

“BANK EURASIA” OPEN JOINT STOCK COMPANY

**The International Financial Reporting
Standards Financial Statements and
Independent Auditors' Report**
For the Year Ended December 31, 2016

“BANK EURASIA” OPEN JOINT STOCK COMPANY

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STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

The following statement is made with a view to distinguishing respective responsibilities of the management and those of the independent auditors in relation to the financial statements of "Bank Eurasia" OJSC (the "Bank").

Management is responsible for the preparation of the financial statements that present fairly the financial position of the Bank as at December 31, 2016, the results of its operations, cash flows and changes in equity for the year then ended, in accordance with International Financial Reporting Standards ("IFRS").

In preparing the financial statements, management is responsible for:

- Selecting suitable accounting principles and applying them consistently;
- Making judgments and estimates that are reasonable and prudent;
- Stating whether IFRS have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Preparing the financial statements on a going concern basis, unless it is inappropriate to presume that the Bank will continue in business for the foreseeable future.

Management is also responsible for:

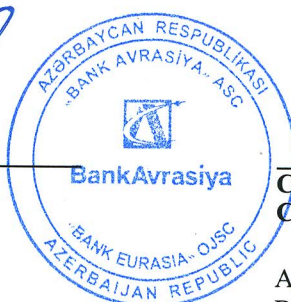
- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Bank;
- Maintaining proper accounting records that disclose, with reasonable accuracy at any time, the financial position of the Bank, and which enable them to ensure that the financial statements of the Bank 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 Bank; and
- Detecting and preventing fraud, errors and other irregularities.

The financial statements for the year ended December 31, 2016 were authorized for issue on April 10, 2017 by the Management Board of the Bank.

On behalf of the Management Board:


Rufat Karimov
Chairman of the Management Board

April 10, 2017
Baku, the Republic of Azerbaijan




Chingiz Amirjanov
Chief Accountant

April 10, 2017
Baku, the Republic of Azerbaijan



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INDEPENDENT AUDITORS' REPORT

To the Shareholders and the Board of Directors of "Bank Eurasia" Open Joint Stock Company:

Qualified Opinion

We have audited the financial statements of "Bank Eurasia" Open Joint Stock Company (the "Bank"), which comprise the statement of financial position as at December 31, 2016, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at December 31, 2016, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis for Qualified Opinion

According to IAS 24 "Related Party Disclosures", paragraph 13, the Bank should disclose the name of its ultimate controlling party. In the financial statements subject to audit, this information has not been disclosed. We were not able to obtain any evidence regarding the ultimate controlling party of the Bank.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or have no realistic alternative but to do so.

The audit committee is responsible for overseeing the Bank's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- Obtain an understanding of internal control relevant to the audit 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 Bank's internal control;
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern;
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Baker Tilly Azerbaijan

April 10, 2017
Baku, the Republic of Azerbaijan

“BANK EURASIA” OPEN JOINT STOCK COMPANY

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31, 2016 (In Azerbaijani Manats)

	Notes	Year ended December 31, 2016	Year ended December 31, 2015
Interest income	5, 24	12,117,689	10,837,325
Interest expense	5, 24	<u>(3,395,789)</u>	<u>(3,064,274)</u>
Net interest income before provision for impairment losses on interest bearing assets		<u>8,721,900</u>	<u>7,773,051</u>
Provision for impairment losses on interest bearing assets	6, 24	(5,895,881)	(5,376,371)
Net interest income		<u>2,826,019</u>	<u>2,396,680</u>
Net gain on foreign exchange operations	7	2,295,528	1,518,211
Fee and commission income	8	1,494,361	1,018,866
Fee and commission expense	8	(634,301)	(519,150)
Change in the fair value of repossessed assets	18, 24	(683,731)	(470,250)
Other expense		<u>(8,321)</u>	<u>(14,531)</u>
Net non-interest income		<u>2,463,536</u>	<u>1,533,146</u>
Operating income		<u>5,289,555</u>	<u>3,929,826</u>
Operating expenses	9, 24	<u>(3,168,041)</u>	<u>(2,566,114)</u>
Profit before income tax		<u>2,121,514</u>	<u>1,363,712</u>
Income tax expense	10	<u>(433,268)</u>	<u>(277,670)</u>
Net profit for the year		<u>1,688,246</u>	<u>1,086,042</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u>1,688,246</u>	<u>1,086,042</u>
Earnings per share			
Basic and diluted (AZN)	11	84.41	54.30

On behalf of the Management Board:


Rufat Karimov
Chairman of the Management Board

April 10, 2017
Baku, the Republic of Azerbaijan




Chingiz Amirjanov
Chief Accountant

April 10, 2017
Baku, the Republic of Azerbaijan

The notes on pages 9-64 form an integral part of these financial statements.

“BANK EURASIA” OPEN JOINT STOCK COMPANY

STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31, 2016

(In Azerbaijani Manats)

	Notes	December 31, 2016	December 31, 2015
ASSETS			
Cash and balances with the Central Bank of the Republic of Azerbaijan	12	39,583,719	27,396,965
Due from banks and other financial institutions	13	10,467,656	12,433,576
Available-for-sale investments	14	9,299,372	6,709,391
Loans to customers	15, 24	83,441,297	75,390,221
Property and equipment	16	4,690,525	3,656,664
Intangible assets	17	156,254	107,871
Other assets	18	3,615,444	4,936,563
TOTAL ASSETS		151,254,267	130,631,251
LIABILITIES AND EQUITY			
LIABILITIES:			
Due to banks, government and other financial institutions	19	28,384,095	23,742,896
Customer accounts	20, 24	61,987,027	48,039,389
Deferred income tax liability	10	1,941,461	1,739,923
Other liabilities	21	289,816	145,421
Total liabilities		92,602,399	73,667,629
EQUITY:			
Share capital	22	50,000,000	50,000,000
Retained earnings		8,651,868	6,963,622
Total equity		58,651,868	56,963,622
TOTAL LIABILITIES AND EQUITY		151,254,267	130,631,251

On behalf of the Management Board:


Rufat Karimov
Chairman of the Management Board




Chingiz Amirjanov
Chief Accountant

April 10, 2017
Baku, the Republic of Azerbaijan

April 10, 2017
Baku, the Republic of Azerbaijan

The notes on pages 9-64 form an integral part of these financial statements.

“BANK EURASIA” OPEN JOINT STOCK COMPANY

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31, 2016

(In Azerbaijani Manats)

	Share capital	Retained earnings	Total equity
January 1, 2015	50,000,000	5,877,580	55,877,580
Total comprehensive income for the year	-	1,086,042	1,086,042
December 31, 2015	50,000,000	6,963,622	56,963,622
Total comprehensive income for the year	-	1,688,246	1,688,246
December 31, 2016	50,000,000	8,651,868	58,651,868

On behalf of the Management Board:

Rufat Karimov
Chairman of the Management Board

April 10, 2017
Baku, the Republic of Azerbaijan



Chingiz Amirjanov
Chief Accountant

April 10, 2017
Baku, the Republic of Azerbaijan

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“BANK EURASIA” OPEN JOINT STOCK COMPANY

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2016 (In Azerbaijani Manats)

	Notes	Year ended December 31, 2016	Year ended December 31, 2015
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit before income tax		2,121,514	1,363,712
Adjustments for non-cash items:			
Provision for impairment losses on interest bearing assets	6	5,895,881	5,376,371
Change in the fair value of repossessed assets	18	683,731	470,250
Depreciation and amortization	16, 17	500,602	351,380
Loss on disposal of property and equipment		3,122	622
Foreign exchange translation (gain)/loss	7	257,804	(1,147,692)
Change in interest accruals, net		<u>(1,448,248)</u>	<u>(1,583,632)</u>
Cash inflow from operating activities before changes in operating assets and liabilities		<u>8,014,406</u>	<u>4,831,011</u>
Changes in operating assets and liabilities			
(Increase)/decrease in operating assets:			
Minimum reserve deposit with the CBRA		(262,853)	251,783
Due from banks and other financial institutions		3,490,490	5,194,400
Loans to customers		(9,696,484)	(9,934,931)
Other assets		<u>(351,926)</u>	<u>21,537</u>
Increase/(decrease) in operating liabilities:			
Due to banks, government and other financial institutions		4,320,920	11,382,471
Customer accounts		8,835,684	(5,315,503)
Other liabilities		<u>128,547</u>	<u>(82,805)</u>
Cash inflow from operating activities before taxation		<u>14,478,784</u>	<u>6,347,963</u>
Income tax paid		<u>(434,503)</u>	<u>(11,498)</u>
Net cash inflow from operating activities		<u>14,044,281</u>	<u>6,336,465</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of available-for-sale investments		(2,289,895)	(22,801,894)
Payment for property and equipment		(497,511)	(1,210,542)
Payment for intangible assets		(78,827)	(35,663)
Proceeds from sale and redemption of available-for-sale investments		<u>-</u>	<u>26,111,165</u>
Net cash (outflow)/inflow from investing activities		<u>(2,866,233)</u>	<u>2,063,066</u>

“BANK EURASIA” OPEN JOINT STOCK COMPANY

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2016 (Continued) (In Azerbaijani Manats)

	Notes	Year ended December 31, 2016	Year ended December 31, 2015
Effect of exchange rate changes on cash and cash equivalents		1,183,120	7,293,115
NET INCREASE IN CASH AND CASH EQUIVALENTS		12,361,168	15,692,646
CASH AND CASH EQUIVALENTS, <i>at the beginning of year</i>	12	35,123,587	19,430,941
CASH AND CASH EQUIVALENTS, <i>at the end of year</i>	12	47,484,755	35,123,587

Interest received and paid by the Bank during the year ended December 31, 2016 amounted to AZN 10,743,716 and AZN 3,470,064, respectively (2015: AZN 9,029,145 and AZN 2,839,726, respectively).

Refer to Note 12 for investing transactions that did not require the use of cash and cash equivalents and were excluded from the cash flow statement.

On behalf of the Management Board:


Rufat Karimov
Chairman of the Management Board

April 10, 2017
Baku, the Republic of Azerbaijan




Chingiz Amirjanov
Chief Accountant

April 10, 2017
Baku, the Republic of Azerbaijan

The notes on pages 9-64 form an integral part of these financial statements.

“BANK EURASIA” OPEN JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016 (In Azerbaijani Manats)

1. INTRODUCTION

Organization and its principal activity

“Bank Eurasia” Open Joint Stock Company (the “Bank”) was incorporated and is domiciled in the Republic of Azerbaijan. The Bank is an open joint stock company limited by the shares and was set up in accordance with the regulations of the Republic of Azerbaijan. The Bank’s principal business activity is commercial and retail banking operations within the Republic of Azerbaijan. The Bank is operating under a full banking license No 251 issued by the Central Bank of the Republic of Azerbaijan (“CBRA”) since November 28, 2007.

The average number of employees of the Bank as at December 31, 2016 was 70 (2015: 60).

Registered address and place of business

The Bank’s registered address is 70 Nizami Street, Baku AZ1000, the Republic of Azerbaijan.

The Bank has the following branches:

Sumgait Branch, located at 2, 1st avenue, Sumgait AZ5000, the Republic of Azerbaijan, operating under banking permit No 251/1 dated April 13, 2009 issued by the CBRA.

Buta Branch, located at 47, Khagani Street, Baku AZ1000, the Republic of Azerbaijan, operating under banking permit No 251/2 dated June 8, 2016 issued by the FMSA.

Shareholders of the Bank

As at December 31, 2016 and 2015, the following shareholders owned the issued ordinary shares of the Bank:

Shareholders	December 31, 2016, %	December 31, 2015, %
“Euro Standard” LLC	37.5	37.5
“PMD Group” LLC	37.5	37.5
“Azbizneskom” LLC	25.0	25.0
Total shareholders	100.0	100.0

Operating Environment of the Bank

The Bank’s operations are conducted in the Republic of Azerbaijan. As an emerging market, at the present time the Republic of Azerbaijan is developing business and regulatory infrastructure that would generally exist in a more mature market economy.

Major indicators of the Azerbaijan economy were influenced by a number of negative factors. Considering significant drop in crude oil prices starting from the second half of 2014, there continues to be uncertainty regarding the economic growth, access to capital and cost of capital in the Republic of Azerbaijan, because Azerbaijan produces and exports large volumes of oil and gas, its economy is particularly dependent on the price of oil and gas. Economic growth slowed down in 2014 and 2015 approximately 2% and 1.1%, respectively and turned negative 3% in 2016. These factors resulted in the economic slowdown to shift from prosperity to recession economy with high inflation and unemployment and decreasing GDP.

“BANK EURASIA” OPEN JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016 (CONTINUED) *(In Azerbaijani Manats)*

The future economic direction of the Republic of Azerbaijan is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory and political developments. The Management is unable to predict, all developments in the economic environment which would have an impact on the Bank's operations and consequently what effect, if any, they could have on the financial position of the Bank.

Decreasing revenues from oil exports made the Central Bank of the Republic of Azerbaijan abandon its peg policy to the basket of US dollars and Euros. In addition, CBAR devalued the Azerbaijani Manat by approximately 34% on February 21, 2015 and further on December 21, 2015 introduced a floating exchange rate that resulted in one-time devaluation of the AZN against US dollars and other major currencies by approximately 48%. The devaluation of Azerbaijani Manat continued in 2016 and resulted in 14% fall against US dollars and 9% fall against Euro by December 31, 2016. 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. Starting from February, 2016 the Central Bank of the Republic of Azerbaijan has gradually increased refinancing rate from 3 to 15% and the minimum capital adequacy ratio was lowered from 12% to 10%. In addition, CBAR prevented speculations in the currency market by setting a limit on the currency exchange rate corridor within 4% of the official rate which was revoked in 2017 and introduced limits on the amount of foreign currency exchange.

The Azerbaijani economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. While the Government has introduced a range of stabilization measures and plans to expedite reforms and support to banking system in response to current economic challenges. The Management believes it is taking appropriate measures to support the sustainability of the Bank's business in the current circumstances, unexpected further deterioration in the areas described above could negatively affect the Bank's results and financial position in manner not currently determinable.

