thousand. (2014: nil). The collateral consists of real estate and equipment.

During the year, the Bank took possession of real estate with a carrying value of AZN 604 (2014: AZN 372 thousand) 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.

## TURANBANK OJSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2015 (in thousands of Azerbaijan Manats, unless otherwise indicated)

#### Credit quality by class of financial asset

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

	AA	A	BBB	<BBB	Not rated	Total
<b>December 31, 2015</b>						
Cash and cash equivalents	3,041	9,562	30,915	94	220	43,832
Available-for-sale financial assets	-	-	-	166	620	786
Loans to banks	-	-	8,889	75,801	22,405	107,095
Loans to customers	-	-	-	-	280,800	280,800
Other financial assets	-	-	-	-	288	288
<b>December 31, 2014</b>						
Cash and cash equivalents	6,008	1,304	80	134	204	7,730
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

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.

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, 2015 and 2014 the balances with the CBAR amounted to AZN 93,530 thousand and AZN 19,927 thousand, respectively. The credit rating of the Republic of Azerbaijan according to the international rating agencies in 2015 corresponded to BB+. (2014: BBB).

## TURANBANK OJSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2015

*(in thousands of Azerbaijan Manats, unless otherwise indicated)*

---

#### 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.

## TURANBANK OJSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2015 (in thousands of Azerbaijan Manats, unless otherwise indicated)

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, 2015 Total
<b>Non-derivative liabilities</b>						
Deposits and balances from banks	8,530	1,677	4,486	6,956	-	21,649
Current accounts and deposits from customers	117,468	20,536	29,813	40,891	54,705	263,413
Other borrowed funds	52,492	5,808	30,279	13,572	120,738	222,889
Other financial liabilities	349	-	-	-	-	349
<b>Total financial liabilities</b>	<b>178,839</b>	<b>28,021</b>	<b>64,578</b>	<b>61,419</b>	<b>175,443</b>	<b>508,300</b>
<b>Credit related commitments</b>	<b>19,820</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>19,820</b>

	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
<b>Non-derivative liabilities</b>						
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
<b>Total financial liabilities</b>	<b>86,386</b>	<b>22,461</b>	<b>27,730</b>	<b>51,215</b>	<b>101,489</b>	<b>289,281</b>
<b>Credit related commitments</b>	<b>22,728</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>22,728</b>

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.

## TURANBANK OJSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2015 (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 2015:

	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
<b>ASSETS</b>							
Cash and cash equivalents	113,613	-	-	-	-	-	113,613
Available-for-sale financial assets	-	-	166	-	-	620	786
Loans to banks	9,679	10,928	41,614	43,040	-	1,834	107,095
Loans to customers	8,321	19,529	103,192	129,329	20,429	-	280,800
Other financial assets	288	-	-	-	-	-	288
<b>Total assets</b>	<b>131,901</b>	<b>30,457</b>	<b>144,972</b>	<b>172,369</b>	<b>20,429</b>	<b>2,454</b>	<b>502,582</b>
<b>LIABILITIES</b>							
Deposits and balances from banks	8,530	1,543	10,995	-	-	-	21,068
Current accounts and deposits from customers	115,009	17,321	65,681	48,855	57	-	246,923
Other borrowed funds	51,952	5,035	29,491	92,264	20,900	-	199,642
Other financial liabilities	349	-	-	-	-	-	349
<b>Total liabilities</b>	<b>175,840</b>	<b>23,899</b>	<b>106,167</b>	<b>141,119</b>	<b>20,957</b>	<b>-</b>	<b>467,982</b>
<b>Net position</b>	<b>(43,939)</b>	<b>6,558</b>	<b>38,805</b>	<b>31,250</b>	<b>(528)</b>	<b>2,454</b>	<b>34,600</b>
<b>Cumulative net position up to 5 years</b>	<b>(43,939)</b>	<b>(37,381)</b>	<b>1,424</b>	<b>32,674</b>			

