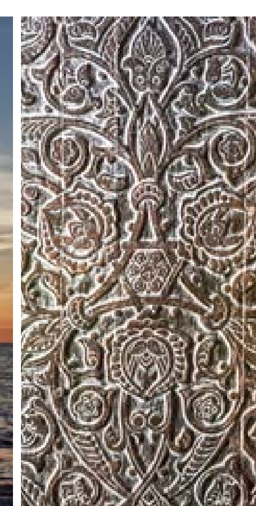
AccessBank

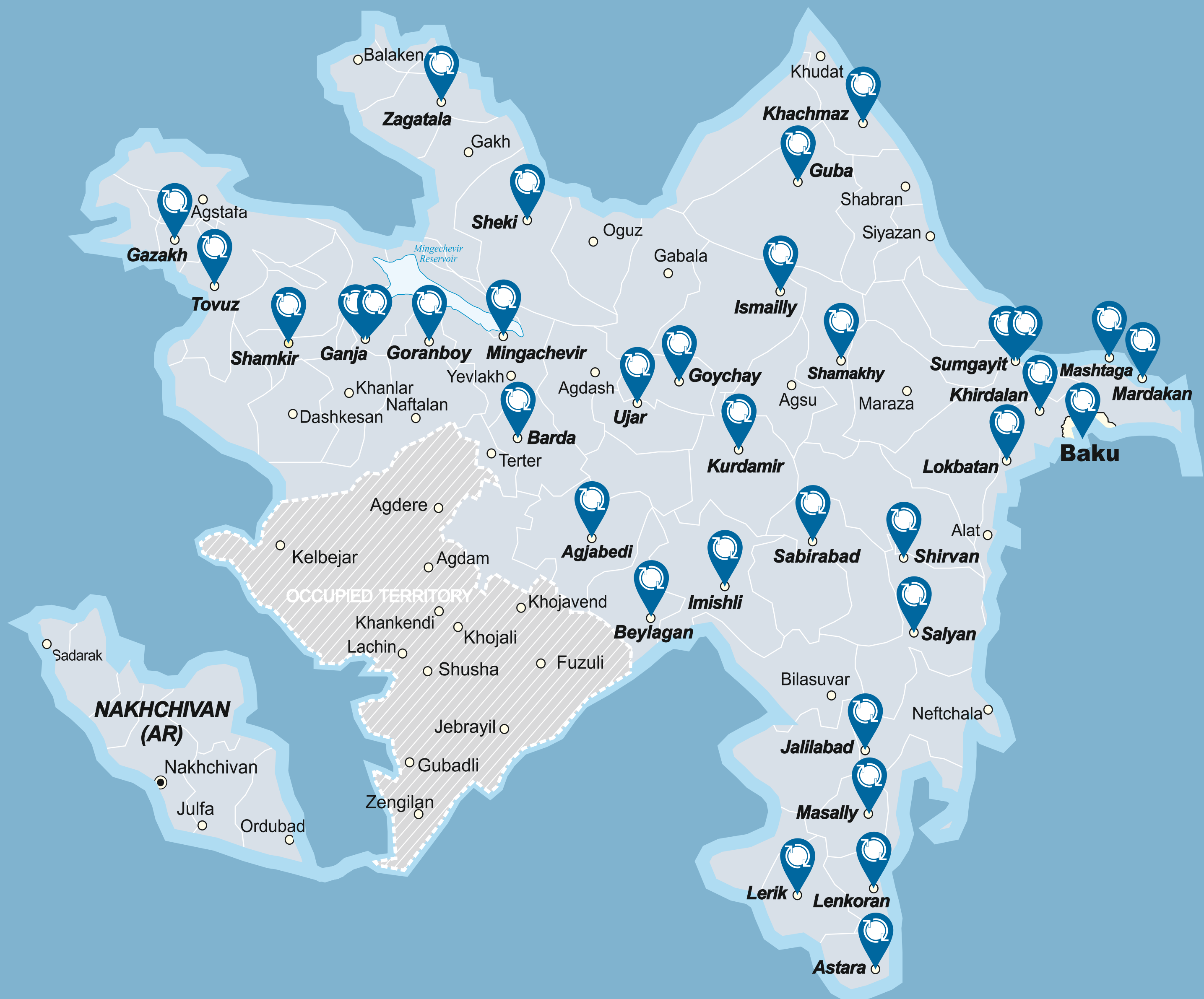
Your Accessible European Bank







ANNUAL REPORT | 2014



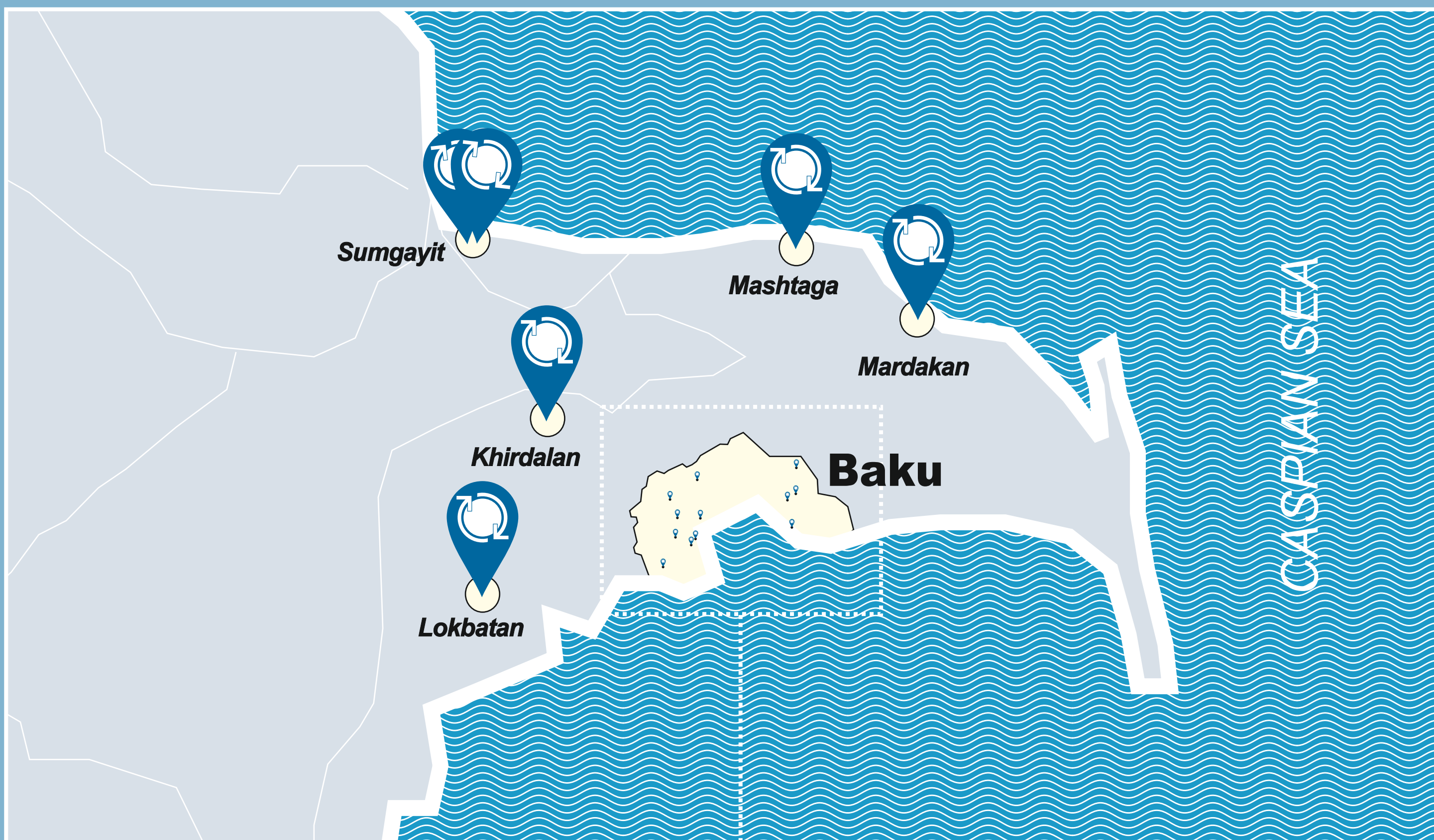
BAKU BRANCHES

Central Branch – 3, Tbilisi Ave.
20 Yanvar – 1C, A. Mustafaev St.
Azadlig – 97, Azadlig Ave.
Babek – 76C, Babek Ave.
Badamdar – 34, Badamdar Highway
Bakikhanov – 70, M. Fataliyev St.
Binagadi – 91, Sh. Mammadova St.
Bul-Bul – 33, Bul-Bul Ave.
Elmler Akademiyasi – 4A, Inshaatchilar Ave.
Hazi Aslanov – 29/45, M. Hadi St.
Khalglar Dostlugu – G. Garayev Ave., opposite building 126
Sabail – 15, R. Rza St.
Khagani – 100B, Nizami St.
Narimanov – 94, Tabriz St.

BRANCHES OUTSIDE BAKU

Agjabedi – 17, H.Aslanov Ave.
Barda – 8A, I. Gayibov St.
Beylagan – Magistral St.
Ganja – 32, Abbaszade St.
Ganja, Nizami Branch – 110, Khatai Ave.
Gazakh – H. Aliyev Ave.
Goychay – 96, H. Aliyev Ave.
Goranboy – 1A, H.Aliyev Ave.
Guba – 196A, H. Aliyev Ave.
Imishli – 144, H. Aliyev Ave.
Ismailly – 100, H. Aliyev Ave.
Jalilabad – H. Aliyev Ave.
Khachmaz – 215, N. Narimanov St.
Khirdalan – H.Z. Tagiyev St., Block 27
Kurdamir – 21, Baku Ave.
Lenkoran – H. Aslanov St.
Lokbatan – 2C, N. Narimanov St.
Mardakan – 2A, Esenin St.
Masally – Talishkhanov St.
Mashtaga – 20A, H. Heybatov St.
Mingachevir – 98A, U. Hajibeyov St.
Salyan – Y. Gasimov St.
Shamkir – 24, H. Aslanov St.
Sheki – 17, M.A. Rasulzade St.
Shirvan – 1T, H. Aliyev Ave.
Sumgayit – 50A, Sh. Badalbeyli St., 9 m/d.
Sumgayit, Sulh Branch – 9/11, Sulh St., 1 m/d.
Tovuz – 76, M.Musayev St.
Ujar – 22, Oghuz St.
Zagatala – 29/1, F. Amirov St.

BRANCH NETWORK ABSHERON



BRANCH NETWORK BAKU

Contents

Key Financial Highlights 2014

TOTAL ASSETS	USD 1.3 bn	(AZN 1.0 bn)
TOTAL LOAN PORTFOLIO	USD 1.05 bn	(AZN 820 m)
MICRO LOAN PORTFOLIO	USD 461 m	(AZN 361 m)
SME LOAN PORTFOLIO	USD 447 m	(AZN 351 m)
TOTAL EQUITY	USD 185 m	(AZN 145 m)
NET PROFIT	USD 55 m	(AZN 43 m)
RoE (Return on Equity)	32.1 %	
COST / INCOME RATIO	59.1 %	
CAPITAL ADEQUACY RATIO	24.5 %	
NPL RATIO (PaR > 30 days ratio)	0.77 %	

FitchRatings ‘BBB-‘ outlook stable (Investment Grade)

Mission Statement

AccessBank's mission is to provide financial services for Azerbaijan's Micro and SME businesses, which are often restricted in their growth due to lack of access to appropriate financial services. AccessBank was created to make available the right services for the micro and small business community as a whole, including the households who form part of this community, and to create a more inclusive financial system.

Shareholders

Black Sea Trade & Development Bank	Black Sea Trade and Development Bank	**20%**
European Bank for Reconstruction and Development	European Bank for Reconstruction and Development	**20%**
IFC International Finance Corporation Private Enterprise Partnership	International Finance Corporation	**20%**
KFW	Kreditanstalt für Wiederaufbau	**20%**
AccessHolding Microfinance AG	Access Microfinance Holding AG	**16.5%**
LFS Financial Systems	LFS Financial Systems GmbH	**3.5%**

Chairman of the Board Statement

The difficulties and the uncertainties in the regional economies, and the impact of these negative circumstances on the Azerbaijanian economy continued in 2014 as well. The economic growth in the country slowed down further, coming down below 3%, due to the falling oil prices and the weak growth of the key trading partners like Russia and the European Union. The pressure of this slowdown on public and external finances was partly reduced through policy responses. The devaluation of AZN by 34% against the US dollar in February 2015 by the CBA was the most important of those responses.

Supporting diversification of economy

The results of this devaluation on the overall economy and on the banking sector in particular, will be seen in 2015. But, despite the rather negative macro-economic conditions, AccessBank continued to grow its loan portfolio to over USD 1 billion at the end of 2014, without compromising on the loan quality. Its wide network of branches and sales points and its diverse product portfolio allowed AccessBank to reach out to more than 150,000 clients all over the country in every sector from services to agriculture, from manufacturing to transport. It succeeded in raising the sophistication and complexity of its operations with the introduction of new products. This allowed the Bank to amplify its relationships with its clients without changing its focus on the micro and SME businesses in the country, and especially on those that do not always have easy access to appropriate financial services. Consequently, the Bank's contribution to the objectives of the Azerbaijanian government to strengthen the non-oil sector in the country continued in 2014 as well. AccessBank kept providing support for the diversification and development of the economy, particularly in the less-developed regions of the country and in the agricultural sector, and for the creation of new businesses and employment.

Strengthening risk management

The Bank achieved this significant growth while simultaneously strengthening its risk management, which required more attention than before due to the slow-down of the economy and the rapid growth and diversification of the Bank's portfolio.

Today AccesBank is a model for best practice in the financial sector of Azerbaijan. The continuing commitment of the shareholders, the professionalism and the experience of the Bank management and the staff, and the strong corporate governance are the key elements of this success. We are proud to see that this success has been recognized by some international journals such as Euromoney that awarded AccessBank as the best bank of Azerbaijan. AccessBank remains the highest rated bank in Azerbaijan in 2014 as well.

Successful T24 software implementation

On an important note, AccessBank successfully completed the T24 project in October 2014. The Bank invested a significant amount of resources in this IT project to catch up with the latest technology and to improve services to the ever-changing and increasing needs of our clients. With the help of T24, the Bank will be able to provide more sophisticated services to its clients in a more efficient and effective way.

The shareholders are proud that AccessBank has completed another year as the leading microfinance institution in Azerbaijan with its large and diverse portfolio, while adhering to its mandate of setting market benchmarks in applying sound banking practices and responsible lending.

Orhan Aytemiz
Chairman of the Supervisory Board

CEO Statement

During 2014, the Azerbaijani economy continued its growth path whereby in the second half it lost momentum due to the oil price decline and the weakening of neighboring CIS economies. The Azerbaijani banking market has to a large extent mirrored this trend by showing strong growth in lending volumes during the first half of the year whereby demand started to weaken after summer. However, overall the Azerbaijani economy still continues to offer promising potential with its healthy macroeconomic fundamentals reflected in the investment grade country rating.

Continued growth in lending to business clients

In 2014, AccessBank has been able to further increase its exposure to business clients, in particular in the SME segment which grew around 35% followed by the Micro segment with 25% growth. For the first time in the Bank's history the total loan portfolio has hit the threshold of USD 1bn ending the year with USD 1,05bn. The Bank's commitment to the principle of responsible lending implemented by our well-trained staff has been crucial to maintaining strong portfolio quality. As a result we are enjoying the trust of our clients and investors by proving year by year the ability to conduct lending in a sound and responsible manner.

Maintaining focus on the regions

AccessBank continued to further extend its strong foothold in the regions of Azerbaijan where farming plays a crucial role in the development of the local economies. Small agricultural businesses remain an important target clientele of AccessBank and demand for our unique agriloan product has remained strong. As a result, the Bank has meanwhile built-up a significant market share in many regional banking markets. We are today among the largest lenders to rural businesses and also an important employer in the regions. The Bank is committed to continue developing the network of regional branches in order to further improve the outreach to our regional and rural clients.

Further diversification of funding base

During 2014, AccessBank continued to strengthen its funding base by concluding a number of larger refinancing transactions with existing partners and by successfully tapping into new investor segments. For the first time, the Bank issued a syndicated loan solely to commercial investors and placed successfully a commercial paper with well-known institutional investors. The refinancing transactions were concluded at favorable terms setting new benchmarks for the Bank in different market segments.

Rating upgrade to investment grade

Another major success in 2014 has been the upgrade of the Bank's long term credit rating from BB+ to BBB-, i.e. to investment grade level by FitchRatings. The rating upgrade reflects AccessBank's continuous sound performance during past years and the strong backing from our reputable IFI shareholders. AccessBank remains the local bank with the highest international credit rating in Azerbaijan and has become one of only few financial institutions in the wider CIS region with investment grade rating.

New milestone in IT

With the successful Go-Live of the T24 software system we have successfully completed one of the largest projects ever launched at AccessBank. The successful transition to the internationally proven T24 banking software is another milestone, which will ensure the competitiveness of the Bank in the important area of IT in the years to come.