Amidst the ongoing crisis, the government of Azerbaijan shifted its oil-oriented economic policy, dominated for two decades, to the diversification of the economy. For that purpose, a “national strategic roadmap” was adopted to formulate a correct development strategy. The implementation of the “national strategic roadmap” was assigned to the newly formed “Center for Analysis of Economic Reforms and Communications,” the aim of which is analyzing the effectiveness of conducted reforms and making new proposals. Another important structural reform was the establishment of the “Financial Market Supervisory Authority” to reinforce more strict, transparent and flexible control over the financial sector by improving the regulation and fighting against illegal financial activities.

Significant measures have been taken in custom services and taxation as well. As of 1 August, 2016, new regulations to ensure more operative and transparent custom clearance (a “green corridor” and other access systems) were implemented. The new simplified procedures will stimulate imports and will provide favorable conditions for business and external trade. As a continuation of reforms in customs, the reception of e-declarations to avoid the “official-citizen contact” is being carried out. In order to amend the existing tax system, the decree approving the “Directions of Reforms in Taxation for 2016” was signed. The presidential decree requires the Ministry of Taxes to ensure that on-site and off-tax audits are performed within short periods of time and extend the coverage of electronic tax audits to limit face-to-face contacts with taxpayers. Another important amendment on monopolistic actions was made to the Criminal Code. Besides, the latest changes in December 2016 to Taxes Code there will be applied “transfer pricing” against artificially exaggerated expenses and “voluntary tax disclosure” which highly practicable in greatest economies. Furthermore, in order to prevent additional exposure of financial sanctions by tax authority because of wrongly calculated tax liability, the mechanism of “determination of tax liability in advance” will be activated. Along with them, implementation of electronic invoices will play an important role in prevention of tax evasion and will impact on positively on tax system optimization.

“BANK EURASIA” OPEN JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016 (CONTINUED) *(In Azerbaijani Manats)*

It is expected that recession to be short-lived, recovering to economic growth in 2017, partly due to positive effects of investments in gas projects. It is expected the GDP will growth 1.4% and the non-oil sector about 2.4%. Over the long term, Azerbaijan will benefit from production from the new gas fields, which is expected to come online in 2018.

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

These financial statements of the Bank 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”).

Going concern

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

Other basis of presentation criteria

These financial statements are presented in Azerbaijani Manats (“AZN”), unless otherwise indicated. These financial statements have been prepared under the historical cost convention, except measurement at fair value of certain financial instruments.

The Bank maintains its accounting records in accordance with the laws of the Republic of Azerbaijan. These financial statements have been prepared from the statutory accounting records and have been adjusted to conform to IFRS. These adjustments include certain reclassifications to reflect the economic substance of underlying transactions including reclassifications of certain assets and liabilities, income and expenses to appropriate financial statement captions.

The principal accounting policies are set out below:

Recognition of interest income and expense

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

The effective interest rate is the rate that exactly discounts estimated future cash payments or 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 financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

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.

“BANK EURASIA” OPEN JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2016 (CONTINUED)

(In Azerbaijani Manats)

Recognition of fee and commission income and expense

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 and loss accounts 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 the profit and loss accounts on expiry. Loan servicing fees are recognized as revenue as the services are provided. All other commissions are recognized when services are provided.

Financial instruments

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

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

Financial assets

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

Financial assets at FVTPL

Financial assets classified as held for trading are included in the category “financial assets at fair value through profit or loss”. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated and effective hedging instruments. Gains or losses on financial assets held for trading are recognized in the profit and loss accounts.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Bank has the positive intent and ability to hold to maturity.

Held-to-maturity investments are measured at amortized cost using the effective interest method less any impairment.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as trading securities or designated as investment securities available-for-sale. Such assets are carried at amortized cost using the effective interest method.

“BANK EURASIA” OPEN JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016 (CONTINUED) *(In Azerbaijani Manats)*

Gains and losses are recognized in profit and loss accounts when the loans and receivables are derecognized or impaired, as well as through the amortization process.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition available-for-sale financial assets are measured at fair value with gains or losses being recognized in other comprehensive income until the investment is derecognized or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in other comprehensive income is reclassified to profit and loss accounts. However, interest calculated using the effective interest method is recognized in profit and loss accounts.

Fair value measurement

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 in the principal or, in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Bank uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Bank determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, unrestricted balances on correspondent and time deposit accounts with the CBRA and advances to banks in countries included in the Organization for Economic Co-operation and Development (“OECD”) with original maturities up to 90 days. For purposes of determining cash flows, the minimum reserve deposits required by the CBRA, commemorative coins and pledged accounts in OECD countries are not included as a cash equivalent due to restrictions on its availability.

“BANK EURASIA” OPEN JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2016 (CONTINUED)

(In Azerbaijani Manats)

Minimum reserve deposits with the Central Bank of the Republic of Azerbaijan

Minimum reserve deposits with the Central Bank of the Republic of Azerbaijan represent the amount of obligatory reserves deposited with the Central Bank of the Republic of Azerbaijan in accordance with requirements established by the Central Bank of the Republic of Azerbaijan, which subject to restrictions on their availability. In view of the above the amount of the minimum reserve deposit required by the Central Bank of the Republic of Azerbaijan is not included as a cash equivalent in statement of cash flows.

Due from banks and other financial institutions

In the normal course of business, the Bank maintains advances or deposits for various periods of time with other banks. Due from banks and other financial institutions are initially recognized at a fair value. Due from banks and other financial institutions with a fixed maturity term are subsequently measured at amortized cost using the effective interest method and are carried net of any allowance for impairment losses. Those that do not have fixed maturities are carried at amortized cost based on expected maturities.

Loans to customers

Loans to customers are non-derivative assets with fixed or determinable payments that are not quoted in an active market, other than those classified in other categories of financial assets.

Loans granted by the Bank are initially recognized at a fair value plus related transaction costs. Where the fair value of consideration given does not equal the fair value of the loan, for example where the loan is issued at lower than market rates, the difference between the fair value of consideration given and the fair value of the loan is recognized as a loss on initial recognition of the loan and included in the statement of comprehensive income according to nature of these losses. Subsequently, loans are carried at amortized cost using the effective interest method. Loans to customers are carried net of any allowance for impairment losses.

Embedded derivatives

An embedded derivative is a component of a hybrid (combined) instrument that also includes a non-derivative host contract with the effect that some of the cash flows of the combined instrument vary in a way similar to a standalone derivative. An embedded derivative causes some or all of the cash flows that otherwise would be required by the contract to be modified according to a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract.

An embedded derivative shall be separated from the host contract and accounted for as a derivative if, and only if:

- The economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract;
- A separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
- The hybrid (combined) instrument is not measured at fair value with changes in fair value recognized in profit or loss.

“BANK EURASIA” OPEN JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016 (CONTINUED) *(In Azerbaijani Manats)*

Reclassification of financial assets

If a non-derivative financial asset classified as held for trading is no longer held for the purpose of selling in the near term, it may be reclassified out of the fair value through profit or loss category in one of the following cases:

- A financial asset that would have met the definition of loans and receivables above may be reclassified to loans and receivables category if the Bank has the intention and ability to hold it for the foreseeable future or until maturity;
- Other financial assets may be reclassified to available for sale or held-to-maturity categories only in rare circumstances.

A financial asset classified as available-for-sale that would have met the definition of loans and receivables may be reclassified to loans and receivables category of the Bank has the intention and ability to hold it for the foreseeable future or until maturity.

Financial assets are reclassified at their fair value on the date of reclassification. Any gain or loss already recognized in profit and loss accounts is not reversed. The fair value of the financial asset on the date of reclassification becomes its new cost or amortized cost, as applicable.

Impairment of financial assets

The Bank assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred “loss event”) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Determination of fair value

The fair value for financial instruments traded in active market at the reporting date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, options pricing models and other relevant valuation models.

Assets carried at amortized cost

The Bank accounts for impairment losses of financial assets when there is objective evidence that a financial asset or a group of financial assets is impaired. Impairment losses are measured as the difference between carrying amounts and the present value of expected future cash flows, including amounts recoverable from guarantees and collateral, discounted at the financial asset’s original effective interest rate.

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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2016 (CONTINUED)

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Such impairment losses are not reversed, unless 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, such as recoveries, in which case the previously recognized impairment loss is reversed by adjustment of an allowance account.

For financial assets carried at cost, impairment losses are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows, discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

Available-for-sale financial investments

For available-for-sale financial investments, the Bank assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in profit and loss accounts – is reclassified from other comprehensive income to profit and loss accounts. Impairment losses on equity investments are not reversed through profit and loss accounts; increases in their fair value after impairment are recognized in other comprehensive income.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded in profit and loss accounts. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit and loss accounts, the impairment loss is reversed through profit and loss accounts.

Renegotiated loans

Where possible, the Bank 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, the loan is no longer considered past due. Management continuously 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 or current effective interest rate.

Write off of loans and advances

Loans and advances are written off against the allowance for impairment losses when deemed uncollectible. Loans and advances are written off after management has exercised all possibilities available to collect amounts due to the Bank and after the Bank 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 profit and loss accounts in the period of recovery.

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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2016 (CONTINUED)

(In Azerbaijani Manats)

Derecognition of financial assets

The Bank 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 entity. If the Bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Bank recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Bank retains substantially all the risks and rewards of ownership of a transferred financial asset, the Bank continues to recognize the financial asset and also recognizes 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 and loss accounts.

On derecognition of a financial asset other than in its entirety (for example, when the Bank retains an option to repurchase part of the transferred asset or retains a residual interest that does not result in the retention of substantially all the risks and rewards of ownership and the Bank retains control), the Bank 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 recognizes 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 and loss accounts. 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

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 Bank are recognized at the proceeds received, net of direct issue costs.

Financial liabilities

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

FVTPL

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

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016 (CONTINUED) *(In Azerbaijani Manats)*

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit and loss accounts. The net gain or loss recognized in profit and loss accounts incorporates any interest paid on the financial liability and is included in the “other income/(loss)” line item in the statement of comprehensive income.

Other financial liabilities

Other financial liabilities are initially measured at fair value, net of transaction costs.

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

Due to banks, government and other financial institutions

Amounts due to banks, government and other financial institutions are recorded when money or other assets are advanced to the Bank by counterparty banks. The non-derivative liability is carried at amortized cost. If the Bank purchases its own debt, it is removed from the statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains or losses arising from early retirement of debt.

Customer accounts

Customer accounts are non-derivative liabilities to individuals, state or corporate customers and are carried at amortized cost.

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 Bank 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 Bank derecognizes financial liabilities when, and only when, the Bank’s obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit and loss accounts.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016 (CONTINUED) *(In Azerbaijani Manats)*

Offset of financial assets and liabilities

Financial assets and liabilities are offset and reported net on the statement of financial position when the Bank has a legally enforceable right to set off the recognized amounts and the Bank intends either to settle on a net basis or to realize the asset and settle the liability simultaneously. In accounting for a transfer of a financial asset that does not qualify for derecognition, the Bank does not offset the transferred asset and the associated liability.

Operating leases

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

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

Property, equipment and intangible assets

Property, equipment and intangible assets are carried at historical cost less accumulated depreciation and amortization and any recognized impairment loss.

Depreciation on assets under construction and those not placed in service commences from the date the assets are ready for their intended use.

Depreciation and amortization are charged on the carrying value of property, equipment and intangible assets and is designed to write off assets over their useful economic lives. The estimated useful lives, residual values and depreciation/amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis at the following annual rates:

Buildings	5%
Furniture and fixtures	20%
Computer and equipment	20%
Vehicles	25%
Other fixed assets	20%
Intangible assets	10%

Expenses related to repairs and renewals are charged when incurred and included in operating expenses unless they qualify for capitalization.

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

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016 (CONTINUED) *(In Azerbaijani Manats)*

At the end of each reporting period, the Bank reviews the carrying amounts of its property, equipment and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Bank estimates the recoverable amount of the cash-generating unit to which the asset belongs.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit and loss accounts.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

An item of property, equipment and intangible assets 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 and loss accounts.

Taxation

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

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

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

The carrying amount of deferred tax assets is reviewed at each reporting date 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 is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realized. Deferred tax is charged or credited in the statement of comprehensive income, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016 (CONTINUED) *(In Azerbaijani Manats)*

Deferred income tax assets and deferred income tax liabilities are offset and reported net on the statement of financial position if:

- The Bank has a legally enforceable right to set off current income tax assets against current income tax liabilities; and
- Deferred income tax assets and the deferred income tax liabilities relate to income taxes levied by the same taxation authority on the same taxable entity.

The Republic of Azerbaijan also has various other taxes, which are assessed on the Bank's activities. These taxes are included as a component of operating expenses in the statement of comprehensive income.

Provisions

Provisions are recognized when the Bank has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the obligation can be made.

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.

Retirement and other benefit obligations

In accordance with the requirements of the legislation of the Republic of Azerbaijan state pension system provides for the calculation of current payments by the employer as a percentage of current total payments to staff. This expense is charged in the period the related salaries are earned. Upon retirement all retirement benefit payments are made by pension funds selected by employees. The Bank does not have any pension arrangements separate from the state pension system of the Republic of Azerbaijan. In addition, the Bank has no post-retirement benefits or other significant compensated benefits requiring accrual.

Contingencies

Contingent liabilities are not recognized in the 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 statement of financial position but disclosed when an inflow of economic benefits is probable.

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognized as a deduction from equity, net of any tax effects. Dividends on ordinary shares are recognized in equity as a reduction in the period in which they are declared. Dividends that are declared after the reporting date are treated as a subsequent event under International Accounting Standard 10 “Events after the Reporting Date” (“IAS 10”) and disclosed accordingly.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016 (CONTINUED) *(In Azerbaijani Manats)*

Foreign currency translation

The functional currency of the Bank is the currency of the primary economic environment, in which it operates. The Bank's functional currency is AZN.

Financial assets and liabilities denominated in foreign currencies are translated into AZN at the appropriate spot rates of exchange of the CBRA ruling at the end of reporting date. Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transaction. Profits and losses arising from these translations are included in foreign exchange translation gain/(loss) account.

On February 21, 2015 the Central Bank of the Republic of Azerbaijan (“CBAR”) devalued the Azerbaijani Manat (AZN). As a result, the official exchange rates of AZN to the US dollars fell to AZN 1.05 US dollars, and the official exchange rate of AZN to the Euro fell to AZN 1.19 per Euro, i.e. by approximately 34% from the exchange rates at the effective date of devaluation.