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
<b>ASSETS</b>							
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 financial assets	760	-	-	-	-	-	760
<b>Total assets</b>	<b>81,740</b>	<b>20,932</b>	<b>88,891</b>	<b>94,982</b>	<b>13,601</b>	<b>3,429</b>	<b>303,575</b>
<b>LIABILITIES</b>							
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
Other financial liabilities	231	-	-	-	-	-	231
<b>Total liabilities</b>	<b>85,280</b>	<b>19,921</b>	<b>71,478</b>	<b>73,643</b>	<b>12,900</b>	<b>-</b>	<b>263,222</b>
<b>Net position</b>	<b>(3,540)</b>	<b>1,011</b>	<b>17,413</b>	<b>21,339</b>	<b>701</b>	<b>3,429</b>	<b>40,353</b>
<b>Cumulative net position up to 5 years</b>	<b>(3,540)</b>	<b>(2,940)</b>	<b>14,473</b>	<b>35,812</b>			

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.

## TURANBANK OJSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2015 *(in thousands of Azerbaijani Manats, unless otherwise indicated)*

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.

Amounts are shown payable on demand in other borrowed funds because of covenant breaches. For substantial part of other borrowed funds being on demand refer to Note 13.

#### 23. 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 (2014: AZN 50,000 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 2015, this minimum level is 10% (31 December 2014: 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 5% (31 December 2014: 6%). The Bank is in compliance with the statutory capital ratio as at 31 December 2015 and 2014.

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:

	2015 AZN'000	2014 AZN'000
<b>Tier 1 capital</b>		
Share capital	50,002	47,002
Share premium	724	724
Retained earnings	(2,969)	3,623
Less: Intangible assets	(201)	(96)
<b>Total tier 1 capital</b>	<u>47,556</u>	<u>51,253</u>
<b>Tier 2 capital</b>		
Reserves (1.25% of Risk-weighted assets)	5,161	3,495
Asset revaluation reserve	1,224	1,210
Revaluation reserve for available-for sale assets	-	-
<b>Total tier 2 capital</b>	<u>6,385</u>	<u>4,705</u>
Less: Investments	(620)	(620)
<b>Total capital</b>	<u>53,321</u>	<u>55,338</u>
<b>Risk-weighted assets</b>		
On-balance sheet	393,074	250,192
Off-balance sheet	19,820	29,395
<b>Total risk weighted assets</b>	<u>412,894</u>	<u>279,587</u>
<b>Total capital expressed as a percentage of risk-weighted assets (total capital ratio) (minimum 10%)</b>	<u>12.91%</u>	<u>19.80%</u>
<b>Total tier 1 capital expressed as a percentage of risk-weighted assets (tier 1 capital ratio) (minimum 5%)</b>	<u>11.52%</u>	<u>18.34%</u>

## TURANBANK OJSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2015

*(in thousands of Azerbaijan Manats, unless otherwise indicated)*

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.

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 2015 and 2014.

#### 24. 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.

	2015 AZN'000	2014 AZN'000
Contracted amount		
Loan and credit line commitments	12,625	13,042
Guarantees and letters of credit	7,195	9,686
	<u>19,820</u>	<u>22,728</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.

#### 25. 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 Group does not have any non-cancellable leases.

## TURANBANK OJSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2015

*(in thousands of Azerbaijan Manats, unless otherwise indicated)*

---

#### 26. 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.

##### 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 stability of the Azerbaijan economy is heavily influenced by reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

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. During 2014-2015 and then in the first quarter of 2016, the oil price decreased significantly. As a result, during 2015 Azerbaijani manat was devalued against the US dollar and other major currencies. As a result, in December 2015 the Central Bank of the Republic of Azerbaijan announced floating exchange rate. In January 2016 Standard & Poor's, international credit agency, downgraded long-term and short-term foreign and national currency sovereign rating to the speculative level.

These events resulted in worsening of liquidity in the banking system and much tighter credit conditions. There continues to be uncertainty regarding economic growth, access to capital and cost of capital which could adversely affect the Group's future results and financial position and business prospects, including deterioration of the quality of the loan portfolio, with increases in non-performing loans and decreases in loan collateral values and losses on investment securities in a manner not currently determinable.

## TURANBANK OJSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2015

(in thousands of Azerbaijan Manats, unless otherwise indicated)

Azerbaijani government announced plans to accelerate reforms and support to banking system in response to current economic challenges. The Group's management is monitoring developments in the current environment and taking measures it considered necessary in order to support the sustainability and development of the Group's business in the foreseeable future.