Well positioned to tackle challenges ahead

In 2014, AccessBank has set a number of new milestones and we were able to further outperform the achievements of recent years. When looking ahead it is evident that we have to prepare for more challenging times given the overall economic slowdown in the wider CIS region triggered by falling oil prices and political tensions.

With the sound client base as well as our committed and highly professional staff, I am convinced that we are well positioned to further bank on our competitive advantages, to master the challenges ahead and to maintain AccessBank's position as leading bank for micro and SME businesses in the country.

Michael Hoffmann
Chief Executive Officer

History

2002

- Started operating on October 29, 2002 as the Micro Finance Bank of Azerbaijan; founding shareholders: BSTDB, EBRD, IFC and LFS (KfW joined in 2004);

2006

- Retail business developed with the introduction of additional deposit and money transfer products, retail lending, debit cards, ATMs, and joining the Visa network;

2008

- Micro Finance Bank of Azerbaijan renamed AccessBank to create a stronger and more distinct brand;
- BB+ (outlook stable) rating received from Fitch Ratings;
- AccessBank's total assets and loan portfolio exceeded USD 100 million;

2010

- Euromoney for the first time named AccessBank the 'Best Bank in Azerbaijan';
- First dividend of AZN 5 million distributed to shareholders;

2013

- AccessBank moved into new Head Offices on Tbilisi Road;
- AccessBank's total assets reached USD 1 billion;

2014

- Successful launch of new banking software T24;
- Rating upgrade to investment grade (BBB-) by FitchRatings;

Awards

2010
2011
2012
2013
2014

'Best Bank in Azerbaijan'
Euromoney Awards
for Excellence

2011
2012

'Bank of the Year'
The Banker

2011
2013

'Best Emerging Market
Bank Azerbaijan'
Global Finance

Go-Live of new T24 banking software

In October 2014, the Bank successfully completed the implementation of the new T24 banking software. The Go-Live of the new banking software on 08 October 2014 was the successful finish of this comprehensive project, which stretched over more than two years. Since its inception in 2002, the Bank had been using the LFS MBS software system, a well-functioning and tailor made Micro-banking software which served well the needs of a smaller microfinance bank and was one of the success factors of the Bank in the early days. However, with the strong growth of the Bank in business volume, products and client transactions it became obvious that it was necessary for the Bank to change to a more complex banking software with higher capacity. In 2011, the decision was made to implement the Temenos T24 banking software, a reputable and internationally proven banking software, in cooperation with the Bank's strategic and IT partner LFS Financial Services (Berlin).

The software project was launched in 2011, took-off during 2012 and was run at high intensity for two years until the Go-Live in October 2014. In total, around 30 of our colleagues at AccessBank were directly assigned to the project together with about 30 colleagues working for the project on the side of LFS. During those 2 years, the project teams in Baku and Berlin were constantly consulting with each other, travelling frequently to meetings in both locations Berlin and Baku. The successful Go-Live of the new banking software was the result of the dedicated work and strong commitment of the entire T24 team.

The implementation of the new T24 banking software is another milestone in the development of the Bank which will ensure the competitiveness of the Bank in the important IT area for many years to come.

ENHANCEMENT OF IT-OPERATIONS

With the new T24 software system in place the Bank has created a sound platform for further developing its IT-operations. It is planned to enhance the Bank's IT expertise pool and to create more in-house capacity in order to further expand the scope of IT services.

Azerbaijan: Key Facts

GENERAL	ECONOMY - 2014	CURRENCY
Population: **9.2 Million**	GDP: **USD 75.2 Billion**	Currency: **Azerbaijani Manat (AZN)**
Area: **86.600 sq. km**	GDP per capita (PPP): **USD 15,500**	1 USD = **AZN 0.7844** (2014) 1 USD **= AZN 1.05** (02.2015)
Largest cities: **Baku, Ganja, Sumgayit, Mingachevir, Lenkoran**	GDP growth: **2.8%**	
	Inflation: **1.4%**	

RATINGS	MOODY's: **Baa3** (04/2012)	FITCH: **BBB-** (03/2015)	S&P: **BBB-** (01/2015)

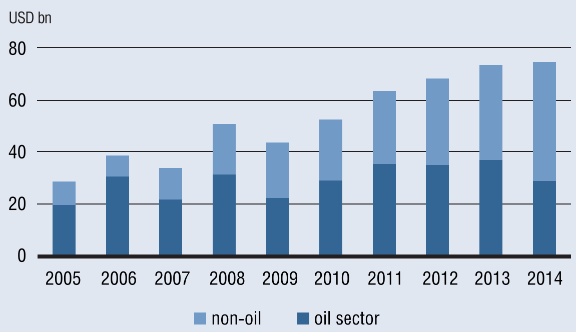
Azerbaijan at a Glance

Azerbaijan is located at the crossroads of Europe, Asia, and the Middle East. It is the largest country in the Caucasus with a population of 9.2 million. Baku – the capital of Azerbaijan with a population of 2.2 million – is located on the shores of the Caspian Sea and serves as the main commercial hub for the country and the entire region.

Azerbaijan is the third-largest oil producer among the CIS countries and has experienced rapid economic growth over the last decade.

The opening of the Baku-Tbilisi-Ceyhan oil pipeline in 2005 provided a direct export route with access to European markets and triggered sustained high economic growth in the following years.

GDP

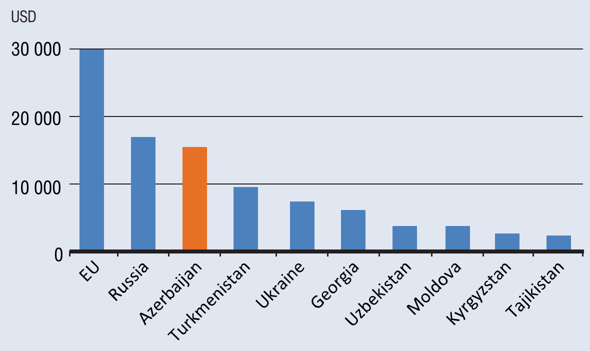


Sources: CBAR, EIU

The revenues from oil and gas production are directed to the State Oil Fund of the Republic of Azerbaijan (SOFAZ), which makes transfers to the state budget, invests in socio-economic and infrastructure projects and preserves wealth for future generations. By end of 2014, SOFAZ held assets of USD 37.1 billion or 50% of GDP.

As a result of the strong economic growth in Azerbaijan in recent years, the country's GDP per capita, measured in purchasing power parity, has reached USD 15,500, which is considerably higher than in most neighboring CIS countries. Real GDP growth reached 2.8% in 2014, boosted by a 7% growth in non-oil GDP. The non-oil economy has become increasingly important as oil production has been stagnant over the last three years. The Azerbaijani government is currently working jointly with leading international energy companies on exploring and extending the development of new gas fields. It is projected to deliver the first gas extracted from the Shah Deniz field to Europe by 2019.

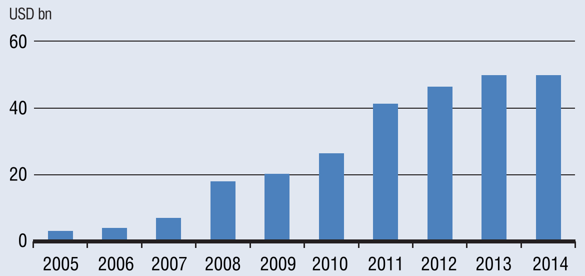
GDP per Head



Sources: IMF (2014)

Based on its rich oil resources Azerbaijan, has traditionally generated a substantial trade surplus, which amounted to USD 12.6 billion in 2014. As a result, currency reserves reached the level of USD 50 billion, which covers 3 years of the economy's imports.

Currency Reserves



Sources: CBAR, EIU

In 2012, Azerbaijan had its sovereign debt rating increased to investment grade by Moody's (Baa3), matching the investment grade ratings it received earlier from Fitch and S&P (BBB-). Azerbaijan stands out as the only CIS country other than Russia and Kazakhstan with a long-term foreign currency rating at investment grade level.

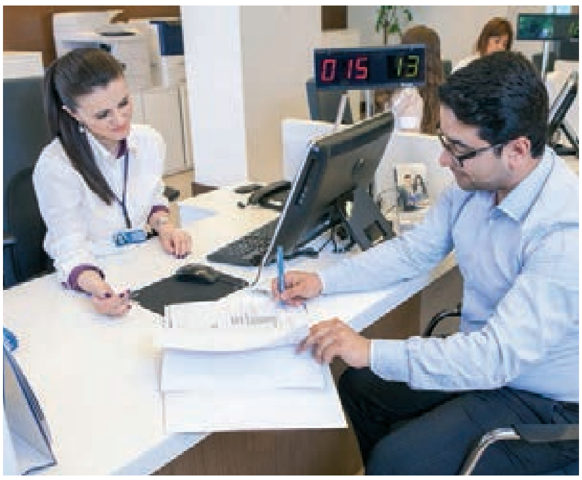
Our Customers

125,000
MICRO CUSTOMERS

AccessBank is the leading micro-finance bank in Azerbaijan with a total Micro loan portfolio of around USD 460 million at the end of 2014. A special focus is on agricultural lending to small farmers in rural areas.

2,600
SME CUSTOMERS

SME's are the backbone of Azerbaijan's economy. AccessBank offers small and medium-sized companies a range of customized loan products and banking services through its countrywide branch network. The products and services are specifically designed for small companies and entrepreneurs.



28,800
RETAIL CUSTOMERS

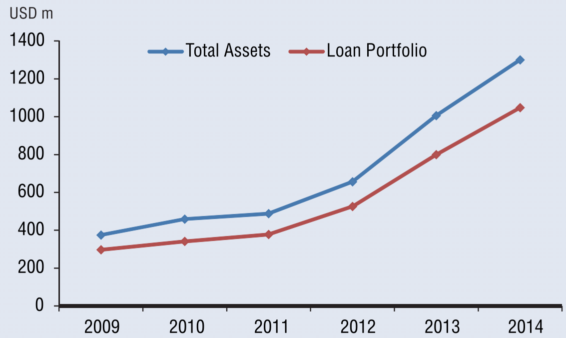
AccessBank provides a broad range of Retail loan products and banking services to private individuals throughout the country. These include products and services for everyday finances, savings, loans, cards and insurances. In 2014, the Bank further expanded its Mortgage portfolio.

Financial Results

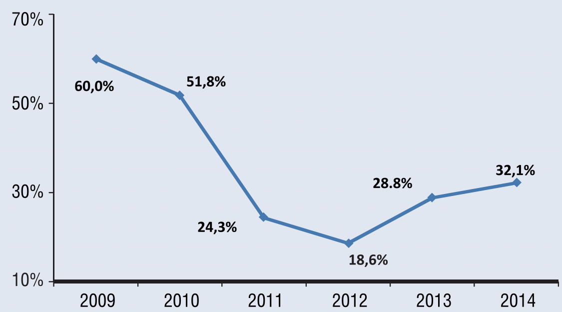
	2014		2013	
Total Assets	USD 1.3bn	(AZN 1.04bn)	USD 1.0bn	(AZN 790m)
Total Loan Portfolio	USD 1.05bn	(AZN 820m)	USD 787m	(AZN 617m)
Micro Loan Portfolio	USD 461m	(AZN 361m)	USD 358m	(AZN 281m)
SME Loan Portfolio	USD 447m	(AZN 351m)	USD 331m	(AZN 260m)
Retail Loan Portfolio	USD 95m	(AZN 74.5m)	USD 79.1m	(AZN 62m)
Mortgage Loan Portfolio	USD 37.7m	(AZN 29.6m)	USD 22.2m	(AZN 17.4m)
Client Deposits	USD 432m	(AZN 339m)	USD 368m	(AZN 288m)
Total Equity	USD 185m	(AZN 145m)	USD 146m	(AZN 114m)
Gross Profit	USD 69.1m	(AZN 54.2m)	USD 43.8m	(AZN 34.4m)
Net Profit	USD 54.9m	(AZN 43m)	USD 34.7m	(AZN 27.2m)
Total CAR*	24.5%		22.8%	
Tier 1 CAR*	21.4%		21.2%	
Return on Equity	32.1%		28.8%	
Cost / Income Ratio	59.1%		65.1%	
NPL**	0.77%		0.36%	

* According to Basel Capital Accord 1988 ** Portfolio at Risk > 30 days ratio

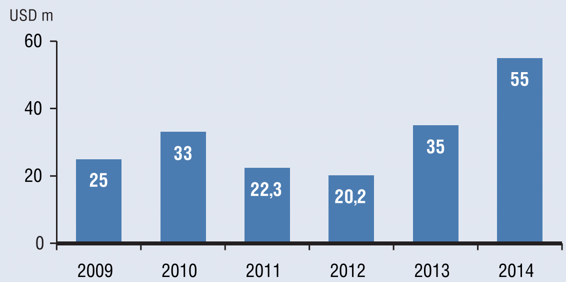
Total Assets and Loan Portfolio



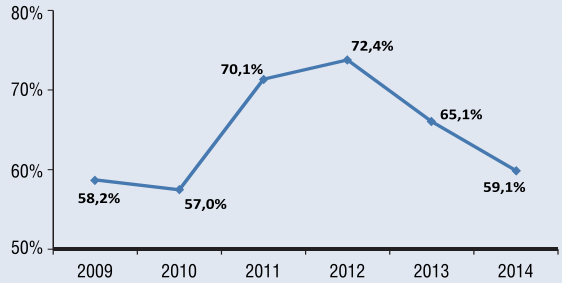
RoE



Net Profit



Cost / Income ratio



Lending Operations

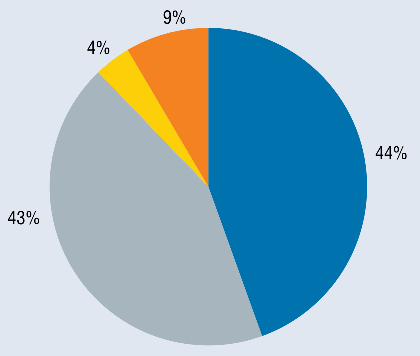
In 2014, AccessBank continued its dynamic development and increased lending volumes across all product lines. The total outstanding loan portfolio increased by 33% to USD 1.05bn with the largest contribution from Micro and SME lending.

The Bank managed the strong portfolio growth successfully and kept credit risk under control. Overall, the asset quality of the loan portfolio remains excellent with the PaR>30 days ratio of the total loan portfolio at 0.77%. The excellent asset quality reflects the Bank's successful practices in responsible lending and in avoiding client over-indebtedness.

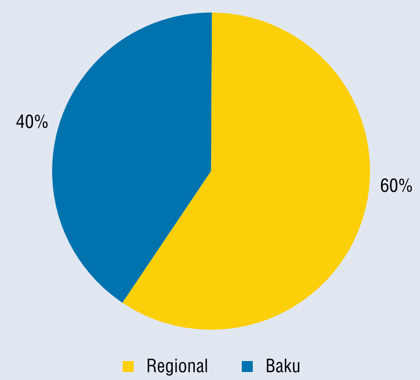
The average loan size slightly increased throughout the year to USD 5,868, up 18% from USD 4,989 in 2013 as a result of the overall growth of the economy and growth of client's businesses in general.

In line with the strong portfolio growth, the Bank managed to successfully increase further its client base by 6% to 157,000 indicating that Accessbank remains an attractive partner of choice for many micro, small and medium entrepreneurs as well as for many private households in Azerbaijan.