On December 21, 2015 the CBAR introduced a floating exchange rate that resulted in one-time devaluation of the Azerbaijani Manat (“AZN”) against US dollars and other major currencies by approximately 48%.

The devaluation of Azerbaijani Manat continued in 2016 and resulted in 14% fall against US dollars and 9% fall against Euro by December 31, 2016.

Rates of exchange

The exchange rates at reporting date used by the Bank in the preparation of the financial statements are as follows:

	December 31, 2016	December 31, 2015
USD/AZN	1.7707	1.5594
EUR/AZN	1.8644	1.7046

Reposessed assets

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

Segment reporting

Operating segments are identified on the basis of internal reports about components of the Bank that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance. The Bank's segmental reporting is based on the following operating segments: Retail banking (Principally handling individual customers' deposits, and providing consumer loans, overdrafts, credit cards facilities and funds transfer facilities) and Corporate banking (Principally handling loans and other credit facilities and deposit and current accounts for corporate and institutional customers).

The Bank measures information about reportable segments in accordance with IFRS. Information about reportable operating segment meets any one of the following quantitative thresholds:

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- Its reported revenue, from both external customers and intersegment sales or transfers, is 10 per cent or more of the combined revenue, internal and external, of all operating segments; or
- The absolute measure of its reported profit or loss is 10 per cent or more of the greater, in absolute amount, of (i) the combined reported profit of all operating segments that did not report a loss and (ii) the combined reported loss of all operating segments that reported a loss; or
- Its assets are 10 per cent or more of the combined assets of all operating segments.

If the total external revenue reported by operating segments constitutes less than 75 per cent of the entity's revenue, additional operating segments are identified as reportable segments (even if they do not meet the quantitative thresholds set out above) until at least 75 per cent of the Bank's revenue is included in reportable segments.

Critical accounting judgments and key sources of estimation uncertainty

The preparation of the Bank's financial statements requires management to make estimates and judgments that affect the reported amounts of assets and liabilities at the reporting date and the reported amount of income and expenses during the period ended. Management evaluates its estimates and judgments on an ongoing basis. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. The following estimates and judgments are considered important to the portrayal of the Bank's financial condition.

Allowance for impairment of loans

The Bank regularly reviews its loans to assess for impairment. The Bank's loan impairment provisions are established to recognize incurred impairment losses in its portfolio of loans and receivables.

The Bank 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 Bank's estimated losses and actual losses would require the Bank to record provisions which could have a material impact on its financial statements in future periods.

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

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016 (CONTINUED) *(In Azerbaijani Manats)*

The carrying amount of the allowance for impairment of loans to customers is AZN 13,443,954 and AZN 7,781,011 as at December 31, 2016 and 2015, respectively.

The carrying amount of the allowance for impairment of due from banks and other financial institutions is AZN 139,970 and AZN 6,695 as at December 31, 2016 and 2015, respectively.

Valuation of financial instruments

Financial instruments that are classified at a fair value through profit or loss or available-for-sale, and all derivatives, are stated at a fair value. The fair value of such financial instruments is the estimated amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. If a quoted market price is available for an instrument, the fair value is calculated based on the market price. When valuation parameters are not observable in the market or cannot be derived from observable market prices, the fair value is derived through analysis of other observable market data appropriate for each product and pricing models which use a mathematical methodology based on accepted financial theories. Pricing models take into account the contract terms of the securities as well as market-based valuation parameters, such as interest rates, volatility, exchange rates and the credit rating of the counterparty.

Where market-based valuation parameters are not directly observable, management will make a judgment as to its best estimate of that parameter in order to determine a reasonable reflection of how the market would be expected to price the instrument. In exercising this judgment, a variety of tools are used including proxy observable data, historical data, and extrapolation techniques.

The best evidence of fair value of a financial instrument at initial recognition is the transaction price unless the instrument is evidenced by comparison with data from observable markets. Any difference between the transaction price and the value based on a valuation technique is not recognized in the statement of comprehensive income on initial recognition. Subsequent gains or losses are only recognized to the extent that it arises from a change in a factor that market participants would consider in setting a price.

The Bank considers that the accounting estimate related to valuation of financial instruments where quoted markets prices are not available is a key source of estimation uncertainty because: (i) it is highly susceptible to change from period to period because it requires management to make assumptions about interest rates, volatility, exchange rates, the credit rating of the counterparty, valuation adjustments and specific feature of the transactions and (ii) the impact that recognizing a change in the valuations would have on the assets reported on its statement of financial position as well as its profit and loss accounts could be material.

Had management used different assumptions regarding the interest rates, volatility, exchange rates, the credit rating of the counterparty and valuation adjustments, a larger or smaller change in the valuation of financial instruments where quoted market prices are not available would have resulted that could have had a material impact on the Bank's reported net income.

3. ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS

In the current year, the Bank has adopted all of the applicable new and revised Standards and Interpretations issued by the IASB and the IFRIC of the IASB that are relevant to its operations and effective for annual reporting periods ending in December 31, 2016. The adoption of these new and revised Standards and Interpretations has not resulted in significant changes to the Bank's accounting policies that have affected the amounts reported for the current or prior years.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016 (CONTINUED) *(In Azerbaijani Manats)*

Amendments to IAS 1 “Presentation of Financial Statements”: Disclosure Initiative – The amendments to IAS 1 “Presentation of Financial Statements” clarify, rather than significantly change, existing IAS 1 requirements.

The amendments clarify:

- The materiality requirements in IAS 1;
- That specific line items in the statement(s) of profit or loss and other comprehensive income and the statement of financial position may be disaggregated;
- That entities have flexibility as to the order in which they present the notes to financial statements; and
- That the share of Other Comprehensive Income (“OCI”) of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and other comprehensive income.

Amendments to IAS 16 and IAS 38 “Clarification of Acceptable Methods of Depreciation and Amortization” – The amendments to IAS 16 prohibit entities from using a revenue-based depreciation method for items of property and equipment. The amendments to IAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortization of intangible assets. 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 the consumption of the economic benefits of the intangible asset are highly correlated.

Amendments to IAS 16 and IAS 41 “Agriculture”: Bearer Plants – The amendments to IAS 16 “Property and equipment” and IAS 41 “Agriculture” define a bearer plant and require biological assets that meet the definition of a bearer plant to be accounted for as property and equipment in accordance with IAS 16, instead of IAS 41. In terms of the amendments, bearer plants can be measured using either the cost model or the revaluation model set out in IAS 16.

On the initial application of the amendments, entities are permitted to use the fair value of items of bearer plant as their deemed cost as at beginning of the earliest period presented. Any difference between the previous carrying amount and fair value should be recognized in opening retained earnings at the beginning of the earliest period presented.

The produce growing on bearer plants continues to be accounted for in accordance with IAS 41.

Amendments to IAS 27 “Equity Method in Separate Financial Statements” – The amendments to IAS 27 “Separate Financial Statements” allow an entity to use the equity method as described in IAS 28 to account for its investments in subsidiaries, joint ventures and associates in its separate financial statements. Therefore, an entity must account for these investments either:

- At cost;
- In accordance with IFRS 9 (or IAS 39); or
- Using the equity method.

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The entity must apply the same accounting for each category of investments. A consequential amendment was also made to IFRS 1 “First-time Adoption of International Financial Reporting Standards”. The amendment to IFRS 1 allows a first-time adopter accounting for investments in the separate financial statements using the equity method, to apply the IFRS 1 exemption for past business combinations to the acquisition of the investment.

Amendments to IFRS 10, IFRS 12 and IAS 28 “Investment Entities: Applying the Consolidation Exception” – The amendments address issues that have arisen in applying the investment entities exception under IFRS 10.

The amendments to IFRS 10 clarify that the exemption (in IFRS 10.4) from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value.

Furthermore, the amendments to IFRS 10 clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value.

The amendments to IAS 28 allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries.

Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets between an Investor and its Associate or Joint Venture” – The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture.

The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3 “Business Combinations”, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors’ interests in the associate or joint venture.

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 an interest in a joint operation in which the activities constitute 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 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.

IFRS 14 “Regulatory Deferral Accounts” allows rate-regulated entities to continue recognizing regulatory deferral accounts in connection with their first-time adoption of IFRS. Existing IFRS preparers are prohibited from adopting this standard. Entities that adopt IFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and other comprehensive income. The standard requires disclosures on the nature of, and risks associated with, the entity’s rate regulation and the effects of that rate regulation on its financial statements.

“BANK EURASIA” OPEN JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016 (CONTINUED) (In Azerbaijani Manats)

Annual improvements to IFRSs 2012-2014 Cycle – The Annual Improvements include amendments to a number of IFRSs, which have been summarized below.

Standard	Subject of amendment
IFRS 5 “Non-Current Assets Held for Sale and Discontinued Operations”	Changes in methods of disposal
IFRS 7 “Financial Instruments: Disclosures”	Servicing contracts and applicability of the offsetting disclosures to condensed interim financial statements
IAS 19 “Employee Benefits”	Discount rate: regional market issue
IAS 34 “Interim Financial Reporting”	Disclosure of information “elsewhere in the interim financial report”

Unless otherwise described above, the new Standards and Interpretations are not expected to significantly affect the Bank’s financial statements.

4. STANDARD AND INTERPRETATIONS ISSUED BUT NOT YET ADOPTED

At the date of authorization of these financial statements, other than the Standards and Interpretations adopted by the Bank in advance of their effective dates, the following Interpretations were in issue but not yet effective.

Amendments to IAS 7 “Statement of Cash Flows” – The amendments are intended to clarify IAS 7 to improve information provided to users of financial statements about an entity’s financing activities. To achieve this objective, the IASB requires that the following changes in liabilities arising from financing activities are disclosed (to the extent necessary): (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

The amendments are effective for annual periods beginning on or after January 1, 2017, with earlier application being permitted.

Amendments to IAS 12 “Income Taxes” – The amendments to IAS 12 “Income Taxes” clarify how to account for deferred tax assets related to debt instruments measured at fair value and clarify recognition of deferred tax assets for unrealized losses, to address diversity in practice.

Entities are required to apply the amendments for annual periods beginning on or after January 1, 2017. Earlier application is permitted.

Annual Improvements to IFRS Standards 2014-2016 Cycle contains amendments to three International Financial Reporting Standards (IFRSs) as result of the IASB’s annual improvements project.

“BANK EURASIA” OPEN JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016 (CONTINUED) (In Azerbaijani Manats)

Standard	Subject of amendment
IFRS 1 “First-time Adoption of International Financial Reporting Standards”	Deletion of short-term exemptions for the first-time adopters: The amendments delete the short-term exemptions in IFRS 1 that relate to IFRS 7, IAS 19, IFRS 12 and IAS 27
IFRS 12 “Disclosure of Interests in Other Entities”	Clarification of the scope of the Standard: IFRS 12 states that an entity need not provide summarized financial information for interests in subsidiaries, associates or joint ventures that are classified as held for sale. The amendment clarifies that this is the only concession from disclosure requirements of IFRS 12 for such interests.
IAS 28 “Investments in Associates and Joint Ventures”	Measuring an associate or joint venture at fair value: The amendments clarify that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is a venture capital organization, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial

The amendments to IFRS 1 and IAS 28 are effective for annual periods begin on or after January 1 2018, the amendment to IFRS 12 for annual periods beginning on or after January 1, 2017.

The IASB and FASB have issued their joint revenue recognition standard, IFRS 15 “Revenue from Contracts with Customers”, which replaces all existing IFRS and US GAAP revenue requirements. IFRS 15 specifies how and when an IFRS reporter will recognize revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures. The standard provides a single, principles based five-step model to be applied to all contracts with customers. IFRS 15 was issued in May 2014 and applies to an annual reporting period beginning on or after January 1, 2018. An earlier application is permitted.

Amendments to IAS 40 “Transfers of Investment Property” are intended to clarify that an entity can only reclassify a property to/from investment property when, and only when, there is evidence that a change in the use of the property occurred. The amendments are effective for periods beginning on or after January 1, 2018. Earlier application is permitted. An entity applies the amendments to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. Retrospective application is also permitted if that is possible without the use of hindsight.

IFRIC 22 “Foreign Currency Transactions and Advance Consideration” addresses foreign currency transactions or parts of transactions where:

- there is consideration that is denominated or priced in a foreign currency;
- the entity recognizes a prepayment asset or a deferred income liability in respect of that consideration, in advance of the recognition of the related asset, expense or income; and
- the prepayment asset or deferred income liability is non-monetary.

The Interpretations Committee came to the following conclusion that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt. The interpretation applies to annual reporting periods beginning or after January 1, 2018. An earlier adoption is permitted.

IFRS 9 “Financial Instruments” issued in November 2009 and amended in October 2010 introduces new requirements for the classification and measurement of financial assets and financial liabilities and for de-recognition.

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FOR THE YEAR ENDED DECEMBER 31, 2016 (CONTINUED)

(In Azerbaijani Manats)

- IFRS 9 requires all recognized financial assets that are within the scope of IAS 39 “Financial Instruments: Recognition and Measurement” to be subsequently measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods;
- The most significant effect of IFRS 9 regarding the classification and measurement of financial liabilities relates to the accounting for changes in fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under IFRS 9, for financial liabilities that are designated as at fair value through profit or loss, 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 recognized in other comprehensive income, unless the recognition of the effects of changes in the liability’s credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit and loss accounts. Changes in fair value attributable to a financial liability’s credit risk are not subsequently reclassified to profit and loss accounts. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit and loss accounts was recognized in profit and loss accounts.

IFRS 9 is effective for annual periods beginning on or after January 1, 2018.

Amendments to IFRS 2 “Share-Based Payment” – The IASB have published final amendments to IFRS 2 “Share-based Payment” that clarify the classification and measurement of share-based payment transactions. Classification and Measurement of Share-based Payment Transactions contains the following clarifications and amendments:

Accounting for cash-settled share-based payment transactions that include a performance condition

Until issue of these amendments, IFRS 2 contained no guidance on how vesting conditions affect the fair value of liabilities for cash-settled share-based payments. IASB has now added guidance that introduces accounting requirements for cash-settled share-based payments that follows the same approach as used for equity-settled share-based payments.