#### 27. 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 2015 and 2014 is as follows:

	2015	2014
Short term employee benefits	<u>380</u>	<u>382</u>
	<u>380</u>	<u>382</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 2015 and 2014 for transactions with the members of the Management Board are as follows:

	2015 AZN'000	Average effective interest rate, %	2014 AZN'000	Average effective interest rate, %
<b>Consolidated statement of financial position</b>				
Loans issued (gross)	1,880	4.6	2,030	6.5
Loan impairment allowance	(12)		(23)	
Current accounts and deposits received	22,711	11.0	1,484	12.9

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:

	2015	2014
<b>Profit or loss</b>		
Interest income	250	31
Interest expense	(298)	(51)
Impairment losses	(9)	(23)

## TURANBANK OJSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2015 (in thousands of Azerbaijan Manats, unless otherwise indicated)

#### (c) Transactions with shareholders

In addition to its related party disclosures, the Group disclosed outstanding balances and the related average interest rates as at 31 December 2015 and 2014 and related profit or loss amounts of transactions for the year ended 31 December 2015 and 2014 with other shareholders (holding 5% or more of shares of the Bank):

	2015	2015 Average interest rate, %	2014	2014 Average interest rate, %
<b>Consolidated statement of financial position</b>				
<b>ASSETS</b>				
Loans to customers				
- In AZN:				
Principal balance	34	1.27	1,375	14.0
Impairment allowance	(2)		(84)	
<b>LIABILITIES</b>				
Current accounts and deposits from customers				
	5,166	12.4	412	11.6
<b>Profit/(loss)</b>				
Interest income	84		329	
Interest expense	(837)		(49)	
Fee and commission income	43		20	
Impairment losses	(37)		(84)	

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

#### 28. 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 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 unobservable input(s)	Relationship of unobservable inputs to fair value
	December 31, 2015	December 31, 2014				
1) AFS – corporate bonds (see Note 6)	166	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)

## TURANBANK OJSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2015 (in thousands of Azerbaijan Manats, unless otherwise indicated)

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, 2015		December 31, 2014	
	Carrying value	Fair value	Carrying value	Fair value
Cash and cash equivalents	113,613	113,613	52,155	52,155
Loans to banks	107,095	107,117	27,767	28,012
Loans to customers	280,800	279,394	218,153	218,733
Other financial assets	288	288	760	760
Deposits and balances from banks	21,068	21,068	21,253	21,410
Current accounts and deposits from customers	246,923	247,417	143,800	144,434
Other borrowed funds	199,642	198,181	97,938	98,876
Other financial liabilities	349	349	231	231

	31 December 2015			Total
	Level 1	Level 2	Level 3	
<b>Financial assets:</b>				
Cash and cash equivalents	113,613	-	-	113,613
Loans to banks	-	107,117	-	107,117
Loans to customers	-	279,394	-	279,394
Other financial assets	-	288	-	288
<b>Financial liabilities:</b>				
Deposits and balances from banks	-	21,068	-	21,068
Current accounts and deposits from customers	-	247,417	-	247,417
Other borrowed funds	-	198,181	-	198,181
Other financial liabilities	-	349	-	349

	31 December 2014			Total
	Level 1	Level 2	Level 3	
<b>Financial assets:</b>				
Cash and cash equivalents	52,155	-	-	52,155
Loans to banks	-	28,012	-	28,012
Loans to customers	-	218,733	-	218,733
Other financial assets	-	760	-	760
<b>Financial liabilities:</b>				
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

As at December 31, 2015 and 2014 available-for-sale financial assets include equity investments of AZN 620 thousands in both years respectively 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. The Group using available market information, where it exists, and appropriate valuation methodologies has determined the estimated fair values of financial instruments. However, judgment is necessarily required to interpret market data to determine the estimated fair value. Management has used all available market information in estimating the fair value of financial instruments.

## **TURANBANK OJSC**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2015**

*(in thousands of Azerbaijan Manats, unless otherwise indicated)*

---

#### **29. SUBSEQUENT EVENTS**

The Group received several waivers and notification letter from financial institutions for breached financing arrangements, outstanding at December 31, 2015 amounting to AZN 29,572 thousand. Please see Note 13.