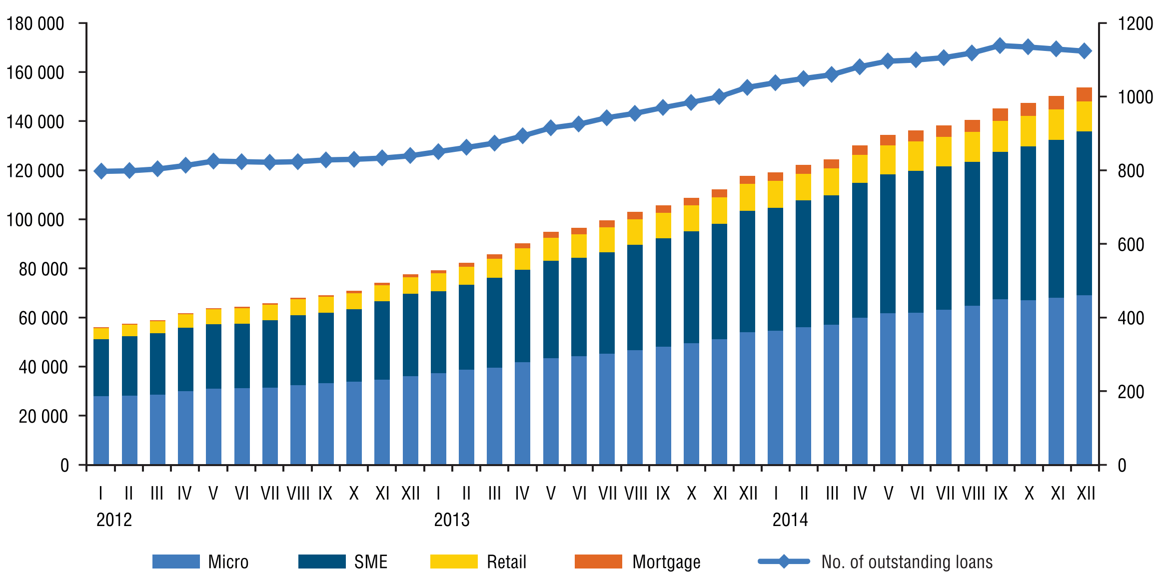
Loan Portfolio by Segment



Loan Portfolio: Regional vs. Baku



Total Loan Portfolio

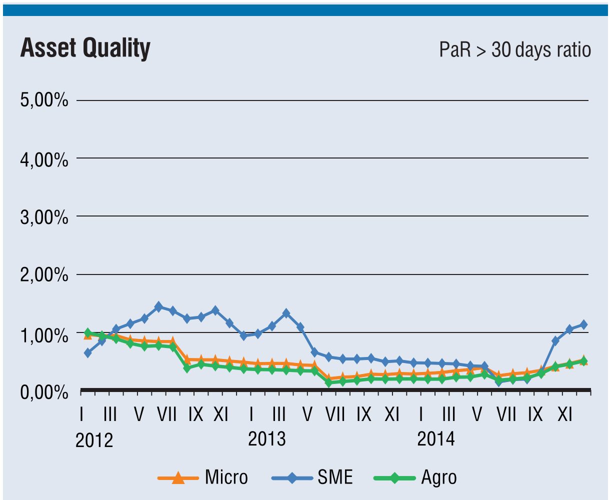


Micro & SME Lending

Lending to Micro and SME clients is the Bank's main business driver and the core of its mission. In 2014, the Micro loan portfolio surged by 28% reaching USD 461m representing almost half of the Bank's total loan portfolio and being the largest micro loan portfolio of any bank or financial institution in Azerbaijan.

The SME loan portfolio grew by 35% to USD 447m indicating that the Bank has further strengthened its foothold in the SME sector. Today, AccessBank belongs to the most active banks in the country serving this important customer segment.

By 2014-end, the asset quality of the Micro and SME loan portfolio continues to be sector-leading with the PaR>30 days ratio of 0.52% and 1.13% respectively – an outstanding result when comparing to the average NPL figures in the country's banking sector.



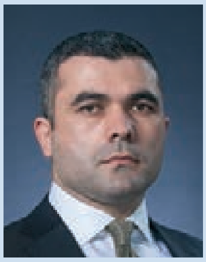
The Bank's success in handling and expanding the lending business with Micro and SME clients is the result of a combination of factors such as (i) thoroughly applying credit analysis to each new and repeat client based on proven technology and (ii) being close to the customers and knowing their needs, which is a core value for the Bank's loan officers and management and further backed by a tightly knit branch network throughout the entire country with a focus on the regions.

In 2014, the Bank succeeded in further diversifying the loan portfolio across sectors compared to previous years. While five years ago, the trade sector held a share exceeding 70% of the entire Micro and SME loan portfolio, this figure decreased by end 2014 to 43%. This was followed by services (27%) and agriculture (21%).

The continuous growth of the Bank's lending activities with Agro-clients is a major achievement and provides the Bank with a unique position in this promising client segment, which tends to be widely ignored by other banks. Lending to Agro-clients requires deep experience and knowledge in applying lending technology based on the client's specific business cycles and risk profiles. In AccessBank's regional branches more than half of all Micro and SME loans are disbursed under the Agro-loan product reflecting the strong foothold of the Bank in rural areas and in this strategically important client segment.

3 Questions for Tariyel Ismayilov

Executive Director Micro Lending / Credit Back Office



How would you summarize 2014?

We are most pleased that, despite increased competition, we have managed through improved service and lending efficiency, to increase the micro lending portfolio and the number of clients, while maintaining a very high portfolio quality.

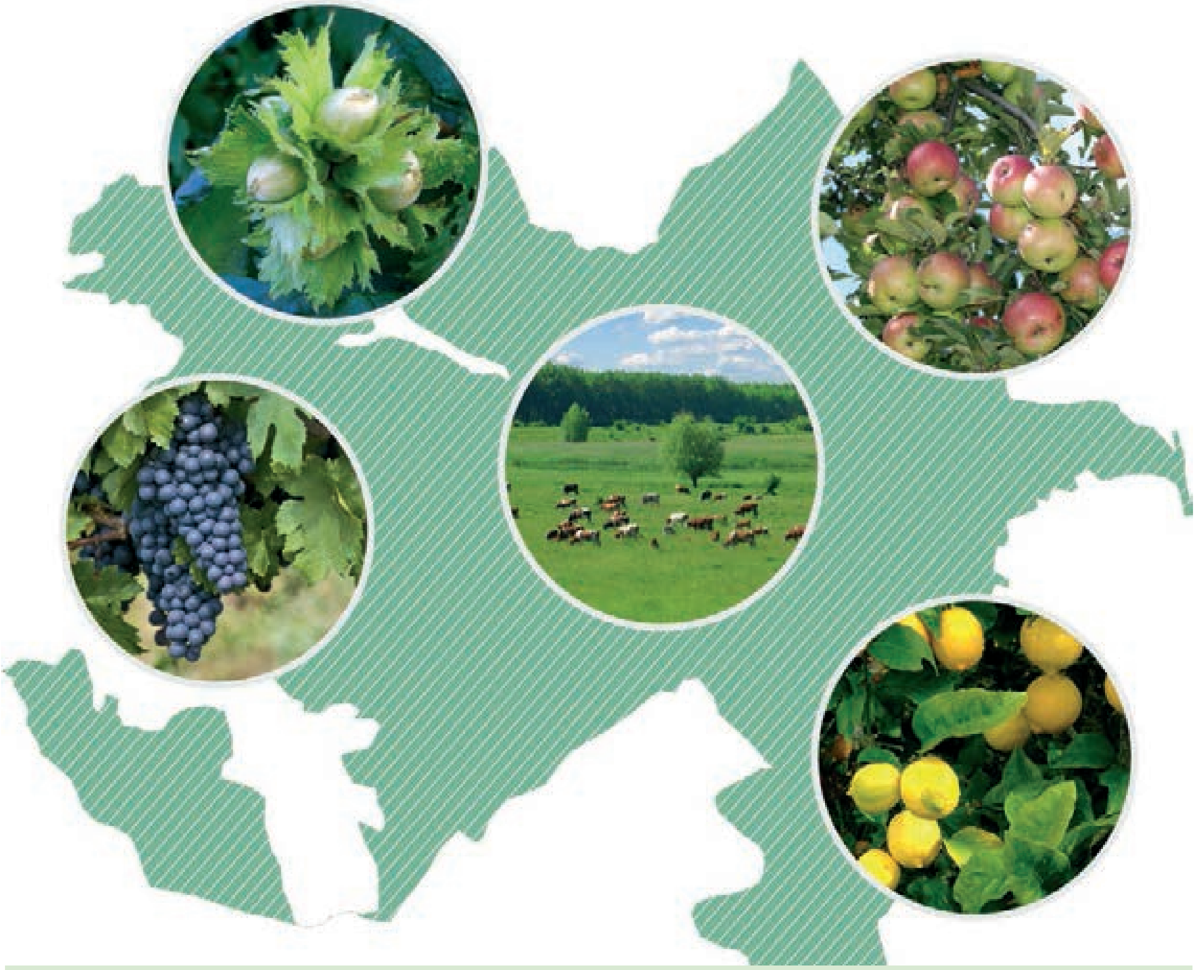
What are the main achievements of the Micro Lending Department in 2014?

AccessBank continues to be the market leader in microfinance with a market share of more than 30%. An important achievement was the connection to the payment terminals network especially in rural areas, which significantly improved our service quality.

What are the greatest challenges and opportunities going forward?

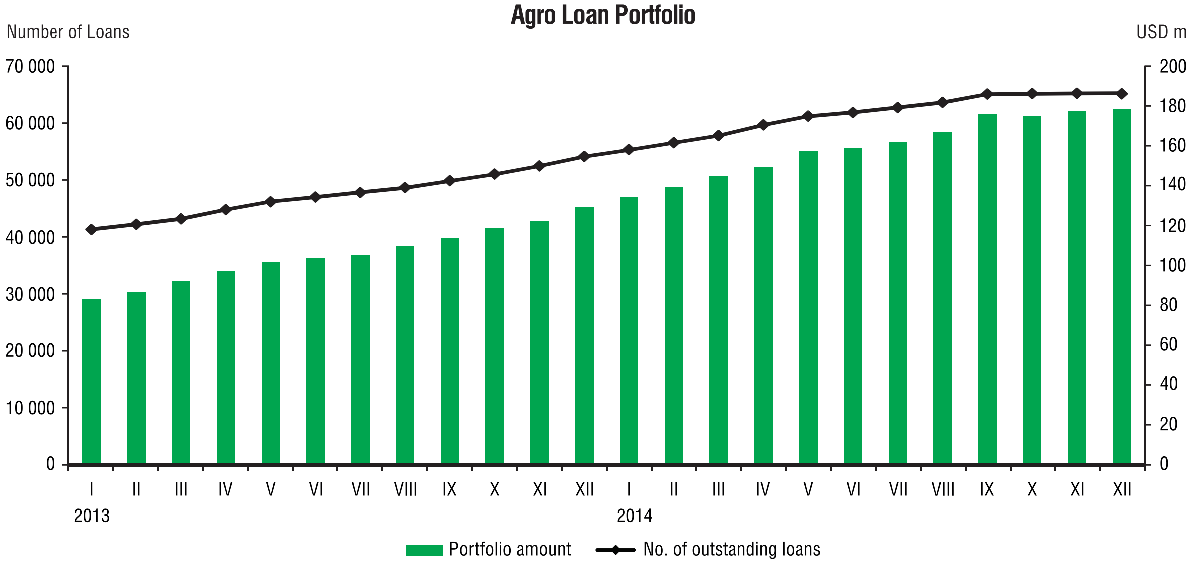
In an environment of increased competition, we are committed to pursuing responsible lending practices in order not to overload the client with debt and to ensure strong portfolio quality.

Expanding in the Regions with a Focus on Agro Lending



AccessBank has become Azerbaijan's leading bank for lending to agricultural businesses, whereby primary agriculture now accounts for about 50% of the Bank's Micro loan portfolio and client base.

Agro Loan Portfolio



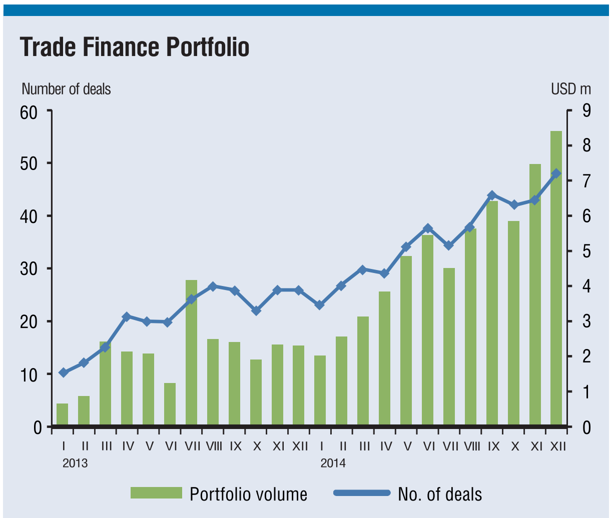
Trade Finance

AccessBank continues to grow its trade finance activities alongside with its customers and with the country's economy. Products offered to customers are bank guarantees (payment, advance payment, tender, performance guarantees), counter-guarantees, letters of credit and stand-by letters of credit. In addition, the Bank supports customers with pre-export and post-import financing, as well as ECA covered financing.

AccessBank is a participant in the Trade Facilitation Programme of the EBRD (European Bank for Reconstruction and Development). This provides the Bank with the opportunity to cooperate with more than 700 financial institutions worldwide, which also participate as confirming banks in these trade facilitation programmes.

As a result of the Bank's strong performance reflected in its investment grade credit rating, foreign companies are meanwhile also accepting guarantees issued by AccessBank on a stand-alone basis without being counter-guaranteed by IFI's.

The Bank's trade finance specialists are permanently in contact with SME customers consulting with them on available facilities to realize their import/export deals in a secure, cost and time efficient way.



TRADE FINANCE DEALS
59% Direct Guarantees and LCs
41% Confirmed Guarantees and LCs

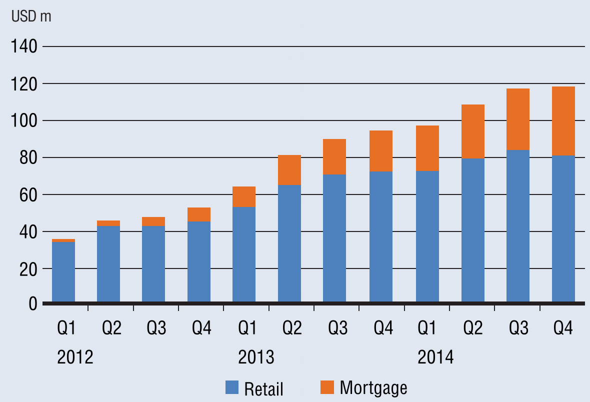
MAIN TRADE FINANCE PARTNER COUNTRIES		
Italy	Germany	China
Turkey	Ukraine	Sweden

Retail and Mortgage Lending

RETAIL LENDING

In 2014, the total Retail loan portfolio increased by 20% to reach USD 95m by year-end. The share of the Retail loan portfolio in the Bank's total loan portfolio remains relatively constant at around 10%.

Retail and Mortgage Loan Portfolio



The Bank is committed to developing its Retail lending responsibly to ensure that clients are not overburdened with debt. The clearest proof of AccessBank applying responsible lending practices is the low arrears rate, with PaR>30 days ratio standing at 0.67% by year-end.

AccessBank was named 'Best Retail Bank' at the International Finance Magazine (IFM) Financial Awards 2014

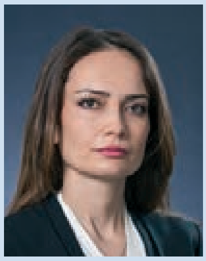
AccessBank's range of retail loan products includes (i) cash loans to individuals in selected stable professions, (ii) deposit loans, i.e. loans secured by a deposit that allow clients to obtain short-term financing without having to break their long-term deposits, (iii) partner loans for providing financing to customers of retailers of core household goods and (iv) car loans.

MORTGAGE LENDING

The mortgage lending activities developed dynamically during past years. This market segment is still broadly underserved by local banks. In 2014, the mortgage portfolio grew by 70% to USD 37.7m with 1,455 outstanding loans. At the end of 2014, the mortgage product was offered to clients in 12 Baku based and 13 regional branches by specialized mortgage loan officers.

3 *Questions for* Samira Gaziyeva

Head of Retail Lending



How would you summarize 2014?

AccessBank's approach to prudently evaluate our customers' repayment capacity continues to be key for building long-term relationships with customers and maintaining strong portfolio quality.

What are the main achievements of the Retail Lending Department in 2014?

As a result of our multiproduct strategy, we successfully increased the distribution of credit cards among our clients by more than 50%, thereby improving the service quality of the Bank.

What are the greatest challenges and opportunities going forward?

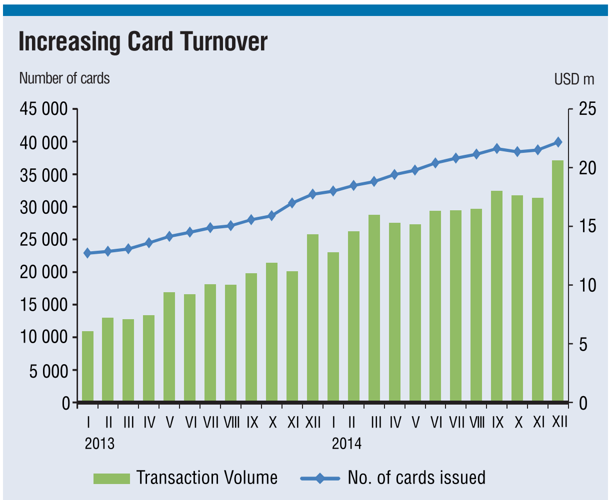
The greatest opportunity is clearly to continue building trustful relationships with customers as a base for future development, whereby it will remain a continuous challenge to keep the high portfolio quality, which is significantly below the sector average.

Banking Services

The Bank is offering its clients a broad range of banking services such as payment cards, money transfer systems, currency exchange and insurances. As the banking market in Azerbaijan is progressing and penetration of banking services in the country is generally increasing, the non-interest product line is continuously gaining importance to ensure the clients' needs can be covered comprehensively.