Classification of share-based payment transactions with net settlement features

The IASB has introduced an exception into IFRS 2 so that a share-based payment where the entity settles the share-based payment arrangement net is classified as equity-settled in its entirety provided the share-based payment would have been classified as equity-settled had it not included the net settlement feature.

Accounting for modifications of share-based payment transactions from cash-settled to equity-settled

Until issue of these amendments, IFRS 2 did not specifically address situations where a cash-settled share-based payment changes to an equity-settled share-based payment because of modifications of the terms and conditions. The IASB has introduced the following clarifications:

- On such modifications, the original liability recognized in respect of the cash-settled share-based payment is derecognized and the equity-settled share-based payment is recognized at the modification date fair value to the extent services have been rendered up to the modification date;

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016 (CONTINUED) (In Azerbaijani Manats)

- Any difference between the carrying amount of the liability as at the modification date and the amount recognized in equity at the same date would be recognized in profit and loss immediately.

The amendments are effective for annual periods beginning on or after January 1, 2018. Earlier application is permitted.

IFRS 16 “Leases”, which specifies how and IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16’s approach to lessor accounting substantially unchanged from its predecessor, IAS 17.

IFRS 16 was issued in January 13, 2016 and applies to an annual reporting period beginning on or after January 1, 2019.

The Management is considering the implications of these standards, their impact on the financial statements and the timing of its adoption by the Bank.

5. NET INTEREST INCOME

	Year ended December 31, 2016	Year ended December 31, 2015
Interest income comprises:		
Interest income on financial assets recorded at amortized cost:		
- interest income on unimpaired financial assets	10,734,304	8,907,759
- interest income on impaired financial assets	1,139,424	1,576,090
Interest income on guarantees issued and similar commitments	243,961	353,476
Total interest income	12,117,689	10,837,325
Interest income on financial assets recorded at amortized cost comprises:		
Interest income on loans to customers	11,064,217	9,233,891
Interest income on due from banks and other financial institutions	196,096	610,903
Interest income on available-for-sale-investments	613,415	639,055
Other interest income	243,961	353,476
Total interest income on financial assets recorded at amortized cost	12,117,689	10,837,325
Interest expense comprises:		
Interest on financial liabilities recorded at amortized cost	(3,395,789)	(3,064,274)
Total interest expense	(3,395,789)	(3,064,274)
Interest expense on financial liabilities recorded at amortized cost comprises:		
Interest expense on customer accounts	(2,813,263)	(2,641,274)
Interest expense on due to banks, government and other financial institutions	(582,526)	(423,000)
Total interest expense on financial liabilities recorded at amortized cost	(3,395,789)	(3,064,274)
Net interest income before provision for impairment losses on interest bearing financial assets	8,721,900	7,773,051

“BANK EURASIA” OPEN JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016 (CONTINUED) (In Azerbaijani Manats)

6. ALLOWANCE FOR IMPAIRMENT LOSSES AND OTHER PROVISIONS

The movements in allowance for impairment losses on interest bearing assets were as follows:

	Due from banks and other financial institutions	Loans to customers	Total
January 1, 2015	(1,188,300)	(3,937,882)	(5,126,182)
Provision for impairment	(1,370,245)	(4,006,126)	(5,376,371)
Write-off of assets	2,551,850	162,997	2,714,847
December 31, 2015	(6,695)	(7,781,011)	(7,787,706)
Provision for impairment	(133,275)	(5,762,606)	(5,895,881)
Write-off of assets	-	99,663	99,663
December 31, 2016	(139,970)	(13,443,954)	(13,583,924)

7. NET GAIN ON FOREIGN EXCHANGE OPERATIONS

Net gain on foreign exchange operations comprises:

	Year ended December 31, 2016	Year ended December 31, 2015
Dealing, net	2,553,332	370,519
Translation differences, net	(257,804)	1,147,692
Total net gain on foreign exchange operations	2,295,528	1,518,211

8. FEE AND COMMISSION INCOME AND EXPENSE

Fee and commission income and expense comprise:

	Year ended December 31, 2016	Year ended December 31, 2015
Fee and commission income:		
Plastic card operations	428,959	294,148
Settlements	413,172	181,330
Cash operations	352,763	347,229
Foreign exchange operations	290,742	190,067
Others	8,725	6,092
Total fee and commission income	1,494,361	1,018,866
Fee and commission expense:		
Plastic card operations	(334,130)	(210,218)
Cash operations	(134,342)	(212,479)
Settlements	(105,935)	(51,672)
Guarantee operations	(32,685)	(25,236)
Others	(27,209)	(19,545)
Total fee and commission expense	(634,301)	(519,150)

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016 (CONTINUED) (In Azerbaijani Manats)

9. OPERATING EXPENSES

Operating expenses comprise of the following items:

	Year ended December 31, 2016	Year ended December 31, 2015
Staff costs	1,463,433	1,275,773
Depreciation and amortization	500,602	351,380
Social security costs	261,057	211,761
Payments to the deposit insurance fund	144,972	126,795
Service fees	142,668	73,088
Communication expenses	133,913	93,283
Security expenses	123,826	115,105
Property, plant and equipment maintenance	109,238	89,150
Taxes, other than income tax	62,293	43,561
Utility expenses	60,258	61,311
Advertising expenses	34,761	30,481
Membership fees	32,422	12,000
Professional service fees	28,320	36,816
Rent expenses	15,457	13,882
Insurance expenses	11,680	6,904
Training costs	8,288	2,502
Business trip expenses	6,556	3,864
Other expenses	28,297	18,458
Total operating expenses	3,168,041	2,566,114

10. INCOME TAXES

The Bank measures and records its current income tax payable and its tax bases related to assets and liabilities in accordance with the statutory tax regulations of the Republic of Azerbaijan where the Bank operates, which differ from IFRS.

The Bank is subject to certain permanent tax differences due to 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, 2016 and 2015 relate mostly to different methods/timing of income and expense recognition as well as to temporary differences generated by taxation bases' differences for certain assets.

Tax legislation of the Republic of Azerbaijan in particular may give rise to varying interpretations and amendments. In addition, as management's interpretation of tax legislation may differ from that of the tax authorities, transactions may be challenged by the tax authorities, and as a result the Bank may be assessed additional taxes, penalties and interest which could be material for these financial statements.

“BANK EURASIA” OPEN JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016 (CONTINUED) (In Azerbaijani Manats)

Temporary differences as at December 31, 2016 and 2015 comprise:

	Year ended December 31, 2016	Year ended December 31, 2015
Deductible temporary differences:		
Intangible assets	32,560	23,096
Total deductible temporary differences	32,560	23,096
Taxable temporary differences:		
Loans to customers	(6,882,793)	(5,116,732)
Due from banks and other financial institutions	(1,408,551)	(1,533,578)
Property and equipment	(703,611)	(626,804)
Available-for-sale investments	(91,090)	(65,190)
Other assets	(653,821)	(1,380,409)
Total taxable temporary differences	(9,739,866)	(8,722,713)
Net taxable temporary differences	(9,707,306)	(8,699,617)
Deferred income tax liability	(1,941,461)	(1,739,923)

The effective tax rate reconciliation is as follows for the years ended December 31, 2016 and 2015:

	Year ended December 31, 2016	Year ended December 31, 2015
Profit before income tax	2,121,514	1,363,712
Statutory tax rate	20%	20%
Theoretical tax at the statutory tax rate	(424,303)	(272,742)
Tax effect of permanent differences	(8,965)	(4,928)
Income tax expense	(433,268)	(277,670)
Current income tax expense	(231,730)	(73,976)
Deferred income tax expense	(201,538)	(203,694)
Income tax expense	(433,268)	(277,670)
Deferred income tax liability		
Beginning of the period	(1,739,923)	(1,536,229)
Change in deferred income tax liability	(201,538)	(203,694)
End of the period	(1,941,461)	(1,739,923)

“BANK EURASIA” OPEN JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016 (CONTINUED) (In Azerbaijani Manats)

11. EARNINGS PER SHARE

The earnings per share is calculated as follows:

	Year ended December 31, 2016	Year ended December 31, 2015
Profit:		
Net profit for the year	1,688,246	1,086,042
Weighted average number of ordinary shares for basic and diluted earnings per share	20,000	20,000
Earnings per share – basic and diluted (AZN)	84.41	54.30

12. CASH AND BALANCES WITH THE CENTRAL BANK OF THE REPUBLIC OF AZERBAIJAN

Cash and balances with the CBRA comprise:

	December 31, 2016	December 31, 2015
Balances with the CBRA	32,507,100	9,905,223
Cash	7,076,619	17,491,742
Total cash and balances with the CBRA	39,583,719	27,396,965

The balances with the CBRA as at December 31, 2016 and 2015 include AZN 466,803 and AZN 203,950 which represent the obligatory minimum reserve deposits with the CBRA. The Bank is entitled to use all funds on its correspondent account provided that average daily balance for one month period will be eventually higher than required mandatory reserve. The Bank is required to maintain the reserve balance at the CBRA at all times.

Cash and cash equivalents for the purposes of the statement of cash flows comprise the following:

	December 31, 2016	December 31, 2015
Cash and balances with the CBRA	39,583,719	27,396,965
Due from banks in OECD countries (Note 28)	8,369,584	7,932,317
Less: minimum reserve deposits with the CBRA	(466,803)	(203,950)
Less: commemorative coins	(1,745)	(1,745)
Total cash and cash equivalents	47,484,755	35,123,587

As at December 31, 2016 the Bank repossessed a property in the amount of AZN 695,400 as a result of settlement of loan received from the Bank (December 31, 2015: AZN 353,100). This transaction did not involve cash and cash equivalents and therefore were excluded from the cash flow statement.

“BANK EURASIA” OPEN JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016 (CONTINUED) (In Azerbaijani Manats)

13. DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

Due from banks and other financial institutions comprises:

	December 31, 2016	December 31, 2015
Due from financial institutions	1,834,073	1,822,039
Correspondent accounts with other banks	8,737,199	7,849,382
Pledged accounts	36,354	2,768,850
	<u> </u>	<u> </u>
Less: allowances for impairment losses	(139,970)	(6,695)
	<u> </u>	<u> </u>
Total due from banks and other financial institutions	<u>10,467,656</u>	<u>12,433,576</u>

Pledged accounts represent nostro accounts pledged against a guarantee given by the Bank on behalf of a customer.

As at December 31, 2016, accrued interest income included in due from banks and other financial institutions amounted to AZN 11,092 (December 31, 2015: AZN 16,371).

As at December 31, 2016 and 2015, maximum credit risk exposure of due from banks and other financial institutions amounted to AZN 10,467,656 and AZN 12,433,576, respectively.

14. AVAILABLE-FOR-SALE INVESTMENTS

Investment securities available-for-sale comprise:

	Interest to nominal %	December 31, 2016		December 31, 2015	
		Carrying value	Nominal value	Carrying value	Nominal value
“Bakcell” LLC	9.00%	6,711,557	6,500,000	6,709,391	6,500,000
The State Oil Company of the Azerbaijan Republic (SOCAR)	5.00%	<u>2,587,815</u>	<u>2,560,432</u>	<u>-</u>	<u>-</u>
Total available-for-sale investments		<u>9,299,372</u>	<u>9,060,432</u>	<u>6,709,391</u>	<u>6,500,000</u>

As at December 31, 2016 investment securities available-for-sale represent debt securities of “Bakcell” LLC with maturity in 2 years and interest rate of 9.00% and State Oil Company of the Azerbaijan Republic with maturity in 5 years and interest rate of 5% (2015: debt securities of “Bakcell” LLC with maturity in 2 years and interest rate of 9.00%).

As at December 31, 2016, accrued interest income included in investment securities available-for-sale amounted to AZN 48,507 (2015: AZN 18,958).

On December 18, 2015 “Pasha Bank” OJSC and the Bank signed an option contract which gives the Bank right to convert the future cash flow from 2,000 bond securities with nominal value AZN 1,000 each of “Bakcell” LLC into USD with a fixed rate of AZN 1.104 per USD.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016 (CONTINUED) (In Azerbaijani Manats)

As at December 31, 2016 and 2015 there was no restructured investment securities available-for-sale that would otherwise be past due. All debt investment securities available-for-sale are not past due.

The estimated fair value of investment securities available-for-sale and fair value measurement used are disclosed in Note 27. Currency and maturity analyses of investment securities available-for-sale are disclosed in Note 28.