PAYMENT CARDS

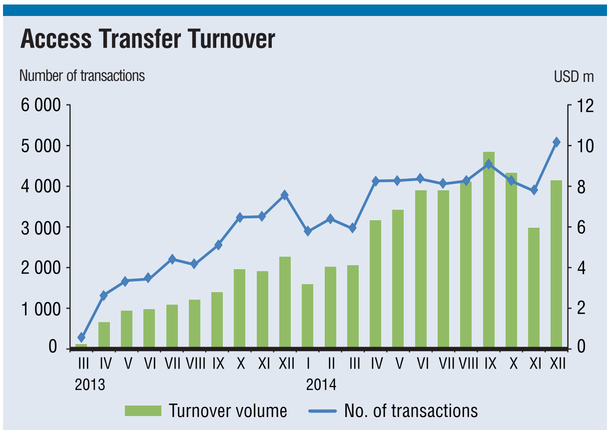
In 2014, AccessBank has further expanded its client base in the payment cards segment. The Bank offers credit cards from Visa and MasterCard as available option for its clients. In 2014, the number of customers using AccessBank's credit cards substantially exceeded 10,000. In addition, AccessBank provides Visa debit cards as a convenience product to encourage clients using their current accounts and keeping excess cash on deposits in the Bank.



The Bank is cooperating with a rising number of corporate clients on Salary Projects whereby the clients' employees receive salaries via their AccessBank debit cards. In 2014, the turnover on debit cards increased by 34% and reached USD 109m.

MONEY TRANSFER SYSTEMS

International remittances from family members working abroad are a vital source of revenue for many Azerbaijani families. To serve this market, AccessBank offers customers a broad range of leading international money transfer systems such as Western Union, CoinStar, Contact Caspian Money among others, most of which are directed at CIS countries.



In March 2013, AccessBank launched a new system for local money transfers between AccessBank branches known as "AccessTransfer". A wide network of branches allows AccessBank to provide money transfer services in all regions of the country. The system is enjoying increasing popularity. The total number of transactions in 2014 grew by 110% to 47,000 while the total payment turnover tripled.

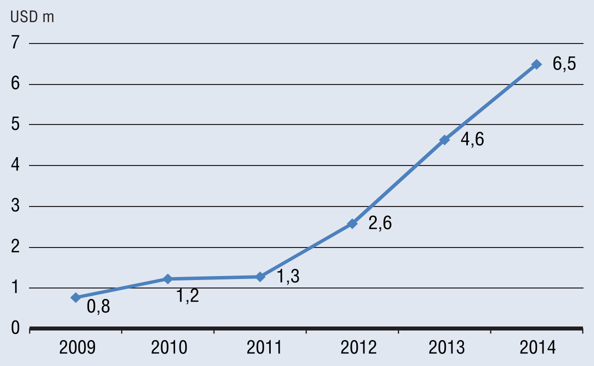
INSURANCE

In January 2012, AccessBank received a license to operate as an authorized insurance agent, thereby providing the Bank with the opportunity offering its clients various insurance products (obligatory property and vehicle insurance, life, personal accident and health insurance) from reputable Azerbaijan based insurance companies. The insurance products provide effective protection for the client and also for the Bank against an unexpected drop in the clients' income streams, in particular for loans with longer maturities.

FEE AND COMMISSION INCOME

During 2014, the Bank continued to substantially enhance net fee income from non-lending banking services. Turnover of remittance payments, of national and international account transfers as well as of currency exchange transactions grew considerably during the year.

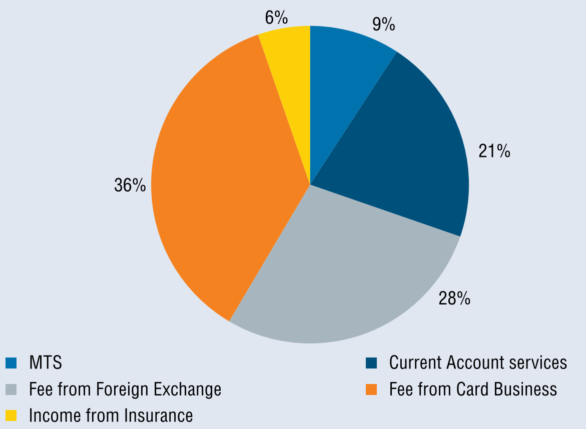
Fee and Commission Income



* Fee and commission income from non-lending products.

As a result, in 2014 the Bank succeeded in increasing its total net fee and commission income from such products by about 40% reaching USD 6.5m (2013: USD 4.6m).

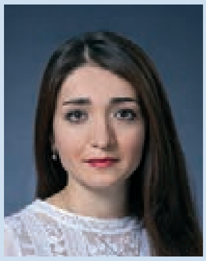
Fee and Commission Income by Product



The Bank will continue to focus on developing its non-lending banking products with the aim to comprehensively meet the clients' needs. This will contribute to further enhance income generated from fees and commissions to support growth dynamics and the Bank's profitability against the trend of declining interest margins.

3 *Questions for* Sabina Gurbanova

Head of Banking Services



How would you summarize 2014?

We succeeded in expanding the POS-terminal network, increasing account turnovers, and attracting several large corporate customers to the Bank. These factors have a significant impact on the non-interest income of the Bank.

What are the main achievements of the Banking Services Department in 2014?

A major success was the significant increase in the volume of transactions via our in-house money transfer system AccessTransfer. We also managed to substantially enhance the turnover on current accounts by about 20% and POS-terminal transactions, which doubled in 2014. Due to these achievements we were able to raise the Bank's commission income by around 40%.

What are the greatest challenges and opportunities going forward?

The most important challenge for the future is putting into operation the Internet Banking services, which will further position AccessBank as a technological leader on the Azerbaijan banking market.

Finance and Treasury

In 2014, the Bank succeeded in making a big step forward in developing its finance and treasury unit, thereby achieving major progress in the institutional development of the Bank overall. New senior staff was hired for budget control, IFRS accounting and treasury to enhance the performance in these areas. The finance reporting and data analysis capacities were substantially increased through implementation of the new IT system Temenos T24.

DIVERSIFIED FUNDING BASE

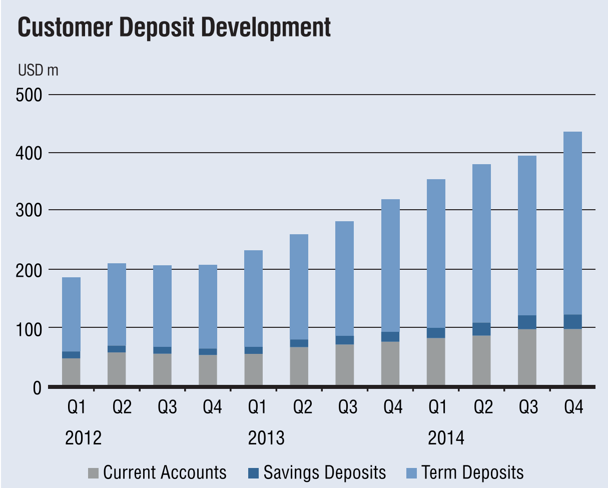
The Bank consistently pursues a strategy of diversifying its funding base which consists of three main sources:

- *Client Deposits;*
- *International Financial Institutions (IFI's) and Development Finance Institutions (DFI's) providing Long-term Funding;*
- *External Borrowings from International Capital Markets.*

In 2014, the Bank's total growth in liabilities to refinance the strong loan growth was USD 276m (33% up from 2013).

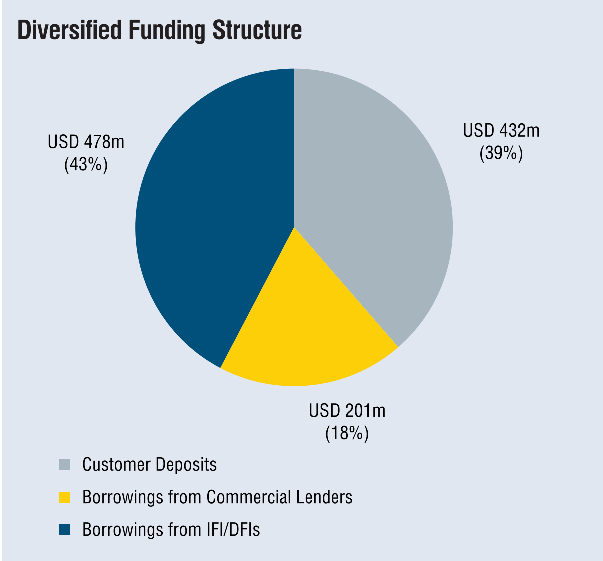
Enhancement of client deposits

The Bank succeeded to increase client deposits in 2014 by 26% to USD 432m. The largest increase was achieved in term deposits which grew by 28% to USD 330m. Funds on client current accounts increased by 34% reaching USD 102m. Likewise, savings deposits increased steadily by USD 8m to USD 25m. At the same time, the Bank's basis of deposit clients remains well diversified.



Continued support from IFI and DFI partners in long-term funding

As in previous years, the Bank was strongly supported by its IFI and DFI Partner Institutions in obtaining long-term funding. The stable long-term relationship with a broad number of IFI and DFI Partners, many of which are direct and indirect shareholders of AccessBank or shareholder related entities, continues to be a major asset of the Bank, which is a crucial risk mitigant to secure funding when international capital markets are stumbling. For the first time, the Bank obtained a loan facility from the European Investment Bank (EIB) – a EUR 25m senior loan, which was the first loan granted by the EIB in Azerbaijan. The Bank succeeded in strengthening its capital base for future growth by attracting two subordinated loans, USD 10m each, in 2014.



Successful debut transactions on capital markets

In 2014, the Bank concluded two major debut transactions on international capital markets thereby setting new benchmarks in different market segments. The syndicated loan market was successfully tapped with an inaugural USD 60m deal which was placed with 16 participants with a broad geographical coverage. Another landmark transaction was the commercial paper issuance (USD 50m) which was successfully placed with international institutional investors. In addition, the Bank attracted AZN 22m via issuance of local currency bonds.

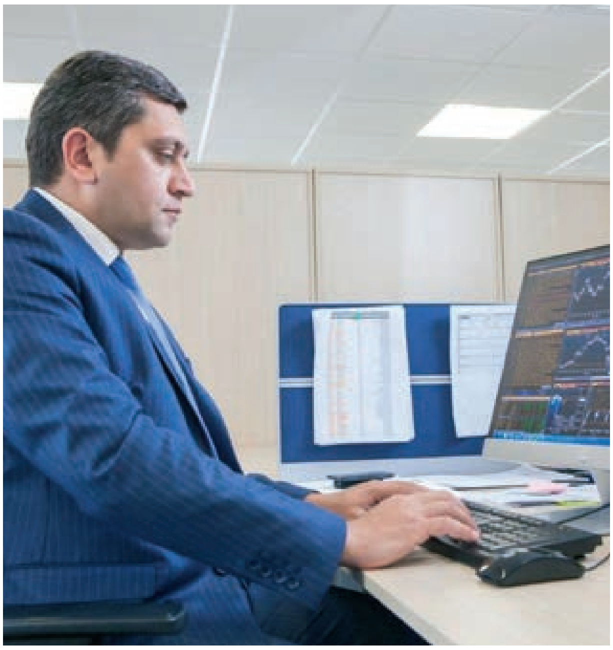
RATING UPGRADE TO INVESTMENT GRADE

A major highlight in 2014 was the rating upgrade to Investment Grade by FitchRatings by the end of the year, which was again confirmed in April 2015.

FitchRatings

FitchRatings upgraded AccessBank to Investment Grade 'BBB-' outlook stable – the highest rating in the country (reconfirmed in April 2015)

The Bank remains the highest rated bank in the Azerbaijani banking sector and one of only few financial institutions in the wider CIS region with investment grade rating. The upgrade will further improve the Bank's standing in capital markets and positively impact its cost of international funding.



3 Questions for Dr. Rolf Reichardt

Executive Director
Finance / Treasury

How would you summarize 2014?
Personally I look back at 2014 as an exciting year. I joined the Bank at the crossroads to a new IT system, its first capital market transactions and a new organization of its finance and risk management functions.

What are the main achievements of the Finance and Treasury Department in 2014?
We significantly increased our funding base by tapping the capital market for the first time internationally with a very successful syndicated loan (USD 60m) and commercial paper issuance (USD 50m) as well as with local bond issuance (AZN 22m). At the same time, we adapted our financial reporting to the new IT system and improved our budget planning and controlling as well as our IFRS reporting.

What are the greatest challenges and opportunities going forward?
The greatest challenge going forward will be to manage changes in exchange rates. In this context, our Bank is well positioned to actively manage the asymmetric AZN and USD supply and demand.

Key Refinancing Transactions in 2014

- **Raiffeisen Bank International:** USD 60m, 1-y, Syndicated loan, signed in 03/14
- **FMO:** USD 65m, 5-y/2-y, A/B Syndicated loan, signed in 06/14
- **BNP Paribas:** Euro Commercial Paper program, 1-y, USD 50m notes issued in 10/14
- **PashaBank:** AZN 22m, 1-y, local bonds issued in 06/14 and 12/14
- **EIB:** USD 28m, 5-y, Senior loan, signed in 11/14

Risk Management

The excellent results of AccessBank in terms of asset quality, profitability and operational efficiency reflect the Bank's professional and experienced Risk Management, which is backing the entire operations. As the Bank increases in scale, strengthening risk management is an integral part of the long term strategic planning and operational business planning processes. AccessBank looks comprehensively and consistently across all risks, including credit, liquidity, market and operational risk.

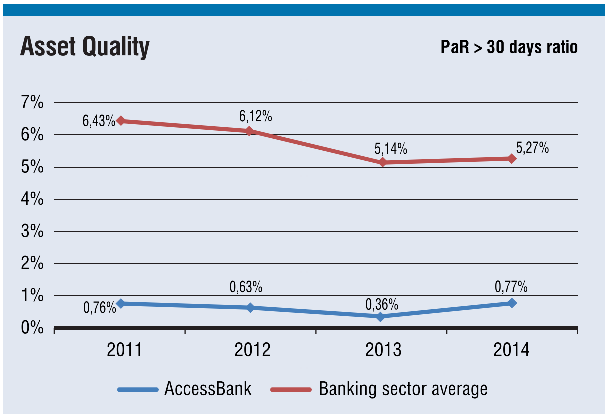
Day-to-day risk management is performed by the Risk Management Department, which has grown to 28 staff members. The Risk Management Department is responsible for reviewing the client exposure, undertaking selective portfolio reviews, assisting with problem loan recovery, strategic monitoring and analysis of all aspects of risk on the basis of risk measurement models, stress-tests and Value-at-Risk (VaR) methodology. This process encompasses all types of risk and is in line with the Bank's strategy. Through the implementation of the new IT system Temenos T24 the Risk management now benefits from more comprehensive reports on a daily basis. Furthermore, the Bank now uses an advanced internal model for IFRS loan loss provisioning which already captures essential elements of the future accounting standard IFRS 9.

The Risk Committee, which reports to the Supervisory Board, quarterly reviews the Bank's risk profile on a bank-wide or global level and investigates specific risk aspects.

CREDIT RISK

Credit risk management starts at branch level with clearly defined policies and procedures and segregation of functions. The Bank's proven success in controlling credit risk is based on the principle of decentralization whereby responsibility is delegated to units which are directly in contact with the client, thereby leveraging directly on the Know Your Customer approach. Depending on the loan amount, the control is strengthened by involving Branch management, Head Office units and the Management Board.

The matrix control structure of hierarchical subordination to the branch manager, with technical supervision by Head Office managers, has proven to be not only efficient, but also effective in ensuring that policies and procedures are adhered to and risk is well managed. As a result, the Bank's excellent portfolio quality has been continuously below the average figures for the banking sector.

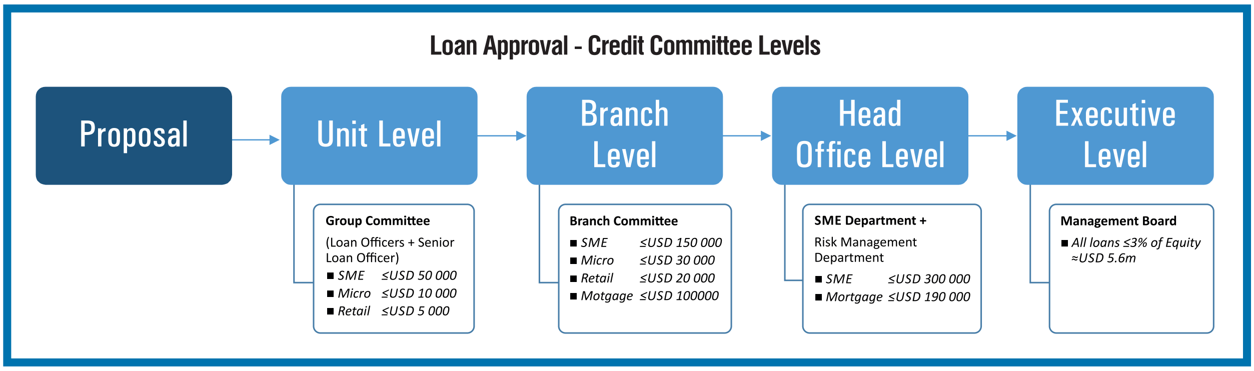


LIQUIDITY AND CURRENCY RISK

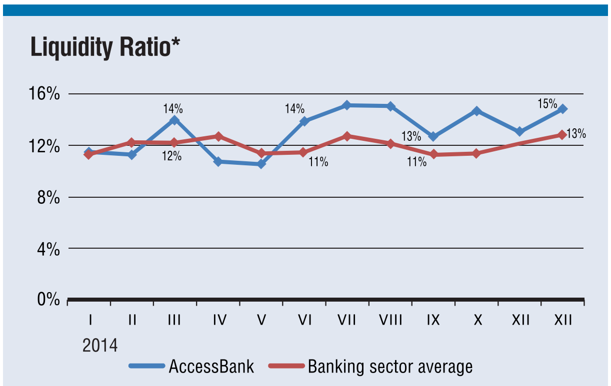
Liquidity and currency risks are managed on the basis of daily review of the Bank's currency and liquidity positions and of their compliance with limits set by the Supervisory Board.

Currency risk is minimized by balancing lending in local and foreign currency with the Bank's local and foreign currency resources.

Management of currency, liquidity and interest rate risks are then reviewed on a monthly basis by the ALCO committee and on at least a quarterly basis by the Risk Committee and Supervisory Board. Moreover, measures such as VaR, various types of sensitivity analyses and an extensive array of stress tests are important tools in the Bank's risk management process to further identify significant movements in risk fac-



tors. The Bank had a comfortable liquidity position during 2014, with a Liquidity ratio (liquid assets/total assets) being constantly at 11% and higher.



* Liquid Assets / Total Assets

OPERATIONAL RISK

The Bank handles a large number of customer transactions every day. This requires having a reliable system, well-functioning processes and risk mitigation techniques. The fraud detecting tools play a key role in operational risk management and are handled by the Risk and Internal Audit Department.

With the increase in non-credit operations, anti-money laundering and anti-terrorist financing procedures become even more important. AccessBank has adopted detailed procedures for managing both issues, which are centered on a strict KYC (Know Your Customer) policy and which serve to protect the citizens and laws of Azerbaijan. The procedures have been prepared in accordance with FATF (Financial Action Task Force) and other international recommendations.

The Internal Audit Department (IAD) plays an active role as third line of defense in assessing on an ongoing basis the first and the second lines of defense in the risk management process. During the year, the IAD focused on and reviewed the major regulatory, financial and operational risks which the Bank is facing to ensure the efficiency of processes and controls. A risk based audit approach was adopted with emphasis on processes in areas of higher risk. Internal control mechanisms were tested to assess their adequacy and appropriateness to the Bank's business. In all audited areas, the management established relevant control over activities that correspond to the level of risks inherent to these activities and processes.

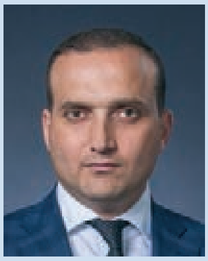
By 2014-end, the Audit Department consisted of 16 full-time staff who audit each branch and Head Office department at least annually. The work of the Department is led and supported by the Audit Committee which reports directly to both the Supervisory Board and the General Assembly of Shareholders.

AccessBank's business success depends on a well-working IT system for day-to-day operations and management information. All branches are connected online, and all business is fully integrated in a central database. This provides management with instant up-to-date information on all activities, available at any time at their desktop PCs, contributing to management's control capacities and risk management. Moreover, the Risk Management will be further strengthened by the new T24 banking software through comprehensive data analysis especially when combatting risk and fraud prevention.

The responsibility for the management of operational risks is a task which has been assigned to decision-makers throughout all business lines for the continuous risk identification and mitigation.

3 *Questions for* **Nizami Gadirov**

Head of Risk Management



How would you summarize 2014?

From the perspective of risk management, we succeeded in ensuring high portfolio quality and in protecting the Bank from major risk incidents. This contributed to keeping balance between stability and growth of the Bank.

What are the main achievements of the Risk Management Department in 2014?

We started to apply a new advanced methodology on calculating loan loss provisions, with the focus on portfolio indicators such as Probability of Default and Loss Given Default. With this new and sophisticated approach, we are now sector-leading in this area, which was also highlighted by external auditors.

What are the greatest challenges and opportunities going forward?

The more challenging business environment in 2015 will require strong efforts from Risk Management to preserve strong portfolio quality and to control operational risks. With our competent team, we are confident that we will be able to tackle the many challenges.

Human Resources

Our people are the decisive factor for our success. The Bank's HR approach creates an environment in which people are able to develop and gain the qualifications required in order to maintain top professional level in the long run. This goes hand in hand with a corporate culture that promotes fair and competent interactions with colleagues, customers and investors. This is why attracting, developing and maintaining highly motivated people is among our main priorities.

All employees take responsibility for their own development and contribute to the Bank's success, primarily by developing on the job. In the branches, they advise our customers, assist them in their transactions with their full service and innovative products, and ensure that business runs professionally and smoothly. Stimulating and challenging tasks – with the support of an immediate supervisor and experienced colleagues – provide our employees with the opportunity to grow. AccessBank's role as an employer is to support employees' development and provide them with opportunities to meet their goals. The Bank has set up its specific people management systems to ensure that personal goals contribute to the Bank's overarching goals.

During the last five years, the overall number of employees has increased by 80% triggered by the strong growth in the Bank's business volume and the development of branches in the regions. AccessBank is currently the largest employer in the Azerbaijani banking sector with 2,184 employees. In 2014, the Bank hired 325 new staff.

HIGH STAFF LOYALTY

AccessBank is considered an attractive employer in the country's banking sector. The high staff loyalty is reflected in staff turnover rate, which has always been significantly below 10%. AccessBank provides employees with attractive remuneration and a social package as well as with extensive training opportunities for internal career development.

Staff Turnover Rate* by Department

Total Staff	7.4 %
Micro Lending	6.9 %
SME Lending	8.5 %
Banking Services	9.5 %
Cash Department	9.7 %

* Number of staff exiting / average number of staff

PROMISING TALENT POOL

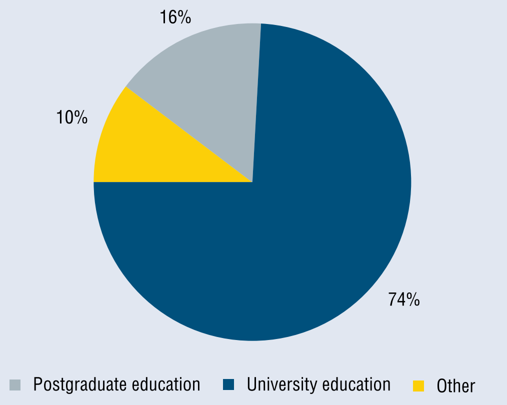
The majority of AccessBank staff is a talented pool of well-educated young professionals with a good potential for further development. In 2014, the average age of AccessBank staff was 28 years, and more than 75% of overall staff holds a university degree.

PROFESSIONAL DEVELOPMENT AND TRAINING

AccessBank has developed a strong system of in-house training which is key to provide the staff with professional skills to perform in their job. A professional development and training program is in place to ensure that soft skills and technical skills are developed on an ongoing basis facilitating their career progression within the Bank. In 2014, the Bank's training covered technical, leadership and soft skill development programs. Throughout the year, about 500 employees were educated in lending practices, about 300 employees in banking operations. About 70 employees participated in management training and more than 900 employees were enrolled in the new software application training. In addition, the Bank offers Welcome Seminars for new employees to obtain a comprehensive understanding of how the Bank works.

AccessBank cooperates with a number of experienced internal and external trainers who are offering tailor-made programs according to the Bank's educational needs.

Level of Education of Staff

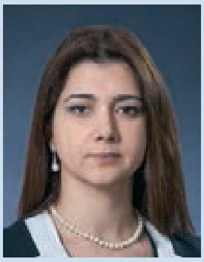


In 2014, AccessBank has also invested in the training infrastructure: a new Training Center at the Head Office was completed with 3 training rooms providing capacity for nearly 100 employees to participate simultaneously in trainings.

In 2014, we have started to offer a management development program for talented staff from middle management, which is conducted by the Bank's strategic partner AccessHolding for all network banks. The program is designed to strengthen the technical and managerial skills of network managers equipping them with the capacities required to succeed in their positions and thereby foster their professional development and their contribution for the benefit of the Bank. In 2014, a first group of 6 managers participated in the Berlin-based training session.

3 *Questions for* Aynur Suleymanli

Head of Human Resources



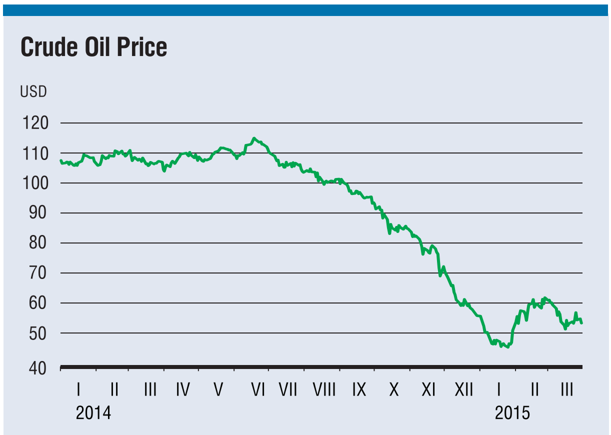
How would you summarize 2014?
Due to the strong growth of the Bank, recruitment of new staff was keeping us very busy and we succeeded in attracting more than 300 new talented employees.

What are the main achievements of the Human Resources Department in 2014?
Apart from successfully tackling the recruitment challenge, we further enhanced our training activities. A major achievement is that we are able to offer our talented middle managers a sophisticated management training program: Access Campus, which is conducted in Berlin in cooperation with our partners from AccessHolding.

What are the greatest challenges and opportunities going forward?
The ongoing challenge is to attract and retain talented employees and support them through personal development, training and career progression in order to continuously improve performance in a more complex, changing and demanding work environment.

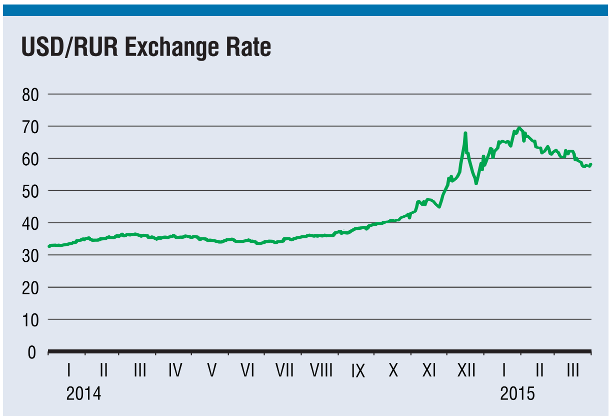
Outlook

Following several years of strong growth in business volume, the Bank is now expected to enter a phase of consolidation.



Source: Bloomberg

The oil price decline, public spending cuts as well as the devaluation of the Russian rouble have already started to impact the banking market, which after the period of strong growth is going to face a more challenging operating environment.



Source: Bloomberg

The devaluation of the local currency Manat vs the US-Dollar by 33.5% in February 2015 represents a major challenge for the banking sector in 2015 and forces Accessbank to further strengthen its focus on maintaining its sector leading portfolio quality. Although we can expect that growth in business volume will temporarily slow down, AccessBank remains committed to its strategy of being the leading bank serving the needs of Azerbaijan's Micro and SME businesses with both dedicated products and proven risk management expertise to serve these market segments responsibly and sustainably.

With the successful introduction of the new T24 software the Bank has created a sound basis for further upgrading its product range in electronic banking. We have already connected the Bank's IT with external payment providers which extensively cover smaller cities and villages thereby improving the service for our clients in the regions of the country. A major new project for 2015 is the Internet Banking development – a new state-of-the art product - which is well on track for implementation by summer 2015.

AccessBank remains committed to its strategy of being the leading bank serving the needs of Azerbaijan's Micro and SME businesses

AccessBank enters 2015 in a robust position with a solid capital base, a sound profit generation capacity and a comprehensive pool of experienced and well-trained staff to support the Bank's further development. The management team and staff are confident that, together with the shareholders, we will be able to tackle the challenges ahead in 2015.

Governing Bodies

GENERAL ASSEMBLY OF SHAREHOLDERS

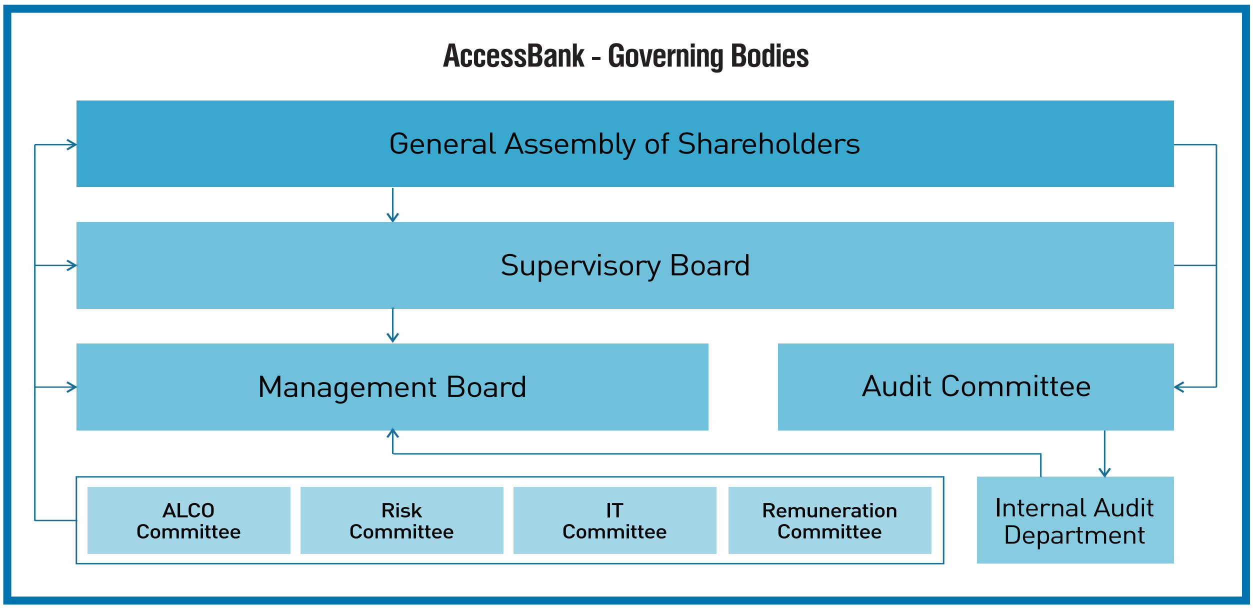
The highest decision-making body in AccessBank is the General Assembly of Shareholders (GAS). The GAS elects the members of the Supervisory and Management Boards as well as audit, risk, remuneration, ALCO and IT committees, and also determines the remuneration of the supervisory board and audit committee members. Other responsibilities include the approval of the external auditor and the audited financial statements, creation of reserves, extraordinary audits and branch openings and closures. Further powers include all actions regarding the shares of the Bank, including distribution of profit, increases in charter capital, issuance, listing or sale of shares to any party.

SUPERVISORY BOARD

The Supervisory Board of AccessBank is elected by the GAS and determines the business policy of the Bank, within the mission framework set by the GAS, and oversees and reviews the work of the management board and committees of the Bank.

While the composition of the Supervisory Board members has changed over the years, three of the five board members have been involved with AccessBank since its inception in different capacities. All five have extensive relevant, but also diverse, regional and professional experience. AccessBank thus benefits from a board that has a deep understanding of the Bank, the region, microfinance and banking in general.

None of the Supervisory Board members own shares in the Bank directly and they are remunerated for their attendance at meetings at a fixed rate determined by the GAS. Thomas Engelhardt, as a co-owner of LFS, has an indirect interest through LFS's share in AccessBank and AccessHolding.



Supervisory Board

Orhan Aytemiz

Chairman

Member of AccessBank's Supervisory Board since its inception (June 2002) and Chairman since September 2011. Mr. Aytemiz is a Director in BSTDB's Project Finance group (since 1999), based in Thessaloniki, Greece. His previous experience includes working for the Turkish Development Bank and Turk Eximbank in Turkey. Mr. Aytemiz graduated with an MA from Eastern Michigan University and with a BSc in Business Administration from Middle East Technical University.

Syed Aftab Ahmed

Member of AccessBank's Supervisory Board since its inception (June 2002). Mr. Ahmed worked with the International Finance Corporation (IFC) from August 1989 until his retirement in December 2006. The last position he held at IFC was that of Senior Manager, in charge of implementing IFC's global microfinance strategy and investment programs. Since his retirement, Mr. Ahmed has continued to serve on the supervisory boards and investment committees of three other financial institutions in Europe, as a nominee of IFC. Mr. Ahmed holds a Master's Degree in Economics.

Eva Witt

Member of AccessBank's Supervisory Board since September 2011. Joined KfW in 1995 and since July 2010 has been Director for Eastern Europe, Caucasus and Central Asia with overall responsibility in KfW for five teams focusing on country strategies, financial sector, energy, urban development, and environment and health for the region. Ms. Witt chairs the Board of Directors of the Caucasus Nature Fund and was previously a Board Member of AccessHolding. She holds a Master's Degree in Business Administration from the University of Giessen.