15. LOANS TO CUSTOMERS

Loans to customers comprise:

	December 31, 2016	December 31, 2015
Corporate loans	81,396,168	65,626,357
Loans to individuals – entrepreneurship loans	6,361,449	6,828,074
Loans to individuals – consumer loans	4,960,562	5,350,344
Loans to individuals – mortgage loans	3,009,025	3,036,351
Loans to individuals – car purchase	1,158,047	2,330,106
	<u> </u>	<u> </u>
Less: allowances for impairment losses	(13,443,954)	(7,781,011)
	<u> </u>	<u> </u>
Total loans to customers	83,441,297	75,390,221

Movements in allowances for impairment losses for the year ended December 31, 2016 and 2015 are disclosed below:

	Allowance for impairment at January 1, 2016	Write off during the year	Increase/ (decrease) in allowance for impairment during the year	Allowance for impairment at December 31, 2016
Corporate loans	3,588,916	29,157	5,748,925	9,308,684
Loans to individuals – entrepreneurship loans	2,304,983	14,462	450,089	2,740,610
Loans to individuals – consumer loans	685,994	20,128	(214,058)	451,808
Loans to individuals – mortgage loans	33,816	-	(33,816)	-
Loans to individuals – car purchase	1,167,302	35,916	(188,534)	942,852
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total	7,781,011	99,663	5,762,606	13,443,954

	Allowance for impairment at January 1, 2015	Write off during the year	Increase/ (decrease) in allowance for impairment during the year	Allowance for impairment at December 31, 2015
Corporate loans	2,075,462	-	1,513,454	3,588,916
Loans to individuals – entrepreneurship loans	353,213	-	1,951,770	2,304,983
Loans to individuals – consumer loans	555,933	333	130,394	685,994
Loans to individuals – mortgage loans	-	-	33,816	33,816
Loans to individuals – car purchase	953,274	162,664	376,692	1,167,302
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total	3,937,882	162,997	4,006,126	7,781,011

“BANK EURASIA” OPEN JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016 (CONTINUED) (In Azerbaijani Manats)

The table below summarizes the amount of loans secured by collateral, rather than the fair value of the collateral itself at December 31, 2016:

	Corporate loans	Loans to individuals- entrepreneur- ship loans	Loans to individuals- consumer loans	Loans to individuals- mortgage loans	Loans to individuals- car purchase	December 31, 2016 Total
Unsecured loans	18,981,030	-	1,287,553	-	-	20,268,583
Loans collateralized by:						
- real estate	46,264,818	3,616,697	751,199	3,009,025	-	53,641,739
- cash deposits	2,909,495	-	1,545,538	-	-	4,455,033
- vehicle	-	-	-	-	215,195	215,195
- guarantees	3,932,141	4,142	418,100	-	-	4,354,383
- securities	-	-	-	-	-	-
- jewellery	-	-	506,364	-	-	506,364
Total loans to customers	72,087,484	3,620,839	4,508,754	3,009,025	215,195	83,441,297

The table below summarizes the amount of loans secured by collateral, rather than the fair value of the collateral itself at December 31, 2015:

	Corporate loans	Loans to individuals- entrepreneur- ship loans	Loans to individuals- consumer loans	Loans to individuals- mortgage loans	Loans to individuals- car purchase	December 31, 2015 Total
Unsecured loans	15,316,534	-	915,730	-	-	16,232,264
Loans collateralized by:						
- real estate	41,210,558	4,055,189	671,558	3,002,535	-	48,939,840
- cash deposits	789,491	465,137	1,663,966	-	-	2,918,594
- vehicle	-	-	-	-	1,162,804	1,162,804
- guarantees	4,720,858	2,765	341,620	-	-	5,065,243
- securities	-	-	786,444	-	-	786,444
- jewellery	-	-	285,032	-	-	285,032
Total loans to customers	62,037,441	4,523,091	4,664,350	3,002,535	1,162,804	75,390,221

“BANK EURASIA” OPEN JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016 (CONTINUED) (In Azerbaijani Manats)

The analysis by credit quality of loans outstanding at December 31, 2016 is as follows:

	Corporate loans	Loans to individuals- entrepreneur- ship loans	Loans to individuals- consumer loans	Loans to individuals- mortgage loans	Loans to individuals- car purchase	Total
Current and not impaired						
Unsecured loans	19,611,759	-	1,272,751	-	-	20,884,510
<i>Loans collateralized by:</i>						
- real estate	34,138,637	1,859,622	631,803	3,009,025	-	39,639,087
- cash deposits	2,909,495	-	1,524,563	-	-	4,434,058
- vehicle	-	-	-	-	27,396	27,396
- securities	-	-	-	-	-	-
- guarantees	3,932,141	4,143	418,206	-	-	4,354,490
- jewellery	-	-	503,721	-	-	503,721
Total current and not impaired	60,592,032	1,863,765	4,351,044	3,009,025	27,396	69,843,262
<i>Past due but not impaired</i>						
- 30 to 90 days overdue	5,050,797	1,636,310	36,544	-	21,778	6,745,429
- 90 to 180 days overdue	5,073,665	-	6,000	-	24,828	5,104,493
- 180 to 360 days overdue	-	-	20,974	-	45,788	66,762
- over 360 days overdue	7,371,479	2,118,424	256,426	-	1,038,257	10,784,586
Total past due but not impaired	17,495,941	3,754,734	319,944	-	1,130,651	22,701,270
<i>Loans individually determined to be impaired (gross)</i>						
- 90 to 180 days overdue	-	-	-	-	-	-
- 180 to 360 days overdue	-	-	560	-	-	560
- over 360 days overdue	3,308,195	742,950	289,014	-	-	4,340,159
Total individually impaired loans (gross)	3,308,195	742,950	289,574	-	-	4,340,719
Gross carrying value of loans	81,396,168	6,361,449	4,960,562	3,009,025	1,158,047	96,885,251
Less provision for loan impairment	(9,308,684)	(2,740,610)	(451,808)	-	(942,852)	(13,443,954)
Total loans to customers	72,087,484	3,620,839	4,508,754	3,009,025	215,195	83,441,297

“BANK EURASIA” OPEN JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016 (CONTINUED) (In Azerbaijani Manats)

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

	Corporate loans	Loans to individuals- entrepreneur- ship loans	Loans to individuals- consumer loans	Loans to individuals- mortgage loans	Loans to individuals- car purchase	Total
Current and not impaired						
Unsecured loans	14,867,755	-	611,832	-	-	15,479,587
<i>Loans collateralized by:</i>						
- real estate	35,935,431	4,924,965	470,736	2,960,096	-	44,291,228
- cash deposits	789,491	465,137	1,778,662	-	-	3,033,290
- vehicle	-	-	-	-	798,304	798,304
- securities	-	-	786,444	-	-	786,444
- guarantees	4,720,859	2,765	259,902	-	-	4,983,526
- jewellery	-	-	306,153	-	-	306,153
Total current and not impaired	56,313,536	5,392,867	4,213,729	2,960,096	798,304	69,678,532
<i>Past due but not impaired</i>						
- 30 to 90 days overdue	93,156	-	126,916	36,008	158,093	414,173
- 90 to 180 days overdue	-	-	170,352	-	138,321	308,673
- 180 to 360 days overdue	302,334	587,578	4,314	40,247	275,694	1,210,167
- over 360 days overdue	7,019,008	194,573	640,431	-	51,775	7,905,787
Total past due but not impaired	7,414,498	782,151	942,013	76,255	623,883	9,838,800
<i>Loans individually determined to be impaired (gross)</i>						
- 90 to 180 days overdue	-	-	28,302	-	-	28,302
- 180 to 360 days overdue	-	-	990	-	-	990
- over 360 days overdue	1,898,323	653,056	165,310	-	907,919	3,624,608
Total individually impaired loans (gross)	1,898,323	653,056	194,602	-	907,919	3,653,900
Gross carrying value of loans	65,626,357	6,828,074	5,350,344	3,036,351	2,330,106	83,171,232
Less provision for loan impairment	(3,588,916)	(2,304,983)	(685,994)	(33,816)	(1,167,302)	(7,781,011)
Total loans to customers	62,037,441	4,523,091	4,664,350	3,002,535	1,162,804	75,390,221

The Bank applied the portfolio provisioning methodology prescribed by the IAS 39 “Financial Instruments: Recognition and Measurement”, and created portfolio provisions for impairment losses that were incurred but have not been specifically identified with any individual loan by the reporting date. The Bank’s policy is to classify each loan as “current and not impaired” until a specific objective evidence of impairment of the loan is identified.

The primary factors that the Bank considers whether a loan is impaired is its overdue status and realizability of related collateral, if any. As a result, the Bank presents above an ageing analysis of loans that are individually determined to be impaired.

“BANK EURASIA” OPEN JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016 (CONTINUED) (In Azerbaijani Manats)

Current and not impaired, but renegotiated loans represent the carrying amount of loans that would otherwise be past due or impaired whose terms have been renegotiated. Past due but not impaired loans represent collateralized loans where the fair value of collateral covers the overdue interest and principal repayments. The amount reported as past due but not impaired is the whole balance of such loans, not only the individual instalments that are past due.

The fair value of collateral in respect of loans at December 31, 2016 is as follows:

	Corporate loans	Loans to individuals- entrepreneur- ship loans	Loans to individuals- consumer loans	Loans to individuals- car purchase	Loans to individuals- mortgage loans	Total December 31, 2016
<i>Fair value of collateral - loans past due but not impaired</i>						
- real estate	14,212,887	1,579,857	388,572	-	-	16,181,316
- vehicle	-	-	-	898,895	-	898,895
- cash deposits	-	-	23,000	-	-	23,000
- jewellery	-	-	5,559	-	-	5,559
<i>Fair value of collateral - individually impaired loans</i>						
- real estate	248,082	170,977	-	-	-	419,059
- vehicle	-	-	-	-	-	-
Total	14,460,969	1,750,834	417,131	898,895	-	17,527,829

The fair value of collateral in respect of loans at December 31, 2015 is as follows:

	Corporate loans	Loans to individuals- entrepreneur- ship loans	Loans to individuals- consumer loans	Loans to individuals- car purchase	Loans to individuals- mortgage loans	Total December 31, 2015
<i>Fair value of collateral - loans past due but not impaired</i>						
- real estate	5,920,866	528,000	340,624	-	101,280	6,890,770
- vehicle	-	-	-	784,775	-	784,775
- cash deposits	-	-	213,743	-	-	213,743
- jewellery	-	-	6,235	-	-	6,235
<i>Fair value of collateral - individually impaired loans</i>						
- real estate	657,235	506,676	-	-	-	1,163,911
- vehicle	-	-	-	449,975	-	449,975
Total	6,578,101	1,034,676	560,602	1,234,750	101,280	9,509,409

“BANK EURASIA” OPEN JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016 (CONTINUED) (In Azerbaijani Manats)

The fair value of residential real estate at the reporting date was estimated by indexing the values determined by the Bank's credit department staff at the time of loan inception for the average increases in residential real estate prices by city and region. The fair value of other real estate and other assets was determined by the Bank's credit department, using the Bank's and external service organization's guidelines.

The interest rate analysis of loans to customers is disclosed in Note 28. The information on related party balances is disclosed in Note 24.

Economic sector risk concentrations within the loans to customers' portfolio are as follows:

	December 31, 2016		December 31, 2015	
	Amount	%	Amount	%
Trade and service	38,546,260	39.79%	31,700,367	38.11%
Manufacturing	30,137,874	31.11%	28,563,536	34.34%
Agriculture	13,953,144	14.40%	7,915,567	9.52%
Individuals	7,555,406	7.80%	9,216,869	11.08%
Construction	6,692,567	6.90%	5,774,893	6.95%
Total loans to customers (gross)	96,885,251	100.00	83,171,232	100.00

Included in loans to customers AZN 4,721,991 and AZN 3,367,619 as at December 31, 2016 and 2015, respectively, represent accrued interest receivable.

As at December 31, 2016, the Bank had loan to one customer in the amount of AZN 10,252,002 which individually exceeded 20% of the Bank's share capital (December 31, 2015: AZN 11,550,365).

As at December 31, 2016, the Bank had outstanding loans to 10 customers in the amount of AZN 48,945,282 which comprise 59% of the total loans to customers portfolio (December 31, 2015: 10 loans in the amount of AZN 44,542,734 comprise 59% of the total loans to customers portfolio).

“BANK EURASIA” OPEN JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016 (CONTINUED) (In Azerbaijani Manats)

16. PROPERTY AND EQUIPMENT

Property and equipment comprise of the following:

	Buildings	Furniture and fixtures	Computer and equipment	Vehicles	Other fixed assets	CIP	Total
At initial cost							
January 1, 2015	4,463,175	755,623	356,127	342,315	15,310	-	5,932,550
Additions	-	87,564	240,662	195,700	-	353,100	877,026
Disposals	-	(4,121)	(5,577)	-	(274)	-	(9,972)
December 31, 2015	4,463,175	839,066	591,212	538,015	15,036	353,100	6,799,604
Additions	219,414	442,263	137,951	4,463	7,650	*695,400	1,507,141
Transfer in	353,100	-	-	-	-	-	353,100
Transfer out	-	-	-	-	-	(353,100)	(353,100)
Disposals	-	(8,981)	(3,479)	(91,163)	-	-	(103,623)
December 31, 2016	5,035,689	1,272,348	725,684	451,315	22,686	695,400	8,203,122
Accumulated depreciation							
January 1, 2015	(1,548,320)	(643,518)	(281,290)	(334,356)	(15,310)		(2,822,794)
Charge for the year	(223,770)	(47,623)	(37,814)	(20,289)	-	-	(329,496)
Disposals	-	3,973	5,103	-	274	-	9,350
December 31, 2015	(1,772,090)	(687,168)	(314,001)	(354,645)	(15,036)	-	(3,142,940)
Charge for the year	(230,298)	(100,108)	(89,465)	(50,287)	-	-	(470,158)
Disposals	-	8,927	3,479	88,095	-	-	100,501
December 31, 2016	(2,002,388)	(778,349)	(399,987)	(316,837)	(15,036)	-	(3,512,597)
Net book value							
December 31, 2016	3,033,301	493,999	325,697	134,478	7,650	695,400	4,690,525
December 31, 2015	2,691,085	151,898	277,211	183,370	-	353,100	3,656,664

* The non-residential property with the amount of AZN 695,400 was transferred from other repossessed assets.

As at December 31, 2016 and 2015, included in property and equipment were fully depreciated assets in the amount of AZN 1,027,302 and AZN 1,116,629, respectively.

As at December 31, 2016 and 2015, included in property and equipment insured in the amount of AZN 654,502 and AZN 708,202, respectively.

“BANK EURASIA” OPEN JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016 (CONTINUED) (In Azerbaijani Manats)

17. INTANGIBLE ASSETS

	Intangible assets
At initial cost	
January 1, 2015	205,434
Additions	35,663
December 31, 2015	241,097
Additions	78,827
December 31, 2016	319,924
Accumulated amortization	
January 1, 2015	(111,342)
Charge for the year	(21,884)
December 31, 2015	(133,226)
Charge for the year	(30,444)
December 31, 2016	(163,670)
Net book value	
December 31, 2016	156,254
December 31, 2015	107,871

Intangible assets include software and licenses.

18. OTHER ASSETS

Other assets comprise:

	December 31, 2016	December 31, 2015
Other financial assets:		
Settlement on money transfer	103,701	132,464
Receivable from the intermediary	53,217	47,981
Accrued interest receivables on guarantees	17,245	21,914
Total other financial assets	174,163	202,359
Other non-financial assets:		
Reposessed assets	2,834,945	4,046,031
Prepaid taxes	324,654	87,657
Prepayment and other debtors	251,579	246,197
Prepayment for property and equipment	29,770	344,000
Deferred expenses	333	10,319
Total other assets	3,615,444	4,936,563

According to the State Registration Certificate of the Republic of Azerbaijan, the real estate collateralized for the loans to customers have been reposessed by the Bank, due to default of the borrower and included in the reposessed assets.