Reiner Müller-Hanke

Member of AccessBank's Supervisory Board since March 2014. Mr Müller-Hanke has more than ten years extensive experience in banking in CEE countries. He served as CEO of KMB Bank and of Intesa Sanpaolo Group in Russia, as well as CEO of Swedbank in Ukraine. His previous business experience includes also service as a Management Committee member of the German-Russian Chamber for Foreign Trade in Moscow. Mr. Müller-Hanke holds a Master's degree in Economics from Free University of Berlin, having studied Economics at the Universities of Heidelberg and Madrid.

Thomas Engelhardt

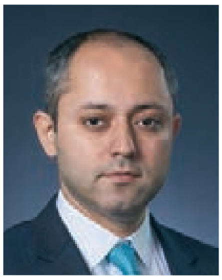
Member of AccessBank's Supervisory Board as of September 2006, prior to which he had served as the General Manager of AccessBank since its inception. Mr. Engelhardt joined LFS in 1996, where he was responsible for the establishment and organization of AccessBank and is now Chairman of AccessHolding's Management Board and a Managing Director of LFS Financial Systems. Previously he worked on MSME and downscaling projects with LFS in Uzbekistan, Azerbaijan and Bosnia and Herzegovina. Mr. Engelhardt graduated from the Free University of Berlin with an MSc in Economics and a BA in Slavic Studies.

Management Board

Michael Hoffmann

CEO and Chairman of the Management Board

Before joining AccessBank in 2012, Michael Hoffmann was with the EBRD as Head of the Volga Federal District operations in Russia and prior to this with HSH Nordbank AG where he was responsible for the bank's business in the Baltic countries. He also served as member of the Supervisory Board of the car manufacturer GM-AvtoVaz. Mr Hoffmann holds an Executive MBA from the University of Chicago, Booth School of Business, and a Diploma in Economics from Kiel University.



Anar Hasanov

Deputy CEO

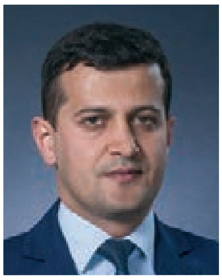
Joined AccessBank in 2002 as a Micro Loan Officer. In 2006, he was appointed Head of Retail Banking. In 2007, Mr. Hasanov was promoted to the Management Board as the Director of Retail Banking and Operations. Mr. Hasanov holds a Diploma in Finance from Istanbul University, a Master's Degree in Finance from Azerbaijan State Economic University, and a Diploma in Banking from the University of Pennsylvania.

Shakir Rahimov

Deputy CEO

Joined AccessBank in 2002 as a Micro Loan Officer. In 2005, Mr. Rahimov was promoted to Head of the newly established SME Department. In April 2008, he was promoted to Head of the Business Banking Department and became a member of the Management Board. Mr. Rahimov holds a Master's Degree in Business Administration and Finance from the Azerbaijan State Economic University. He is also currently enrolled in the University of Warwick's MBA by distance learning program.

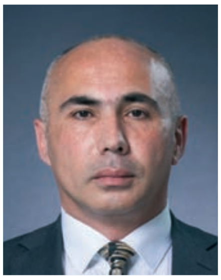
Executive Directors



Kenan Agayev

Executive Director SME Lending / Corporate Services

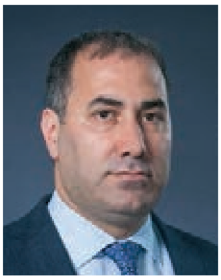
Mr. Agayev joined AccessBank as a Micro Loan Officer in April 2003. Promoted to Loan Officer of the SME Department and in 2006 to Branch Manager of Babek Branch. In 2010, he was promoted to Head of the SME Department. In September 2013, Mr. Agayev was appointed Executive Director SME Lending/ Corporate Services. Mr. Agayev holds a Master's Degree in "Finance & Credit" from the Azerbaijan State Economic University.



Elshan Hajiyev

Executive Director Finance / Control

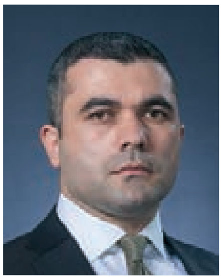
Prior to joining AccessBank, Mr. Hajiyev worked at HSBC Bank in Baku as a financial control supervisor for 6 years, at the Industrial Investment Bank of Azerbaijan in Baku and for Menatep Bank in Moscow. Since the foundation of AccessBank, Mr. Hajiyev has been Head of the Finance and Accounting Department. In 2013, he was appointed Executive Director Finance/Control. Mr. Hajiyev holds a diploma in Financial Services Management from the Institute of Financial Services, UK.



Rufat Ismayilov

Executive Director Infrastructure

Joined AccessBank in September 2002 as a Micro Loan Officer. Promoted to Senior Loan Officer and subsequently to Branch Manager of the Central Branch, prior to his appointment as Administration Manager in 2005. In September 2013, Mr. Ismayilov was appointed Executive Director Infrastructure. He holds a Master's Degree in Finance from the Azerbaijan State Economic University.



Tariyel Ismayilov

Executive Director Micro Lending / Credit Back Office

Joined AccessBank in 2003 as a Micro Loan Officer, then promoted to Manager of Ganja Branch and in 2008 to Head of the Micro Lending Department and to Regional Manager of the Western region. In September 2013, Mr. Ismayilov was appointed Executive Director Micro Lending/Credit Back Office. Tariyel Ismayilov holds a Master's Degree in Finance and completed his post-graduate studies in Economics at the Azerbaijan State Technological University.

Dr.Rolf Reichardt

Executive Director Finance/Treasury

Before joining AccessBank in May 2014, Rolf Reichardt worked for more than 20 years in various treasury functions for some of the largest German banks. He is also a member of the ALM committee of ACI Germany. Furthermore, he has contributed to academic research on accounting and finance issues. Dr. Reichardt received his PhD from Goethe University Frankfurt. He studied economics at the universities of Auckland (New Zealand), Kiel (Germany), and Utah (USA).

MANAGEMENT BOARD

The Bank's day-to-day business is directed by the three member Management Board chaired by the CEO Michael Hoffmann who has overall responsibility for the management of the Bank and directly supervises the Financial Department, as well as the HR, Legal and Infrastructure Departments. The Deputy CEO Shakir Rahimov is responsible for business banking and risk management and the Deputy CEO Anar Hasanov is in charge of retail lending, banking services and operations and of IT. The remuneration of the Management Board is determined by the Supervisory Board following recommendation from the remuneration committee. This remuneration includes annual bonuses related to the performance of the Bank. No managers or employees of AccessBank are shareholders of AccessBank.

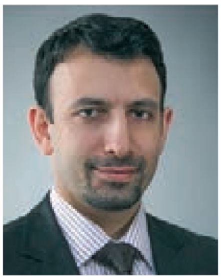
RISK COMMITTEE

The Risk Committee is appointed by and reports directly to the Supervisory Board. The Committee monitors and reviews on a quarterly basis systemic and Bank specific risks, including sector, currency, liquidity, refinancing, market and operational risks. As of the end 2014, AccessBank's Risk Committee has been chaired by Thomas Engelhardt (Supervisory Board member). Other committee members are Eva Witt (Supervisory Board member), Michael Hoffmann (CEO), Shakir Rahimov (Deputy CEO), Anar Hasanov (Deputy CEO), Dr. Rolf Reichardt (Executive Director Finance/ Treasury), Nizami Gadirov (Head of Risk Department) and Sohrab Farhadov (Chairman of Audit Committee).

ALCO COMMITTEE

The ALCO Committee is appointed by and reports directly to the Supervisory Board. The Committee reviews, on a monthly basis, liquidity, maturity, currency and interest rate matching, compliance with regulatory norms and covenants including capital adequacy and large loan exposures. The Committee is comprised of five members: Michael Hoffmann (CEO), Shakir Rahimov (Deputy CEO), Anar Hasa-

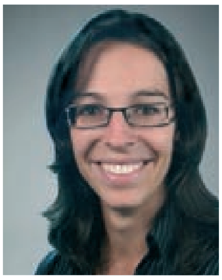
Audit Committee



Sohrab Farhadov

Chairman

Member of AccessBank's Audit Committee since 2010, Chairman of the Committee since June 2011. Mr. Farhadov worked at Ernst & Young as an auditor and consultant for four years. In 2011, he joined Komtec Ltd. as a CEO in the Invest Telekom business group with investments in ICT and financial products. In 2014, he was appointed group management board member. Mr. Farhadov holds an MA in Economics from Bowling Green State University in the US and a BA in international economics from Azerbaijan State Economic University.



Alexandra Weichesmiller

Member of AccessBank's Audit Committee since 2009. Ms. Weichesmiller joined LFS Financial Systems GmbH in 2008 and serves as Senior Consultant and Head of the Internal Audit Department that supervises the Internal Audit Functions of AccessHolding network banks and AccessHolding itself. Since joining LFS, she has been sitting on the Audit Committees of different network banks within the AccessHolding Group. Ms. Weichesmiller has a B.Sc. in Business Administration with majors in finance and management.

Bayan Carter

Member of Audit Committee since December 2014. Ms. Carter has been working for EBRD since 2000 and currently serves as a Senior Banker in EBRD and is responsible for evaluation and supervision of investment projects. She is a member of Supervisory Board of Megabank (Ukraine). Ms. Carter holds an MBA from Richmond University (UK) and a bachelor diploma from Kazakh State Academy of Management.

nov (Deputy CEO), Dr. Rolf Reichardt (Executive Director Finance/Treasury) and Elshan Hajiyev (Executive Director Finance/Control).

AUDIT COMMITTEE

The Audit Committee is appointed by the GAS and reports directly to both the Supervisory Board and GAS. The Audit Committee oversees the work of the internal audit department and reviews the work of the external auditors. It consists of three members with a broad range of local and international audit and banking experience: Sohrab Farhadov (Chairman); Alexandra Weichesmiller – an international audit specialist with LFS Financial Systems; and Bayan Carter - a Senior Banker in EBRD.

REMUNERATION COMMITTEE

The Remuneration Committee was established in 2013 with the objective of determining and controlling the Bank's remuneration policy and structure in view of ensuring the long-term competitiveness of the Bank. The Committee is appointed by and reports directly to the Supervisory Board. As of the end of 2014, AccessBank's Remuneration Committee has been chaired by Thomas Engelhardt (Supervisory Board member). Other committee members are Reiner Müller-Hanke (Supervisory Board member), Michael Hoffmann (CEO), Shakir Rahimov (Deputy CEO) and Aynur Suleymanli (Head of HR department).

IT COMMITTEE

The IT Committee is appointed by and reports directly to the Supervisory Board. The Committee monitors and manages IT issues in AccessBank on a quarterly basis, including IT investments, development projects and communication links between the branches and Head Office. The Committee is comprised of 6 members: Michael Hoffmann (CEO), Shakir Rahimov (Deputy CEO), Anar Hasanov (Deputy CEO), Dr. Rolf Reichardt (Executive Director Finance/Treasury), Bahruz Muradov (Head of the IT department) and Rashid Khanmammadov (Head of the IT Development department).

Corporate Social Responsibility

Social responsibility remains one of the most important principles of AccessBank and we have shown a strong commitment to integrate the principles of corporate social responsibility into our development strategy. During past years, the Bank made a comprehensive contribution to the development of society and people's welfare.

American Chamber of
AMCHAM
Commerce in Azerbaijan

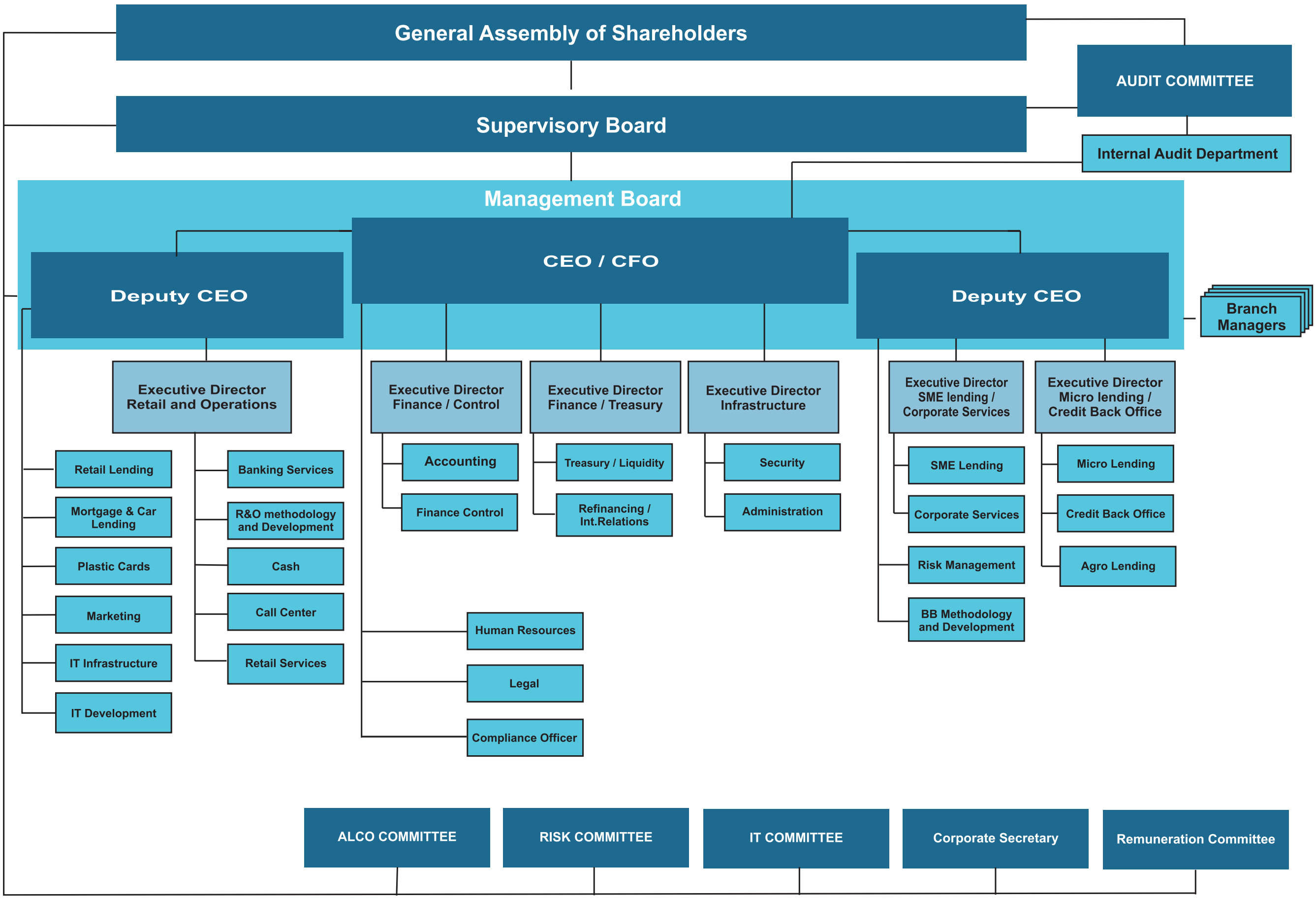
AccessBank was awarded the AMCHAM CSR 2014 Excellence Award, after being nominated in the categories "Corporate philanthropy" and "Culture".

The Bank is supporting health, sport, education, culture and arts. Promoting healthy lifestyle, AccessBank is the official sponsor of the National Football Team of Azerbaijan (AFFA) and supports development of football at schools and among children all over Azerbaijan.

In 2014, the Bank conducted multiple projects in order to support veterans' organizations, people with physical deficiencies, children's homes and schools providing stationeries and school utilities for children, and wheelchairs and necessary equipment for disabled members of the community. The Bank also engages in promoting financial literacy as the market of financial services develops.

1. Entertainment event and bicycle race for orphans
2. "Career school" for unemployed youth
3. Summer camp for orphans

Organizational Chart



AccessBank Closed Joint Stock Company

Financial statements

Year ended 31 December 2014
together with Independent Auditors' Report

Contents

Building a better working world

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Independent auditors' report

To the Shareholders and Management Board of AccessBank Closed Joint Stock Company ("CJSC")

We have audited the accompanying financial statements of AccessBank CJSC, which comprise the statement of financial position as at 31 December 2014, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year 2014, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, 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.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing audit procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management of the audited entity, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of AccessBank CJSC as at 31 December 2014, and its financial performance and cash flows for the year 2014 in accordance with International Financial Reporting Standards.

Ernst & Young Holdings (CIS) B.V.