“BANK EURASIA” OPEN JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016 (CONTINUED) (In Azerbaijani Manats)

As at December 31, 2016 and 2015, the fair value of repossessed assets approximates to AZN 2,834,945, and AZN 4,046,031, respectively. During the year ended December 31, 2016 the Bank recognised loss on change of fair value of repossessed assets in the amount of AZN 683,731 (2015: AZN 470,250).

	December 31, 2016	December 31, 2015
Plot of land	2,194,500	2,664,750
Residential property	640,445	685,881
Non-residential property*	-	695,400
Total repossessed assets	2,834,945	4,046,031

* The non-residential property with the amount of AZN 695,400 was transferred to property and equipment for administrative usage of a new branch.

Management of the Bank intends to sell these assets, however no active program to locate a buyer and complete plan have been initiated as at the date of report.

19. DUE TO BANKS, GOVERNMENT AND OTHER FINANCIAL INSTITUTIONS

Due to banks, government and other financial institutions comprise:

	December 31, 2016	December 31, 2015
Due to National Fund for Support of Entrepreneurship	23,400,000	17,558,800
Due to the Azerbaijan Mortgage Fund	2,724,211	2,628,803
Due to the banks	2,256,735	3,550,740
Correspondent accounts of other banks	3,149	4,553
Total due to banks, government and other financial institutions	28,384,095	23,742,896

Included in due to banks, government and other financial institutions AZN 114,107 and AZN 27,281 as at December 31, 2016 and 2015, respectively represent accrued interest payable.

As at December 31, 2016, included in due to banks, government and other financial institutions are loans from National Fund for Support of Entrepreneurship amounting to AZN 4,000,000 with maturity in 4.5 years, AZN 5,000,000 with maturity in 5 years, AZN 3,500,000 with maturity in 6.5 years, AZN 5,000,000 with maturity in 8.5 years, AZN 5,900,000 with maturity in 9.5 years and annual interest rate of 1% (December 31, 2015: AZN 4,000,000 with maturity in 5.5 years, AZN 3,500,000 with maturity in 7.5 years, 5,000,000 with maturity in 9.5 years and AZN 5,000,000 with maturity in 7 years and annual interest rate of 1%) and Mortgage Fund under the CBRA amounting to AZN 2,715,171 with maturity over 20 years and annual interest rate of 1% and 4% (December 31, 2015: AZN 2,620,041 with maturity over 20 years and annual interest rate of 1% and 4%).

As at December 31, 2016, included in due to the banks are term deposits placed by “DemirBank” OJSC amounting to AZN equivalent of USD 604,840 with maturity in 1 year and annual interest rate of 10% (December 31, 2015: AZN 515,000 with maturity in 1 year and annual interest rate of 12%) and loans from “Bank Respublika” OJSC amounting to AZN 400,000 and USD 384,411 with maturity in 2 years and 1 year and interest rate 8.5% and 6%, respectively (December 31, 2015: AZN 580,000 and AZN 410,000 with maturity in 2 years and 1 year and interest rate 8.5% and 11%).

“BANK EURASIA” OPEN JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016 (CONTINUED) (In Azerbaijani Manats)

20. CUSTOMER ACCOUNTS

Customer accounts comprise:

	December 31, 2016	December 31, 2015
Time deposits	46,747,310	35,716,499
Current and settlement accounts	15,239,717	12,322,890
Total customer accounts	61,987,027	48,039,389

As at December 31, 2016 and 2015, accrued interest payable included in customer accounts, amounted to AZN 771,776 and AZN 932,877, respectively.

Included in customer accounts in the amount of AZN 31,493,851 and AZN 32,573,557 as at December 31, 2016 and 2015, respectively are deposits secured by the Azerbaijan Deposit Insurance Fund.

As at December 31, 2016 and 2015 customer accounts totaling AZN 7,410,380 and AZN 6,054,246 (12% and 13% of total customer accounts), respectively, were due to 1 customer, which represents a significant concentration.

Economic sector concentrations within customer accounts are as follows:

	December 31, 2016	December 31, 2015
Individuals	44,136,113	37,678,666
Manufacturing	6,141,049	735,108
Other financial institutions	6,079,358	4,827,818
Trade and service	2,407,486	1,255,178
Insurance	1,902,847	3,376,091
Construction	595,472	3,076
Transportation and communication	494,841	31,052
Others	229,861	132,400
Total customer accounts	61,987,027	48,039,389

21. OTHER LIABILITIES

Other liabilities comprise the following:

	December 31, 2016	December 31, 2015
Other financial liabilities:		
Payments in the course of settlement	145,325	44,074
Accrued expenses	60,131	54,675
Payable to Azerbaijan Deposit Insurance Fund	39,360	41,534
Total other financial liabilities	244,816	140,283
Other non-financial liabilities:		
Payable to State and Local Funds	45,000	4,444
Others	-	694
Total other liabilities	289,816	145,421

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016 (CONTINUED) (In Azerbaijani Manats)

22. SHARE CAPITAL

As at December 31, 2016, authorized, issued and paid-in share capital consisted of 20,000 ordinary shares with par value of AZN 2,500 each (2015: 20,000 ordinary shares with par value of AZN 2,500 each).

The below table provides a reconciliation of the ordinary shares outstanding as at December 31, 2016 and 2015:

	Share capital
January 1, 2015	<u>50,000,000</u>
December 31, 2015	<u>50,000,000</u>
December 31, 2016	<u>50,000,000</u>

23. COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Bank is a party to financial instruments with off-balance sheet risk in order to meet the needs of its customers. These instruments, involving varying degrees of credit risk, are not reflected in the statement of financial position. The Bank's maximum exposure to credit loss under contingent liabilities and commitments to extend credit, in the event of non-performance by the other party where all counterclaims, collateral or security prove valueless, is represented by the contractual amounts of those instruments.

The Bank uses the same credit control and management policies in undertaking off-balance sheet commitments as it does for financial position operations. As at December 31, 2016 and 2015, the nominal or contract amounts were:

	December 31, 2016		December 31, 2015	
	Nominal amount	Risk weighted amount	Nominal amount	Risk weighted amount
Contingent liabilities and credit commitments				
Commitments on loans and unused credit lines	8,350,731	8,350,731	8,626,777	8,626,777
Guarantees issued	<u>3,775,585</u>	<u>3,775,585</u>	<u>7,278,675</u>	<u>7,278,675</u>
Total contingent liabilities and credit commitments	<u>12,126,316</u>	<u>12,126,316</u>	<u>15,905,452</u>	<u>15,905,452</u>

Capital regulatory commitment

The Central Bank of the Republic of Azerbaijan requires the threshold of aggregate capital for existent banks as AZN 50 million and the Bank complies with this requirement.

Legal proceedings

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

“BANK EURASIA” OPEN JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016 (CONTINUED) *(In Azerbaijani Manats)*

Taxation

Provisions of the Tax legislation of the Republic of Azerbaijan are sometimes inconsistent and may have more than one interpretation, which allows the tax authorities to take decisions based on their own arbitrary interpretation of these provisions. In practice, tax authorities often interpret the tax legislation not in favor of the taxpayers, who have to resort to court proceeding to defend their position against the tax authorities. It should be noted that the tax authorities can use the clarifications issued by the judicial bodies that have introduced the concept of “unjustified tax benefit”, “primary commercial goal of transaction” and the criteria of “commercial purpose (substance) of transaction”.

Such uncertainty could, in particular, be attributed to tax treatment of financial instruments/ derivatives and determination of market price of transactions for transfer pricing purposes. It could also lead to temporary taxable differences occurred due to loan impairment provisions and income tax liabilities being treated by the tax authorities as understatement of the tax base. The management of the Bank is confident that applicable taxes have all been accrued and, consequently, creation of respective provisions is not required.

Generally, taxpayers are subject to tax audits with respect to three calendar years preceding the year of the audit. However, completed audits do not exclude the possibility of subsequent additional tax audits performed by upper-level tax inspectorates reviewing the results of tax audits of their subordinate tax inspectorates. Also, according to the clarification of the Constitutional Court of the Republic of Azerbaijan, the statute of limitation for tax liabilities may be extended beyond the three year term set forth in the tax legislation, if a court determines that the taxpayers has obstructed or hindered a tax inspection.

24. TRANSACTIONS WITH RELATED PARTIES

Related parties or transactions with related parties, as defined by the IAS 24 “Related party disclosures”, represent:

- (a) Parties that directly, or indirectly through one or more intermediaries: control, or are controlled by, or are under common control with, the Bank (this includes parents, subsidiaries and fellow subsidiaries); have an interest in the Bank that gives them significant influence over the Bank; and that have joint control over the Bank;
- (b) Associates – enterprises on which the Bank has significant influence and which is neither a subsidiary nor a joint venture of the investor;
- (c) Joint ventures in which the Bank is a venturer;
- (d) Members of key management personnel of the Bank or its parent;
- (e) Close members of the family of any individuals referred to in (a) or (d);
- (f) Parties that are entities controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or
- (g) Post-employment benefit plans for the benefit of employees of the Bank, or of any entity that is a related party of the Bank.

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form. The Bank had the following transactions outstanding as at December 31, 2016 and 2015 with related parties:

“BANK EURASIA” OPEN JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016 (CONTINUED) (In Azerbaijani Manats)

	December 31, 2016		December 31, 2015	
	Related party balances	Total category as per financial statements caption	Related party balances	Total category as per financial statements caption
Loans to customers		83,441,297		75,390,221
- key management personnel of the Bank	230,423		234,497	
- other related parties	101,142		196,044	
Other Assets		3,615,444		4,936,563
- key management personnel of the Bank	16,000		16,000	
- other related parties	15,000		15,000	
Allowance for impairment losses		(13,583,924)		(7,787,706)
- key management personnel of the Bank	(11)		(2,345)	
- other related parties	(5)		(1,954)	
Customer accounts		61,987,027		48,039,389
- key management personnel of the Bank	3,819,657		3,317,943	
- other related parties	464,351		339,241	
Commitments on loans and unused credit lines		8,350,731		8,626,777
- key management personnel of the Bank	111,116		97,287	
- other related parties	25,213		18,246	

Included in the statement of comprehensive income for the year ended December 31, 2016 and 2015 are the following amounts which arose due to transactions with related parties:

	December 31, 2016		December 31, 2015	
	Related party transactions	Total category as per financial statements caption	Related party transactions	Total category as per financial statements caption
Interest income		12,117,689		10,837,325
- key management personnel of the Bank	20,593		13,900	
- other related parties	14,965		11,664	
Interest expense		(3,395,789)		(3,064,274)
- key management personnel of the Bank	(173,972)		(5,623)	
- other related parties	(30,685)		(20,592)	
(Provision for impairment losses on interest bearing assets)/ recovery of provision		(5,895,881)		(5,376,371)
- key management personnel of the Bank	2,334		(2,276)	
- other related parties	1,949		(1,780)	
Key management personnel compensation:		1,724,490		1,487,534
- short-term employee benefits	596,026		565,847	

“BANK EURASIA” OPEN JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016 (CONTINUED) (In Azerbaijani Manats)

25. CAPITAL MANAGEMENT

The Bank's objectives when managing capital are to comply with the capital requirements set by the CBRA, to safeguard the Bank's ability to continue as a going concern and to maintain a sufficient capital base to achieve a capital adequacy ratio of at least 10%. Compliance with capital adequacy ratios set by the CBRA is monitored monthly with reports outlining their calculation reviewed and signed by the Bank's Chairman of Management Board, Chief Accountant, Chief of Internal Audit Department and the Chairman of Supervisory Board. Other objectives of capital management are evaluated annually.

Under the current capital requirements set by the CBRA in January 1, 2015, existing banks have to hold the minimum level of aggregate capital of AZN 50,000,000, however, paid-in capital for newly established banks and local branches of foreign banks shall be AZN 50,000,000. Furthermore the banks have to maintain a ratio of regulatory capital to risk weighted assets ("statutory capital ratio") at or above a prescribed minimum of 10% (December 31, 2015: 10%) and maintain a ratio of tier-1 capital to the risk-weighted assets (the "Tier-1 capital ratio") at or above the prescribed minimum of 5% (December 31, 2015: 5%).

As at December 31, 2016 the Bank has complied with all capital requirements imposed by CBRA.

The composition of the Bank's capital calculated in accordance with the CBRA capital requirements is as follows:

	December 31, 2016	December 31, 2015
Tier 1 capital		
Share capital	50,000,000	50,000,000
Retained earnings	204,302	(305,946)
Total tier 1 capital	50,204,302	49,694,054
Deductions from tier 1 capital		
Intangible assets	(156,254)	(107,871)
Total tier 1 capital after deductions	50,048,048	49,586,183
Tier 2 capital		
Current year profit	920,947	510,247
Total reserves	951,573	951,573
Total tier 2 capital	1,872,520	1,461,820
Total regulatory capital after deductions	51,920,568	51,048,003
Total risk-weighted assets:	98,557,090	102,249,388
Tier 1 capital adequacy ratio	51%	48%
Regulatory capital adequacy ratio	53%	50%

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26. SEGMENT REPORTING

The Bank is organized on the basis of two main business segments:

- Retail banking – representing private banking services, private customer current accounts, savings, deposits, consumer loans and mortgages;
- Corporate banking – representing direct debit facilities, current accounts, deposits, overdrafts, loan and other credit facilities, foreign currency products.

Transactions between the business segments are on normal commercial terms and conditions. Operating expenses and income tax expense are ordinarily reallocated between segments based on the split of the Bank’s interest income. There are no other material items of income or expense between the business segments.