30 March 2015

Statement of financial position

As of 31 December 2014

(Figures in tables are in thousands of Azerbaijani manats)

	Notes	2014	2013
Assets			
Cash and cash equivalents	6	139,535	94,762
Amounts due from credit institutions	7	14,361	15,979
Investment securities available-for-sale		40	40
Loans to customers	8	819,780	617,191
Property and equipment	9	42,819	45,465
Intangible assets	10	20,869	13,431
Deferred income tax assets	11	-	189
Other assets	12	4,806	2,512
Total assets		**1,042,210**	**789,569**
Liabilities			
Amounts due to credit institutions	13	2,003	27,185
Amounts due to customers	14	336,782	261,161
Debt securities issued	15	59,686	10,013
Borrowed funds from international lenders	16	456,666	348,240
Current income tax liabilities		4,744	4,525
Deferred income tax liabilities	11	541	-
Other liabilities	12	20,386	16,234
Subordinated loans	17	15,993	8,076
Total liabilities		**896,801**	**675,434**
Equity	18		
Share capital		85,000	85,000
Retained earnings		60,409	29,135
Total equity		**145,409**	**114,135**
Total liabilities and equity		**1,042,210**	**789,569**

Signed and authorized for release on behalf of the Management Board of the Bank

Michael Hoffmann — Chairman of the Management Board

Elshan Hajiyev — Executive Director of Finance Control

30 March 2015

The accompanying notes on pages 5 to 35 are an integral part of these financial statement

Statement of profit or loss and other comprehensive income

For the year ended 31 December 2014

(Figures in tables are in thousands of Azerbaijani manats)

	Notes	2014	2013
Interest income			
Loans to customers		169,636	127,809
Cash and cash equivalents		142	104
Amounts due from credit institutions		35	31
		169,813	**127,944**
Interest expense			
Amounts due to customers		(24,071)	(16,315)
Borrowed funds from international lenders		(23,811)	(16,587)
Debt securities issued		(1,884)	(13)
Subordinated loans		(1,213)	(918)
Amounts due to credit institutions		(726)	(536)
		(51,705)	**(34,369)**
Net interest income		**118,108**	**93,575**
Reversal of allowance / (allowance for loan impairment)	8	3,515	(3,882)
Net interest income after allowance for loan impairment		**121,623**	**89,693**
Net fee and commission income	20	9,158	7,333
Net gains/(losses) from foreign currency operations:			
- foreign exchange transactions		902	691
- translation differences		(15)	(37)
Other income		805	837
Non-interest income		**10,850**	**8,824**
Personnel expenses	21	(51,027)	(39,560)
General and administrative expenses	21	(19,363)	(18,440)
Depreciation and amortization	9,10	(7,159)	(5,855)
Other impairment		(713)	(283)
Other operating expenses		**(78,262)**	**(64,138)**
Profit before income tax expense		**54,211**	**34,379**
Income tax expense	11	(11,171)	(7,157)
Profit for the year		**43,040**	**27,222**
Other comprehensive income for the year		–	–
Total comprehensive income for the year		**43,040**	**27,222**

Statement of changes in equity

For the year ended 31 December 2014

(Figures in tables are in thousands of Azerbaijani manats)

	Share capital	*Retained earnings*	*Total equity*
31 December 2012	**85,000**	**9,763**	**94,763**
Profit for the year	–	27,222	**27,222**
Total comprehensive income for the year	**–**	**27,222**	**27,222**
Dividends declared (Note 18)	–	(7,850)	**(7,850)**
31 December 2013	**85,000**	**29,135**	**114,135**
Profit for the year	–	43,040	**43,040**
Total comprehensive income for the year	**–**	**43,040**	**43,040**
Dividends declared (Note 18)	–	(11,766)	**(11,766)**
31 December 2014	**85,000**	**60,409**	**145,409**

The accompanying notes on pages 5 to 35 are an integral part of these financial statement

Statement of cash flows

For the year ended 31 December 2014

(Figures in tables are in thousands of Azerbaijani manats)

	Notes	2014	2013
Cash flows from operating activities			
Interest received		164,904	127,669
Interest paid		(48,462)	(29,949)
Fees and commissions received		10,334	8,254
Fees and commissions paid		(1,176)	(921)
Realized gains less losses from exchange transactions in foreign currencies		902	691
Other income received		805	837
Personnel expenses paid		(52,330)	(36,538)
Other operating expenses paid		(19,010)	(17,742)
Cash flows from operating activities before changes in operating assets and liabilities		**55,967**	**52,301**
Net (increase)/decrease in operating assets			
Amounts due from credit institutions		1,611	(5,301)
Loans to customers		(194,159)	(216,806)
Other assets		(1,216)	3,630
Net increase/(decrease) in operating liabilities			
Amounts due to credit institutions		(25,123)	27,123
Amounts due to customers		74,142	89,591
Other liabilities		579	(125)
Net cash used in operating activities before income tax		**(88,199)**	**(49,587)**
Income tax paid		(10,222)	(4,721)
Net cash used in operating activities		**(98,421)**	**(54,308)**
Cash flows from investing activities			
Purchase of property and equipment		(4,712)	(15,178)
Proceeds from sale of property and equipment		713	-
Acquisition of intangible assets		(9,136)	(6,434)
Net cash used in investing activities		**(13,135)**	**(21,612)**
Cash flows from financing activities			
Proceeds from bonds issued		59,714	10,000
Redemption of bonds issued		(10,000)	-
Proceeds from borrowed funds from international lenders		197,122	168,676
Repayment of borrowed funds from international lenders		(90,320)	(52,276)
Proceeds from issuance of subordinated loans		15,688	-
Repayment of subordinated loans		(8,010)	-
Dividends paid	18	(7,850)	(6,400)
Net cash from financing activities		**156,344**	**120,000**
Effect of exchange rates changes on cash and cash equivalents		(15)	(37)
Net increase in cash and cash equivalents		**44,773**	**44,043**
Cash and cash equivalents, beginning		**94,762**	**50,719**
Cash and cash equivalents, ending	6	**139,535**	**94,762**

The accompanying notes on pages 5 to 35 are an integral part of these financial statement

(Figures in tables are in thousands of Azerbaijani manats)

1. Principal activities

AccessBank Closed Joint Stock Company (the "Bank") was incorporated in the Republic of Azerbaijan on 5 September 2002. The Bank is regulated by the Central Bank of the Republic of Azerbaijan (the "CBAR") and conducts its business under license number 245.

The Bank's principal business activity is commercial banking operations within the Republic of Azerbaijan, with a focus on serving micro and small business customers.

The Bank participates in the state deposit insurance scheme, which was introduced by the Azerbaijani Law, "Deposits of individuals insurance in Azerbaijan Republic" dated 29 December 2006. The State Deposit Insurance Fund guarantees full repayment of deposits of individuals in the amount up to AZN 30 thousand per client subject to other conditions.

The Bank has forty three branches within the Republic of Azerbaijan as at 31 December 2014 (31 December 2013: forty one branches).

The Bank's registered address is 3 Tbilisi Avenue, Baku, AZ1065, Azerbaijan.

As at 31 December 2014 and 2013, the following shareholders owned the outstanding ordinary shares of the Bank:

Shareholders	%
IFC (International Finance Corporation)	20.00
EBRD (European Bank for Reconstruction and Development)	20.00
KFW (Kreditanstalt für Wiederaufbau)	20.00
BSTDB (Black Sea Trade and Development Bank)	20.00
Access Microfinance Holding AG	16.53
LFS Financial Systems GmbH	3.47
Total	**100.00**

2. Basis of preparation

General

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The Azerbaijani manat ("AZN") is the functional and presentation currency of the Bank as the majority of transactions are denominated, measured, or funded in AZN. Transactions in other currencies are treated as transactions in foreign currencies. The Bank is required to maintain its records and prepare its financial statements in AZN and in accordance with IFRS. The financial statements are presented in thousands of AZN except when otherwise indicated.

The financial statements have been prepared under the historical cost convention except for investment securities available-for-sale which have been measured at fair value.

3. Summary of accounting policies

Changes in accounting policies

The Bank has adopted the following amended IFRS which are effective for annual periods beginning on or after 1 January 2014:

IAS 32 Offsetting Financial Assets and Financial Liabilities – amendments to IAS 32

These amendments clarify the meaning of "currently has a legally enforceable right to set-off" and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting. These amendments had no impact on the Bank's financial position.

IFRIC Interpretation 21 Levies (IFRIC 21)

IFRIC 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. This IFRIC had no impact on the Bank's financial statements as it has applied the recognition principles under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* consistent with the requirements of IFRIC 21 in prior years.

3. Summary of accounting policies (continued)

Changes in accounting policies (continued)

Recoverable Amount Disclosures for Non-Financial Assets – amendments to IAS 36

These amendments remove the unintended consequences of IFRS 13 *Fair Value Measurement* on the disclosures required under IAS 36 *Impairment of Assets*. In addition, these amendments require disclosure of the recoverable amounts for the assets or cash-generating units (CGUs) for which an impairment loss has been recognised or reversed during the period. These amendments had no impact on the Bank's financial position or performance.

Fair value measurement

The Bank measures available-for-sale securities at fair value at each balance sheet date. Also, fair values of financial instruments measured at amortised cost are disclosed in Note 23.

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. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Bank. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

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 recognized 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.

Financial assets

Initial recognition

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. The Bank determines the classification of its financial assets upon initial recognition, and subsequently can reclassify financial assets in certain cases as described below.

Date of recognition

All regular way purchases and sales of financial assets are recognised on the trade date i.e. the date that the Bank commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss

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 recognised in profit or loss.

(Figures in tables are in thousands of Azerbaijani manats)

3. Summary of accounting policies (continued)

Financial assets (continued)

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Bank has the positive intention and ability to hold them to maturity. Investments intended to be held for an undefined period are not included in this classification. Held-to-maturity investments are subsequently measured at amortised cost. Gains and losses are recognised in profit or loss when the investments are impaired, as well as through the amortisation process.

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. Gains and losses are recognized in profit or loss 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 the statement of profit or loss. However, interest calculated using the effective interest method is recognized in profit or loss.

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 or loss is not reversed. The fair value of the financial asset on the date of reclassification becomes its new cost or amortized cost, as applicable.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, amounts due from the CBAR, excluding obligatory reserves, and amounts due from credit institutions that mature within ninety days of the date of origination and are free from contractual encumbrances.

Borrowings

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity instruments. Such instruments include amounts due to credit institutions, amounts due to customers, borrowed funds from international lenders and debt securities issued. After initial recognition, borrowings are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in profit or loss when the borrowings are derecognized as well as through the amortization process.

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 recognised in profit or loss.

3. Summary of accounting policies (continued)

Leases

i. Operating – Bank as lessee

Leases of assets under which the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Lease payments under an operating lease are recognized as expenses on a straight-line basis over the lease term and included into other operating expenses.

ii. Operating – Bank as lessor

The Bank presents assets subject to operating leases in the statement of financial position according to the nature of the asset. Lease income from operating leases is recognized in the statement of profit or loss and other comprehensive income on a straight-line basis over the lease term. The aggregate cost of incentives provided to lessees is recognized as a reduction of rental income over the lease term on a straight-line basis. Initial direct costs incurred specifically to earn revenues from an operating lease are added to the carrying amount of the leased asset.

Measurement of financial instruments at initial recognition

When financial instruments are recognized initially, they are measured at fair value, adjusted, in the case of instruments not at fair value through profit or loss, for directly attributable fees and costs.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price. If the Bank determines that the fair value at initial recognition differs from the transaction price, then:

- if the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e., a Level 1 input) or based on a valuation technique that uses only data from observable markets, the Bank recognizes the difference between the fair value at initial recognition and the transaction price as a gain or loss;
- in all other cases, the initial measurement of the financial instrument is adjusted to defer the difference between the fair value at initial recognition and the transaction price. After initial recognition, the Bank recognizes that deferred difference as a gain or loss only when the inputs become observable, or when the instrument is derecognized.

Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. The right of set-off must not be contingent on a future event and must be legally enforceable in all of the following circumstances:

- the normal course of business;
- the event of default; and
- the event of insolvency or bankruptcy of the entity and all of the counterparties.

These conditions are not generally met in master netting agreements, and the related assets and liabilities are presented gross in the statement of financial position.

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.

3. Summary of accounting policies (continued)

Impairment of financial assets (continued)

Amounts due from credit institutions and loans to customers

For amounts due from credit institutions and loans to customers carried at amortized cost, the Bank first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risks characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

If there is an objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in profit or loss. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Bank. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the statement of profit or loss and other comprehensive income.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Bank's internal credit grading system that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group.

Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the years on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the group or their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

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 coast and the current fair value, less any impairment loss on that investment previously recognized in profit or loss – is reclassified from other comprehensive income to the statement of profit or loss. Impairment losses on equity investments are not reversed through the statement of profit or loss; 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 the statement of profit or loss and other comprehensive income. 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 the statement of profit or loss and other comprehensive income, the impairment loss is reversed through the statement of comprehensive income.

(Figures in tables are in thousands of Azerbaijani manats)

3. Summary of accounting policies (continued)

Impairment of financial assets (continued)

Restructured 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. The accounting treatment of such restructuring is as follows:

- If the loan restructuring is due to the financial difficulties of the borrower and the loan is impaired after restructuring, the Bank recognizes the difference between the present values of the new cash flows discounted using the original effective interest rate and the carrying amount before restructuring in the provision charges for the period. In case the loan is not impaired after restructuring the Bank recalculates the effective interest rate.

Once, the terms have been restructured, the loan is no longer considered past due. Management continuously reviews restructured 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.

Renegotiated loans

In case the restructuring of a loan is not caused by financial difficulties the Bank classifies such loan as renegotiated loan. For renegotiated loans the Bank's applies the following approach:

- If the currency of the loan has been changed the old loan is derecognized and the new loan is recognized;
- Since the loan restructuring is not caused by the financial difficulties of the borrower the Bank uses the same approach as for financial liabilities.

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized where:

- the rights to receive cash flows from the asset have expired;
- the Bank has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; and
- the Bank either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Bank has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Bank's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Bank's continuing involvement is the amount of the transferred asset that the Bank may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Bank's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the statement of profit or loss and other comprehensive income.

(Figures in tables are in thousands of Azerbaijani manats)

3. Summary of accounting policies (continued)

Financial guarantees

In the ordinary course of business, the Bank gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognized in the financial statements at fair value, in "Other liabilities", being the fee received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amortized premium and the best estimate of expenditure required settling any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is taken to the statement of profit or loss and other comprehensive income. The fee received is recognized in the statement of profit or loss and other comprehensive income on a straight-line basis over the life of the guarantee.

Taxation

The current income tax expense is calculated in accordance with the regulations of the Republic of Azerbaijan.

Deferred tax assets and liabilities are calculated in respect of temporary differences using the liability method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted at the reporting date.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

In addition, there are various operating taxes in Azerbaijan such as VAT, property tax, withholding tax and others which become relevant as a result of the Bank's operations. These taxes are included as a component of general and administrative expenses.

Property and equipment

Property and equipment are carried at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and any accumulated impairment. Such cost includes the cost of replacing part of equipment when that cost is incurred if the recognition criteria are met.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Depreciation of an asset begins when it is available for use. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

	Years
Buildings and leasehold improvements	5-20
Furniture and office equipment	4-5
Computer equipment	4-5
Motor vehicles	4

The asset's residual values, useful lives and methods are reviewed, and adjusted as appropriate, at each financial year-end.

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

(Figures in tables are in thousands of Azerbaijani manats)

3. Summary of accounting policies (continued)

Intangible assets

Intangible assets include computer software and licenses.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic lives of two to eight years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortization periods and methods for intangible assets with indefinite useful lives are reviewed at least at each financial year-end.

Retirement and other employee benefit obligations

The Bank does not have any pension arrangements separate from the State pension system of the Republic of Azerbaijan, which requires current contributions by the employer calculated as a percentage of current gross salary payments; such expense is charged in the period the related salaries are earned. In addition, the Bank does not provide post-retirement benefits to its employees.

Share capital

Share capital

Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity.

Dividends

Dividends are recognized as a liability and deducted from equity at the reporting date only if they are declared before or on the reporting date. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the financial statements are authorized for issue.

Segment reporting

The Bank's segmental reporting is based on the following operating segments: (i) Micro, (ii) SME (Small and Medium Enterprises) and (iii) Retail and Services.

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.

Recognition of income and expenses

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized:

Interest and similar income and expense

For all financial instruments measured at amortized cost and interest bearing securities classified as trading or available-for-sale, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense. Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognized using the original effective interest rate applied to the new carrying amount.

(Figures in tables are in thousands of Azerbaijani manats)

3. Summary of accounting policies (continued)

Recognition of income and expenses (continued)

Fee and commission income

The Bank earns fee and commission income from a diverse range of services it provides to its customers. These fees include commission income for provision of the following services: cash withdrawals, settlement operations, insurance agency activities, fees charged for transactions with plastic cards and etc. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognized as an adjustment to the effective interest rate on the loan.

Foreign currency translation

Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognized in the statement of profit or loss as net gain/(losses) from foreign currencies – translation differences. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Differences between the contractual exchange rate of a transaction in a foreign currency and the CBAR exchange rate on the date of the transaction are included in net gain/(losses) from foreign currency transactions.