Segment information about these businesses is presented below:

	Retail Banking	Corporate banking	Other segments	As at and for the year ended December 31, 2016
Interest income	2,335,612	9,538,116	243,961	12,117,689
Interest expense	(2,351,811)	(1,043,978)	-	(3,395,789)
Provision for impairment losses on interest bearing assets	(13,681)	(5,882,200)	-	(5,895,881)
Net gain on foreign exchange operations	-	-	2,295,528	2,295,528
Fee and commission income	1,178,565	315,796	-	1,494,361
Fee and commission expense	(497,987)	(136,314)	-	(634,301)
Change in the fair value of repossessed assets	-	-	(683,731)	(683,731)
Other income	-	-	(8,321)	(8,321)
Operating income	650,698	2,791,420	1,847,437	5,289,555
Operating expenses	(347,493)	(2,210,708)	(609,840)	(3,168,041)
Profit before income tax	303,205	580,712	1,237,597	2,121,514
Segment assets	12,504,604	92,167,527	46,582,136	151,254,267
Segment liabilities	44,281,434	46,235,014	2,085,951	92,602,399
Other segment items:				
Depreciation and amortization on property, equipment and intangible assets	-	-	500,602	500,602
Loans to customers	11,353,813	72,087,484	-	83,441,297
Property, equipment and intangible assets	-	-	4,846,779	4,846,779
Customer accounts	44,136,113	17,850,914	-	61,987,027

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	Retail banking	Corporate banking	Other segments	As at and for the year ended December 31, 2015
Interest income	2,634,640	7,849,209	353,476	10,837,325
Interest expense	(2,139,749)	(924,525)	-	(3,064,274)
Provision for impairment losses on interest bearing assets	(2,492,672)	(2,883,699)	-	(5,376,371)
Net gain on foreign exchange operations	-	-	1,518,211	1,518,211
Fee and commission income	817,377	201,489	-	1,018,866
Fee and commission expense	(443,873)	(75,277)	-	(519,150)
Change in the fair value of repossessed assets	-	-	(470,250)	(470,250)
Other income	-	-	(14,531)	(14,531)
Operating income	(1,624,277)	4,167,197	1,386,906	3,929,826
Operating expenses	(261,059)	(1,864,525)	(440,530)	(2,566,114)
(Loss)/profit before income tax	(1,885,336)	2,302,672	946,376	1,363,712
Segment assets	15,382,416	80,402,767	34,846,068	130,631,251
Segment liabilities	37,722,738	34,103,619	1,841,272	73,667,629
Other segment items:				
Depreciation and amortization on property, equipment and intangible assets	-	-	351,380	351,380
Loans to customers	13,352,780	62,037,441	-	75,390,221
Property, equipment and intangible assets	-	-	3,764,535	3,764,535
Customer accounts	37,678,666	10,360,723	-	48,039,389

27. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

			Fair value measurement using		
	Date of valuation	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Assets measured at fair value					
Available-for-sale investments	December 31, 2016	9,299,372	-	-	9,299,372
Assets for which fair values are disclosed					
Cash and balances with the CBRA	December 31, 2016	39,583,719	-	-	39,583,719
Due from banks and other financial institutions	December 31, 2016	-	-	10,467,656	10,467,656
Loans to customers	December 31, 2016	-	-	83,441,297	83,441,297
Other financial assets	December 31, 2016	-	-	174,163	174,163
Liabilities for which fair values are disclosed					
Due to banks, government and other financial institutions	December 31, 2016	-	-	28,384,095	28,384,095
Customer accounts	December 31, 2016	-	-	61,987,027	61,987,027
Other financial liabilities	December 31, 2016	-	-	244,816	244,816

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			Fair value measurement using		
	Date of valuation	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Assets measured at fair value					
Available-for-sale investments	December 31, 2015	6,709,391	-	-	6,709,391
Assets for which fair values are disclosed					
Cash and balances with the CBRA	December 31, 2015	27,396,965	-	-	27,396,965
Due from banks and other financial institutions	December 31, 2015	-	-	12,433,576	12,433,576
Loans to customers	December 31, 2015	-	-	75,390,221	75,390,221
Other financial assets	December 31, 2015	-	-	202,359	202,359
Liabilities for which fair values are disclosed					
Due to banks, government and other financial institutions	December 31, 2015	-	-	23,742,896	23,742,896
Customer accounts	December 31, 2015	-	-	48,039,389	48,039,389
Other financial liabilities	December 31, 2015	-	-	140,283	140,283

Fair value of financial assets and liabilities not carried at fair value

Set out below is a comparison by class of the carrying amounts and fair values of the Bank's financial instruments that are not carried at fair value in the statement of financial position. The table does not include the fair values of non-financial assets and non-financial liabilities.

	Carrying value 2016	Fair value 2016	Unrecognized gain/(loss) 2016	Carrying value 2015	Fair value 2015	Unrecognized gain/(loss) 2015
Financial assets						
Cash and balances with the CBRA	39,583,719	39,583,719	-	27,396,965	27,396,965	-
Due from banks and other financial institutions	10,467,656	10,467,656	-	12,433,576	12,433,576	-
Loans to customers	83,441,297	83,441,297	-	75,390,221	75,390,221	-
Other financial assets	174,163	174,163	-	202,359	202,359	-
Financial liabilities						
Due to banks, government and other financial institutions	28,384,095	28,384,095	-	23,742,896	23,742,896	-
Customer accounts	61,987,027	61,987,027	-	48,039,389	48,039,389	-
Other financial liabilities	244,816	244,816	-	140,283	140,283	-
Total unrecognized change in unrealized fair value			-			-

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Assets and liabilities for which fair value approximates carrying value

For financial assets and financial liabilities that are liquid or having a short term maturity (less than three months) it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits, without a specific maturity and variable rate financial instruments.

Fixed and variable rate financial instruments

For quoted debt instruments the fair values are determined based on quoted market prices. The fair values of unquoted debt instruments are estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

28. RISK MANAGEMENT POLICIES

The risk management function within the Bank is carried out in respect of financial risks (credit, market, geographical, currency, liquidity and interest rate), operational risks and legal risks. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures to minimize operational and legal risks.

The Bank recognizes that it is essential to have efficient and effective risk management processes in place. To enable this, the Bank has established a risk management framework, whose main purpose is to protect the Bank from risk and allow it to achieve its performance objectives. Through the risk management framework, the Bank manages the following risks:

The methods and assumptions applied in determining fair values

The estimated fair values of financial instruments have been determined by the Bank, using available market information, where it exists, and appropriate valuation methodologies. However, judgment is necessarily required to interpret market data to determine the estimated fair value. The Republic of Azerbaijan continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions and, therefore, not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

Where quoted market prices are not available, the Bank used valuation techniques. The fair value of floating rate instruments that are not quoted in an active market was estimated to be equal to their carrying amount. The fair value of unquoted fixed interest rate instruments was estimated based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity.

Credit risk

The Bank takes on exposure to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Exposure to credit risk arises as a result of the Bank's lending and other transactions with counterparties giving rise to financial assets.

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FOR THE YEAR ENDED DECEMBER 31, 2016 (CONTINUED)

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Risk Management and monitoring is performed within set limits of authority, by the Credit Committees and the Bank's Management Board. Before any application is made by the Credit Committee, all recommendations on credit processes (borrower's limits approved, or amendments made to loan agreements, etc) are reviewed and approved by the branch risk-manager or the Risk Management Department. Daily risk management is performed by the Head of Credit Department and branches credit divisions.

The Bank structures the level of credit risk is undertakes by placing limits on the amount of risk accepted in relation to one borrower, or group of borrowers, and to industry segments. Limits on the level of credit risk by a borrower and a product are approved quarterly by the Management Board.

The exposure to any one borrower including banks is further restricted by sub-limits covering on and off-balance sheet exposures which are set by the Credit Committee. Actual exposures against limits are monitored daily.

Where appropriate, and in the case of most loans, the Bank obtains collateral and corporate and personal guarantees, but a significant portion is consumer lending, where no such facilities can be obtained. Such risks are monitored on a continuous basis and subject to more frequent reviews.

Commitments to extend credit represent unused portions of credit in the form of loans, guarantees or letters of credit. The credit risk on off-balance sheet financial instruments is defined as a probability of losses due to the inability of counterparty to comply with the contractual terms and conditions. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to a loss in an amount equal to the total unused commitments. However, the likely amount of the loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank applies the same credit policy to the contingent liabilities as it does to the statement of financial position financial instruments. The Bank monitors the term to maturity of off-balance sheet contingencies because longer-term commitments generally have a greater degree of credit risk than short-term commitments.

Maximum Exposure

The Bank's maximum exposure to on statement of financial position credit risk is generally reflected in the carrying amounts of financial assets on the statement of financial position. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

The maximum credit risk for off-balance items, mainly letters of credit and guarantees, represents the gross amount of the commitment. The Bank's maximum exposure to off-balance credit risk is disclosed in Note 23 "Commitments and Contingencies".

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

The following table presents the maximum exposure to credit risk of financial assets and contingent liabilities. For financial assets, the maximum exposure equals to a carrying value of those assets prior to any offset or collateral. For financial guarantees and other contingent liabilities, the maximum exposure to credit risk is the maximum amount the Bank would have to pay if the guarantee was called on or in the case of commitments, if the loan amount was called on.

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	Maximum exposure	Net exposure after offset	Collateral Pledged	December 31, 2016 Net exposure after offset and collateral pledged
Balances with the CBRA less minimum reserve deposits with the CBRA	32,040,297	32,040,297	-	32,040,297
Due from banks and other financial institutions	10,467,656	10,297,656	-	10,297,656
Available-for-sale investments	9,299,372	9,299,372	-	9,299,372
Loans to customers	83,441,297	78,479,900	58,211,317	20,268,583
Other financial assets	174,163	174,163	-	174,163
Commitments on loans and unused credit lines	8,350,731	8,350,731	-	8,350,731
Guarantees	3,775,585	3,775,585	-	3,775,585

	Maximum exposure	Net exposure after offset	Collateral Pledged	December 31, 2015 Net exposure after offset and collateral pledged
Balances with the CBRA less minimum reserve deposits with the CBRA	9,701,273	9,701,273	-	9,701,273
Due from banks and other financial institutions	12,433,576	12,433,576	250,000	12,183,576
Available-for-sale investments	6,709,391	6,709,391	-	6,709,391
Loans to customers	75,390,221	72,186,595	55,954,331	16,232,264
Other financial assets	202,359	202,359	-	202,359
Commitments on loans and unused credit lines	8,626,777	8,626,777	-	8,626,777
Guarantees	7,278,675	7,278,675	-	7,278,675

Financial assets are graded according to the current credit rating they have been issued by an internationally regarded agency such as Fitch Rating. 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 2016 and 2015 the balances with the CBRA less minimum reserve deposits with the CBRA amounted to AZN 32,040,297 and AZN 9,701,273, respectively. The credit rating of the Republic of Azerbaijan according to the international rating agencies in 2016 corresponded to investment level BB+ (2015: BB+).

The following table details credit ratings of financial assets held by the Bank as at December 31, 2016 and 2015 (this information is prepared for all financial assets that are neither past due nor impaired):

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	AA-	BB+	BB	B	CCC	Not Rated	December 31, 2016 Total
Cash balances with the CBRA, excluded mandatory reserve deposits	-	32,040,297	-	-	-	-	32,040,297
Due from banks and other financial institutions	8,369,584	-	208,459	-	122,513	1,767,100	10,467,656
Available-for-sale investments	-	2,587,815	-	-	-	6,711,557	9,299,372
Loans to customers	-	-	-	-	-	69,843,262	69,843,262
Other financial assets	-	-	-	-	-	174,163	174,163

	AA-	BB+	BB	B	CCC	Not Rated	December 31, 2015 Total
Cash balances with the CBRA, excluded mandatory reserve deposits	-	9,701,273	-	-	-	-	9,701,273
Due from banks and other financial institutions	7,932,317	-	103,348	5,852	-	4,392,059	12,433,576
Available-for-sale investments	-	-	-	-	-	6,709,391	6,709,391
Loans to customers	-	-	-	-	-	69,678,532	69,678,532
Other financial assets	-	-	-	-	-	202,359	202,359

The banking industry is generally exposed to credit risk through its financial assets and contingent liabilities. Credit risk exposure of the Bank is concentrated within the Republic of Azerbaijan. The exposure is monitored on a regular basis to ensure that the credit limits and creditworthiness guidelines established by the Bank's risk management policy are not breached.

Geographical concentration

The Management 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 financial assets and financial liabilities is set out below:

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	The Republic of Azerbaijan	OECD countries	Other non-OECD countries	December 31, 2016 Total
FINANCIAL ASSETS				
Cash and balances with the CBRA	39,583,719	-	-	39,583,719
Due from banks and other financial institutions	1,975,560	8,369,584	122,512	10,467,656
Available-for-sale investments	9,299,372	-	-	9,299,372
Loans to customers	81,661,125	1,780,172	-	83,441,297
Other financial assets	174,163	-	-	174,163
TOTAL FINANCIAL ASSETS	132,693,939	10,149,756	122,512	142,966,207
FINANCIAL LIABILITIES				
Due to banks, government and other financial institutions	28,384,095	-	-	28,384,095
Customer accounts	48,576,139	5,638,422	7,772,466	61,987,027
Other financial liabilities	244,816	-	-	244,816
TOTAL FINANCIAL LIABILITIES	77,205,050	5,638,422	7,772,466	90,615,938
NET POSITION	55,488,889	4,511,334	(7,649,954)	52,350,269
	The Republic of Azerbaijan	OECD countries	Other non-OECD countries	December 31, 2015 Total
FINANCIAL ASSETS				
Cash and balances with the CBRA	27,396,965	-	-	27,396,965
Due from banks and other financial institutions	4,501,241	7,932,317	18	12,433,576
Available-for-sale investments	6,709,391	-	-	6,709,391
Loans to customers	73,259,305	2,087,163	43,753	75,390,221
Other financial assets	202,359	-	-	202,359
TOTAL FINANCIAL ASSETS	112,069,261	10,019,480	43,771	122,132,512
FINANCIAL LIABILITIES				
Due to banks, government and other financial institutions	21,710,607	2,032,289	-	23,742,896
Customer accounts	34,647,900	6,172,332	7,219,157	48,039,389
Other financial liabilities	140,283	-	-	140,283
TOTAL FINANCIAL LIABILITIES	56,498,790	8,204,621	7,219,157	71,922,568
NET POSITION	55,570,471	1,814,859	(7,175,386)	50,209,944

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Liquidity risk

Liquidity risk refers to the availability of sufficient funds to meet deposit withdrawals and other financial commitments associated with financial instruments as they actually fall due.

The Assets and Liabilities Management Committee (“ALMC”) controls these types of risks by means of maturity analysis, determining the Bank’s strategy for the next financial period. Current liquidity is managed by the ALMC, which deals in the money markets for current liquidity support and cash flow optimization.

In order to manage liquidity risk, the Bank performs daily monitoring of expected future cash flows on clients’ and banking operations, which a part of the assets/liabilities management process. The Management Board sets limits on the minimum proportion of maturing funds available to meet deposit withdrawals and on the minimum level of interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

An analysis of the liquidity and interest rate risks is presented in the following table. The tables have been drawn up to detail:

- (i) The remaining contractual maturity of non-derivative financial liabilities based on the undiscounted cash flows of financial liabilities (both interest and principal cash flows) based on the earliest date on which the Bank can be required to pay; and
- (ii) The expected maturity for non-derivative financial assets based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets except where the Bank anticipates that the cash flow will occur in a different period.

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	Weighted average effective interest rate	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity Undefined	December 31, 2016 Total
FINANCIAL ASSETS								
Due from banks and other financial institutions	10.51%	78,521	-	1,113,019	512,544	-	-	1,704,084
Available-for-sale investments	7.87%	-	-	6,690,434	2,560,431	-	-	9,250,865
Loans to customers	12.73%	30,181,155	13,732,052	16,822,682	12,998,633	8,449,798	1,256,977	83,441,297
Total interest bearing financial assets		30,259,676	13,732,052	24,626,135	16,071,608	8,449,798	1,256,977	94,396,246
Cash and balances with the CBRA		39,116,916	-	-	-	-	466,803	39,583,719
Due from banks and other financial institutions		8,763,572	-	-	-	-	-	8,763,572
Available-for-sale investments		48,507	-	-	-	-	-	48,507
Other financial assets		174,163	-	-	-	-	-	174,163
Total financial assets		78,362,834	13,732,052	24,626,135	16,071,608	8,449,798	1,723,780	142,966,207
FINANCIAL LIABILITIES								
Due to banks, government and other financial institutions	1.83%	1,451,796	19,194	680,677	4,031,837	22,083,333	-	28,266,837
Customer accounts	6.74%	1,156,819	6,580,176	20,177,424	18,832,891	-	-	46,747,310
Total interest bearing financial liabilities		2,608,615	6,599,370	20,858,101	22,864,728	22,083,333	-	75,014,147
Due to banks, government and other financial institutions		117,258	-	-	-	-	-	117,258
Customer accounts		15,239,717	-	-	-	-	-	15,239,717
Other financial liabilities		244,816	-	-	-	-	-	244,816
Total financial liabilities		18,210,406	6,599,370	20,858,101	22,864,728	22,083,333	-	90,615,938
Liquidity gap		60,152,428	7,132,682	3,768,034	(6,793,120)	(13,633,535)		
Cumulative interest sensitivity gap		60,152,428	67,285,110	71,053,144	64,260,024	50,626,489		

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	Weighted average effective interest rate	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity Undefined	December 31, 2015 Total
FINANCIAL ASSETS								
Due from banks and other financial institutions	13.13%	395,700	-	1,410,000	-	-	15,594	1,821,294
Available-for-sale investments	9.00%	-	-	-	6,690,433	-	-	6,690,433
Loans to customers	12.99%	<u>14,570,348</u>	<u>13,346,451</u>	<u>25,387,092</u>	<u>12,080,365</u>	<u>7,433,399</u>	<u>2,572,566</u>	<u>75,390,221</u>
Total interest bearing financial assets		<u>14,966,048</u>	<u>13,346,451</u>	<u>26,797,092</u>	<u>18,770,798</u>	<u>7,433,399</u>	<u>2,588,160</u>	<u>83,901,948</u>
Cash and balances with the CBRA		27,193,015	-	-	-	-	203,950	27,396,965
Due from banks and other financial institutions		10,612,282	-	-	-	-	-	10,612,282
Available-for-sale investments		18,958	-	-	-	-	-	18,958
Other financial assets		<u>202,359</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>202,359</u>
Total financial assets		<u>52,992,662</u>	<u>13,346,451</u>	<u>26,797,092</u>	<u>18,770,798</u>	<u>7,433,399</u>	<u>2,792,110</u>	<u>122,132,512</u>
FINANCIAL LIABILITIES								
Due to banks, government and other financial institutions	2.32%	-	-	3,011,020	602,281	20,097,759	-	23,711,060
Customer accounts	9.46%	<u>5,449,396</u>	<u>8,060,868</u>	<u>15,093,116</u>	<u>7,035,401</u>	<u>77,718</u>	<u>-</u>	<u>35,716,499</u>
Total interest bearing financial liabilities		<u>5,449,396</u>	<u>8,060,868</u>	<u>18,104,136</u>	<u>7,637,682</u>	<u>20,175,477</u>	<u>-</u>	<u>59,427,559</u>
Due to banks, government and other financial institutions		31,836	-	-	-	-	-	31,836
Customer accounts		12,322,890	-	-	-	-	-	12,322,890
Other financial liabilities		<u>140,283</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>140,283</u>
Total financial liabilities		<u>17,944,405</u>	<u>8,060,868</u>	<u>18,104,136</u>	<u>7,637,682</u>	<u>20,175,477</u>	<u>-</u>	<u>71,922,568</u>
Liquidity gap		<u>35,048,257</u>	<u>5,285,583</u>	<u>8,692,956</u>	<u>11,133,116</u>	<u>(12,742,078)</u>		
Cumulative interest sensitivity gap		<u>35,048,257</u>	<u>40,333,840</u>	<u>49,026,796</u>	<u>60,159,912</u>	<u>47,417,834</u>		

The majority of the Bank's interest earning assets and interest bearing liabilities are at fixed rates of interest.

Asset and liability maturity periods and the ability to replace interest liabilities at an acceptable cost when they mature are crucial in determining the Bank's liquidity and its susceptibility to fluctuations in interest rates and exchange rates.

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A further analysis of the liquidity and interest rate risks is presented in the following tables in accordance with IFRS 7. The amounts disclosed in these tables do not correspond to the amounts recorded on the statement of financial position as the presentation below includes a maturity analysis for financial liabilities that indicates the total remaining contractual payments (including interest payments), which are not recognized in the statement of financial position under the effective interest rate method.

The maturity analysis of financial liabilities at December 31, 2016 is as follows:

	Demand and less than 1 month	From 1 to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
FINANCIAL LIABILITIES						
Due to banks, government and other financial institutions	1,578,248	82,297	959,543	5,373,924	23,101,254	31,095,266
Customer accounts	1,413,142	7,049,408	21,673,344	19,711,583	-	49,847,477
Guarantees issued	603,196	309,497	2,886,365	-	-	3,799,058
Total interest bearing financial liabilities	3,594,586	7,441,202	25,519,252	25,085,507	23,101,254	84,741,801
Due to banks, government and other financial institutions	117,258	-	-	-	-	117,258
Customer accounts	15,239,717	-	-	-	-	15,239,717
Guarantees issued	19,307	-	-	-	-	19,307
Other financial liabilities	244,816	-	-	-	-	244,816
Total potential future payments for financial obligations	19,215,684	7,441,202	25,519,252	25,085,507	23,101,254	100,362,899

The maturity analysis of financial liabilities at December 31, 2015 is as follows:

	Demand and less than 1 month	From 1 to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
FINANCIAL LIABILITIES						
Due to banks, government and other financial institutions	48,236	91,952	3,340,575	1,711,755	21,002,022	26,194,540
Guarantees issued	254,289	741,431	6,330,147	-	-	7,325,867
Customer accounts	5,720,574	8,431,361	16,220,267	7,269,605	81,962	37,723,769
Total interest bearing financial liabilities	6,023,099	9,264,744	25,890,989	8,981,360	21,083,984	71,244,176
Due to banks, government and other financial institutions	31,836	-	-	-	-	31,836
Customer accounts	12,322,890	-	-	-	-	12,322,890
Guarantees issued	21,912	-	-	-	-	21,912
Other financial liabilities	140,283	-	-	-	-	140,283
Total potential future payments for financial obligations	18,540,020	9,264,744	25,890,989	8,981,360	21,083,984	83,761,097

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Customer accounts are classified in the above analysis based on contractual maturities. However, in accordance with Azerbaijani Civil Code, individuals have a right to withdraw their deposits prior to maturity, if they forfeit their right to accrued interest.

Market Risk

Market risk covers interest rate risk, currency risk and other pricing risks to which the Bank is exposed. There have been no changes as to the way the Bank measures risk or to the risk it is exposed in 2016 and 2015.

The ALMC manages interest rate and market risks by matching the Bank's interest rate position, which provides the Bank with a positive interest margin. The ALMC also conducts monitoring of the Bank's current financial performance, estimates the Bank's sensitivity to changes in interest rates and its influence on the Bank's profitability.

The majority of the Bank's loan contracts and other financial assets and liabilities bear fixed interest rates. The Bank monitors its interest rate margin and consequently does not consider itself exposed to significant interest rate risk or consequential cash flow risk.

Interest rate risk

The Bank manages fair value interest rate risk through periodic estimation of potential losses that could arise from adverse changes in market conditions. The Management Board of the Bank conducts monitoring of the Bank's current financial performance, estimates the Bank's sensitivity to changes in fair value interest rates and its influence on the Bank's profitability.

The following table presents a sensitivity analysis of interest rate risk, which has been determined based on “reasonably possible changes in the risk variable”. The level of these changes is determined by management and is contained within the risk reports provided to key management personnel.

Impact on profit before tax:

	As at December 31, 2016		As at December 31, 2015	
	Interest rate +1%	Interest rate -1%	Interest rate +1%	Interest rate -1%
FINANCIAL ASSETS				
Due from banks and other financial institutions	17,041	(17,041)	18,213	(18,213)
Available-for-sale investments	90,604	(90,604)	66,904	(66,904)
Loans to customers	834,413	(834,413)	753,902	(753,902)
FINANCIAL LIABILITIES				
Due to banks, government and other financial institutions	(282,668)	282,668	(237,111)	237,111
Customer accounts	(467,473)	467,473	(357,165)	357,165
Net impact on profit before tax	191,917	(191,917)	244,743	(244,743)

Currency risk

Currency risk is defined as the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Bank is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

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The Management Board sets limits on the level of exposure by currencies, which give the Bank an opportunity to minimize losses from significant currency rates fluctuations toward its national currency. The ALMC performs daily monitoring of the Bank's open currency position with the aim to match the requirement of the CBRA. These limits also comply with the minimum requirements of the CBRA.

The Bank's exposure to foreign currency exchange rate risk is presented in the table below:

	AZN	USD	EUR	Other currency	December 31, 2016 Total
FINANCIAL ASSETS					
Cash and balances with the CBRA	30,749,708	7,379,508	1,316,405	138,098	39,583,719
Due from banks and other financial institutions	731,081	7,109,695	2,560,610	66,270	10,467,656
Available-for-sale investments	6,711,557	2,587,815	-	-	9,299,372
Loans to customers	66,139,342	16,835,665	466,290	-	83,441,297
Other financial assets	68,766	49,140	49,619	6,638	174,163
TOTAL FINANCIAL ASSETS	104,400,454	33,961,823	4,392,924	211,006	142,966,207
FINANCIAL LIABILITIES					
Due to banks, government and other financial institutions	26,524,305	1,859,759	31	-	28,384,095
Customer accounts	19,560,362	37,406,089	4,920,972	99,604	61,987,027
Other financial liabilities	168,700	67,801	8,304	11	244,816
TOTAL FINANCIAL LIABILITIES	46,253,367	39,333,649	4,929,307	99,615	90,615,938
OPEN CURRENCY POSITION	58,147,087	(5,371,826)	(536,383)	111,391	
	AZN	USD	EUR	Other currency	December 31, 2015 Total
FINANCIAL ASSETS					
Cash and balances with the CBRA	9,098,472	16,379,171	1,787,120	132,202	27,396,965
Due from banks and other financial institutions	1,822,039	8,801,699	1,791,416	18,422	12,433,576
Available-for-sale investments	6,709,391	-	-	-	6,709,391
Loans to customers	55,789,721	19,269,272	331,228	-	75,390,221
Other financial assets	75,094	28,788	93,864	4,613	202,359
TOTAL FINANCIAL ASSETS	73,494,717	44,478,930	4,003,628	155,237	122,132,512
FINANCIAL LIABILITIES					
Due to banks, government and other financial institutions	21,706,053	2,035,662	1,181	-	23,742,896
Customer accounts	7,618,221	36,160,322	4,207,906	52,940	48,039,389
Other financial liabilities	82,938	50,405	6,940	-	140,283
TOTAL FINANCIAL LIABILITIES	29,407,212	38,246,389	4,216,027	52,940	71,922,568
OPEN CURRENCY POSITION	44,087,505	6,232,541	(212,399)	102,297	

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Currency risk sensitivity

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

	As at December 31, 2016		As at December 31, 2015	
	AZN/USD +10%	AZN/USD -10%	AZN/USD +10%	AZN/USD -10%
Net impact on profit before tax	(537,183)	537,183	623,254	(623,254)

	As at December 31, 2016		As at December 31, 2015	
	AZN/EUR +10%	AZN/EUR -10%	AZN/EUR +10%	AZN/EUR -10%
Net impact on profit before tax	(53,638)	53,638	(21,240)	21,240

Price risks

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices whether those changes are caused by factors specific to the individual security or its issuer or factors affecting all securities traded in the market. The Bank is exposed to price risks of its products that are subject to general and specific market fluctuations.

Limitations of sensitivity analysis

The above tables demonstrate the effect of a change in a key assumption while other assumptions remain unchanged. In reality, there is a correlation between the assumptions and other factors. It should also be noted that these sensitivities are non-linear, and larger or smaller impacts should not be interpolated or extrapolated from these results.

The sensitivity analysis does not take into consideration that the Bank's assets and liabilities are actively managed. Additionally, the financial position of the Bank may vary at the time that any actual market movement occurs. For example, the Bank's financial risk management strategy aims to manage the exposure to market fluctuations. As investment markets move past various trigger levels, management actions could include selling investments, changing investment portfolio allocation and taking other protective action. Consequently, the actual impact of a change in the assumptions may not have any impact on the liabilities, whereas assets are held at market value on the statement of financial position. In these circumstances, the different measurement bases for liabilities and assets may lead to volatility in shareholder equity.

Other limitations in the above sensitivity analyses include the use of hypothetical market movements to demonstrate potential risk that only represent the Bank's view of possible near-term market changes that cannot be predicted with any certainty; and the assumption that all interest rates move in an identical fashion.