The official CBAR exchange rates at 31 December 2014 and 31 December 2013 were as follows:

	31 December 2014	*31 December 2013*
USD/AZN	0.7844	0.7845
EUR/AZN	0.9522	1.0780

Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Bank's financial statements are disclosed below:

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments* which reflects all phases of the financial instruments project and replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of IFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before 1 February 2015. The adoption of IFRS 9 will have an effect on the classification and measurement of the Bank's financial assets, but no impact on the classification and measurement of the Bank's financial liabilities.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Revenue arising from lease contracts within the scope of IAS 17 *Leases*, insurance contracts within the scope of IFRS 4 *Insurance Contracts* and financial instruments and other contractual rights and obligations within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* (or IFRS 9 *Financial Instruments*, if early adopted) is out of IFRS 15 scope and is dealt by respective standards.

Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognizing revenue.

The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2017 with early adoption permitted. The Bank is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date.

(Figures in tables are in thousands of Azerbaijani manats)

3. Summary of accounting policies (continued)

Standards issued but not yet effective (continued)

Annual improvements 2010-2012 Cycle

These improvements are effective from 1 July 2014 and are not expected to have a material impact on the Bank. They include:

IFRS 8 Operating Segments

The amendments are applied retrospectively and clarifies that:

- An entity must disclose the judgments made by management in applying the aggregation criteria in paragraph 12 of IFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar';
- The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

IAS 24 Related Party Disclosures

The amendment is applied retrospectively and clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services.

Annual improvements 2011-2013 Cycle

These improvements are effective from 1 July 2014 and are not expected to have a material impact on the Bank. They include:

IFRS 13 Fair Value Measurement

The amendment is applied prospectively and clarifies that the portfolio exception in IFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IFRS 9 (or IAS 39, as applicable).

The Bank intends to adopt these standards, if applicable, when they become effective.

4. Significant accounting judgments and estimates

In the process of applying the Bank's accounting policies, management has made the following judgments, apart from those involving estimates, which have the most significant effect on the amounts recognized in the financial statements:

Allowance for loan impairment

The Bank regularly reviews its loans and receivables to assess impairment. The Bank uses its own credit risk model, which is based on an advanced probability of default methodology, for loan loss provisioning. 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 and receivables.

The previously applied methodology for determining the allowance for impairment on loans to customers was mainly based on a combination of statistical and non-statistical information and expert judgement. The change to a more advanced model methodology led to a reversal of allowance for loan impairment in the statement of profit or loss and other comprehensive income of AZN 4,869 thousand.

Management monitors market value of collateral on a regular basis. Management uses its experienced judgment and independent source to adjust the fair value to reflect the current circumstances. The amount and collateral required depend on the assessment of credit risk of the counterparty.

See Note 8 for more detailed information with respect to the allowance for impairment of loans to customers.

(Figures in tables are in thousands of Azerbaijani manats)

5. Segment information

The operating segments have been determined by the Management Board as follows:

- Micro loans – all loans in the amount up to USD 20 thousand (AZN 16 thousand) and partially the loans in the amount between USD 20 thousand and USD 30 thousand (AZN 16 thousand and AZN 24 thousand) issued to entrepreneurs and farmers;
- SME loans – partially the loans in the amount between USD 20 thousand and USD 30 thousand (AZN 16 thousand and AZN 24 thousand) and all loans in the amount in excess of USD 30 thousand (AZN 24 thousand) issued to entrepreneurs and Small and Medium Enterprises for corporate purposes;
- Retail and services – the segment include retail loans – consumer loans and credit cards issued to individuals, mortgage loans – mortgage loans issued to individuals and staff loans – loans issued to employees of the Bank.

The Management Board assesses the performance of the operating segments based on a measure of adjusted profit before income tax. This measurement basis excludes the effect of certain expenses from the operating segments as disclosed in the table below. Other information provided to the Management Board is measured in a manner consistent with that in these financial statements. Interest expense was allocated according to the size of the operating segments.

Unallocated items are managed at the Bank level and are not allocated to the segments for management and/or reporting purposes.

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Bank's total revenue in 2014 or 2013.

The following tables present income and profit and certain asset and liability information regarding the Bank's operating segments.

2014	*Micro loans*	*SME loans*	*Retail and Services*	*Unallocated*	*Total*
Revenue					
Third party					
Interest income	95,373	50,004	24,259	177	**169,813**
Fee and commission income	3,555	1,864	4,915	–	**10,334**
Reversal of allowance / (allowance for loan impairment)	3,147	(889)	1,257	–	**3,515**
Net gains from – foreign exchange transactions	–	–	902	–	**902**
Other income	388	203	99	115	**805**
Total revenue	**102,463**	**51,182**	**31,432**	**292**	**185,369**
Interest expense	(22,298)	(21,448)	(7,233)	(726)	**(51,705)**
Fee and commission expense	(175)	(168)	(833)	–	**(1,176)**
Net losses from foreign exchange transactions – translation differences	–	–	–	(15)	**(15)**
Personnel expenses	–	–	–	(51,027)	**(51,027)**
General and administrative expenses	–	–	–	(19,363)	**(19,363)**
Depreciation and amortization	–	–	–	(7,159)	**(7,159)**
Other impairment	–	–	–	(713)	**(713)**
Segment results	**79,990**	**29,566**	**23,366**	**(78,711)**	**54,211**
Segment assets	358,564	344,905	116,311	–	819,780

(Figures in tables are in thousands of Azerbaijani manats)

5. Segment information (continued)

2013	*Micro loans*	*SME loans*	*Retail and Services*	*Unallocated*	*Total*
Revenue					
Third party					
Interest income	74,733	34,355	18,721	135	**127,944**
Fee and commission income	3,135	1,441	3,678	–	**8,254**
Net gains from – foreign exchange transactions	–	–	691	–	**691**
Other income	326	150	82	279	**837**
Total revenue	**78,194**	**35,946**	**23,172**	**414**	**137,726**
Interest expense	(15,055)	(13,951)	(4,828)	(535)	**(34,369)**
Fee and commission expense	(169)	(157)	(595)	–	**(921)**
Allowance for loan impairment	(1,608)	(1,258)	(1,016)	–	**(3,882)**
Net losses from foreign exchange transactions – translation differences	–	–	–	(37)	**(37)**
Personnel expenses	–	–	–	(39,560)	**(39,560)**
General and administrative expenses	–	–	–	(18,440)	**(18,440)**
Depreciation and amortization	–	–	–	(5,855)	**(5,855)**
Other impairment	–	–	–	(283)	**(283)**
Segment results	**61,362**	**20,580**	**16,733**	**(64,296)**	**34,379**
Segment assets	274,634	254,486	88,071	–	617,191

Geographic information

The Bank's revenues from third party customers for the years ended 31 December 2014 and 31 December 2013 are generated in the Republic of Azerbaijan.

6. Cash and cash equivalents

Cash and cash equivalents comprise:

	2014	*2013*
Cash on hand	44,698	27,099
Current accounts with the CBAR	39,552	20,507
Current accounts with other banks	55,285	47,156
Cash and cash equivalents	**139,535**	**94,762**

Current accounts with other banks consist of correspondent account balances with resident and non-resident banks in the amount of AZN 1,801 thousand (2013 – AZN 17,435 thousand) and AZN 53,484 thousand (2013 – AZN 29,721 thousand), respectively.

7. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	2014	*2013*
Obligatory reserve with the CBAR	14,361	15,619
Loans to banks	–	360
Amounts due from credit institutions	**14,361**	**15,979**

Credit institutions are required to maintain a non-interest earning cash deposit (obligatory reserve) with the CBAR at 2% (2013 – 3%) of the previous month average of attracted funds by the credit institution in local and foreign currency, respectively. The Bank's ability to withdraw such deposit is restricted by statutory legislation.

(Figures in tables are in thousands of Azerbaijani manats)

8. Loans to customers

Loans to customers comprise:

	2014	*2013*
Micro loans	361,329	280,515
SME loans	350,771	259,935
Retail loans	74,527	62,068
Mortgage loans	29,586	17,423
Staff loans	12,707	10,465
Gross loans to customers	**828,920**	**630,406**
Less: allowance for impairment	(9,140)	(13,215)
Loans to customers	**819,780**	**617,191**

As at 31 December 2014, out of the above loans 56.5% (2013 – 56.0%) are denominated in foreign currencies which the Bank has fully funded by customer deposits, debt securities issued, borrowed funds from international lenders and subordinated loans in foreign currency.

Allowance for impairment of loans to customers

A reconciliation of the allowance for impairment of loans to customers by class is as follows:

	Micro loans	*SME loans*	*Retail loans*	*Mortgage loans*	*Staff loans*	*Total*
At 1 January 2014	**5,881**	**5,449**	**1,301**	**365**	**219**	**13,215**
(Reversal) / Charge for the year	(3,147)	889	(954)	(139)	(164)	(3,515)
Recoveries	505	482	79	–	–	1,066
Amounts written off	(474)	(954)	(101)	(97)	–	(1,626)
At 31 December 2014	**2,765**	**5,866**	**325**	**129**	**55**	**9,140**
Individual impairment	–	–	–	–	–	–
Collective impairment	2,765	5,866	325	129	55	9,140
	2,765	**5,866**	**325**	**129**	**55**	**9,140**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**–**	**–**	**–**	**–**	**–**	**–**

	Micro loans	*SME loans*	*Retail loans*	*Mortgage loans*	*Staff loans*	*Total*
At 1 January 2013	**4,586**	**4,949**	**595**	**120**	**141**	**10,391**
Charge for the year	1,608	1,258	693	245	78	3,882
Recoveries	218	349	20	–	–	587
Amounts written off	(531)	(1,107)	(7)	–	–	(1,645)
At 31 December 2013	**5,881**	**5,449**	**1,301**	**365**	**219**	**13,215**
Individual impairment	–	238	–	10	–	**248**
Collective impairment	5,881	5,211	1,301	355	219	**12,967**
	5,881	**5,449**	**1,301**	**365**	**219**	**13,215**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**–**	**995**	**–**	**102**	**–**	**1,097**

Individually impaired loans

Interest income accrued on loans, for which individual impairment allowances have been recognized, for the year ended 31 December 2014, comprised nil (2013 – AZN 133 thousand).

In accordance with the CBAR requirements, loans may only be written off with the approval of the Board of Directors and, in certain cases, with the respective decision of the Court.

(Figures in tables are in thousands of Azerbaijani manats)

8. Loans to customers (continued)

Collateral and other credit enhancements

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

The main types of collateral obtained are as follows:

- For micro loans, cash, charges over real estate properties, inventory, vehicles and third party guarantees;
- For SME loans, cash, charges over real estate properties, inventory and vehicles;
- For retail loans, cash, charges over credited consumer appliances, vehicles, mortgages over residential properties and third party guarantees;
- For mortgage loans, mortgages over residential properties;
- For staff loans, cash, vehicles and mortgages over residential properties.

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

Concentration of loans to customers

As at 31 December 2014, the Bank had a concentration of loans represented by AZN 61,598 thousand due from the twenty (2013 – twenty) largest third party borrowers (7% of gross loan portfolio) (2013 – AZN 48,577 thousand or 8% of gross loan portfolio). An allowance of AZN 2,514 thousand (2013 – AZN 967 thousand) was recognized against these loans.

Loans are made principally within Azerbaijan in the following industry sectors (amounts are presented prior to allowance):

	2014	*2013*
Trade	311,720	242,097
Services	189,202	143,900
Agriculture	147,915	105,716
Household	118,667	89,984
Manufacturing	43,159	34,283
Transportation	18,257	14,426
	828,920	**630,406**

9. Property and equipment

The movements in property and equipment were as follows:

	Buildings & leasehold improvements	*Furniture and office equipment*	*Computer equipment*	*Motor vehicles*	*Total*
Cost					
31 December 2013	**45,441**	**9,740**	**5,774**	**664**	**61,619**
Additions	1,172	1,355	1,067	286	**3,880**
Disposals	(1,306)	(230)	(136)	(41)	**(1,713)**
31 December 2014	**45,307**	**10,865**	**6,705**	**909**	**63,786**
Accumulated depreciation					
31 December 2013	**(6,735)**	**(5,867)**	**(2,998)**	**(554)**	**[illegible],154)**
Depreciation charge	(2,900)	(1,583)	(1,218)	(97)	**(5,798)**
Disposals	594	214	136	41	**985**
31 December 2014	**(9,041)**	**(7,236)**	**(4,080)**	**(610)**	**(20,967)**
Net book value					
31 December 2013	**38,706**	**3,873**	**2,776**	**110**	**45,465**
31 December 2014	**36,266**	**3,629**	**2,625**	**299**	**42,819**

(Figures in tables are in thousands of Azerbaijani manats)

9. Property and equipment (continued)

	Buildings & leasehold improvements	*Furniture and office equipment*	*Computer equipment*	*Motor vehicles*	*Total*
Cost					
31 December 2012	35,697	7,342	5,017	664	48,720
Additions	9,744	2,542	855	–	13,141
Disposals	–	(144)	(98)	–	(242)
31 December 2013	45,441	9,740	5,774	664	61,619
Accumulated depreciation					
31 December 2012	(4,369)	(4,611)	(1,971)	(463)	(11,414)
Depreciation charge	(2,366)	(1,385)	(1,125)	(91)	(4,967)
Disposals	–	129	98	–	227
31 December 2013	(6,735)	(5,867)	(2,998)	(554)	(16,154)
Net book value					
31 December 2012	31,328	2,731	3,046	201	37,306
31 December 2013	38,706	3,873	2,776	110	45,465

10. Intangible assets

The movements in intangible assets were as follows:

	Licenses	*Computer software*	*Total*
Cost			
31 December 2013	4,103	12,258	16,361
Additions	3,229	5,570	8,799
Disposals	(85)	(175)	(260)
31 December 2014	7,247	17,653	24,900
Accumulated amortization			
31 December 2013	(819)	(2,111)	(2,930)
Amortization charge	(696)	(665)	(1,361)
Disposals	85	175	260
31 December 2014	(1,430)	(2,601)	(4,031)
Net book value			
31 December 2013	3,284	10,147	13,431
31 December 2014	5,817	15,052	20,869

	Licenses	*Computer software*	*Total*
Cost			
31 December 2012	3,348	6,579	9,927
Additions	755	5,679	6,434
31 December 2013	4,103	12,258	16,361
Accumulated amortization			
31 December 2012	(488)	(1,554)	(2,042)
Amortization charge	(331)	(557)	(888)
31 December 2013	(819)	(2,111)	(2,930)
Net book value			
31 December 2012	2,860	5,025	7,885
31 December 2013	3,284	10,147	13,431

(Figures in tables are in thousands of Azerbaijani manats)

10. Intangible assets (continued)

In 2014, the amount related to implementing and putting into operation the new T24 banking software was AZN 18,872 thousands. As at 31 December 2013, the balance related to the development of the new T24 banking software which was not put into operations in that year amounted to AZN 11,611 thousands.

11. Taxation

The corporate income tax expense comprises:

	2014	*2013*
Current tax charge	(10,441)	(7,780)
Deferred tax (charge)/credit	(730)	623
Income tax expense	**(11,171)**	**(7,157)**

The effective income tax rate differs from the statutory income tax rates. A reconciliation of the income tax expense based on statutory rates with actual is as follows:

	2014	*2013*
Profit before tax	**54,211**	**34,379**
Statutory tax rate	20%	20%
Theoretical income tax expense at the statutory rate	**(10,842)**	**(6,876)**
Tax effect of non-deductible expenses	(329)	(281)
Income tax expense	**(11,171)**	**(7,157)**

Deferred tax assets and liabilities as of 31 December and their movements for the respective years comprise:

	2012	*Origination and reversal of temporary differences in statement of profit or loss and other comprehensive income*	*2013*	*Origination and reversal of temporary differences in statement of profit or loss and other comprehensive income*	*2014*
Tax effect of deductible temporary differences					
Other liabilities	41	590	631	(233)	398
Deferred tax asset	**41**	**590**	**631**	**(233)**	**398**
Tax effect of taxable temporary differences					
Cash and cash equivalent	–	–	–	(111)	(111)
Loans to customers	44	(147)	(103)	(409)	(512)
Property and equipment	(519)	180	(339)	23	(316)
Deferred tax liability	**(475)**	**33**	**(442)**	**(497)**	**(939)**
Net deferred tax asset/(liability)	**(434)**	**623**	**189**	**(730)**	**(541)**

(Figures in tables are in thousands of Azerbaijani manats)

12. Other assets and liabilities

Other assets comprise:

	2014	*2013*
Other financial assets		
Settlements on money transfers and plastic cards	1,010	277
Cash blocked by Visa Card	176	199
Other	13	12
	1,199	**488**
Other non-financial assets		
Prepayments for acquisition of property, equipment and intangible assets	2,057	873
Deferred expenses	365	405
Prepayments for operating lease agreements	286	257
Other prepayments	77	52
Other	822	437
	3,607	**2,024**
Other assets	**4,806**	**2,512**

Other liabilities comprise:

	2014	*2013*
Other financial liabilities		
Dividends payable (Note 18)	11,766	7,850
Settlements on money transfer	617	331
Payables for professional services	215	598
Other	276	85
	12,874	**8,864**
Other non-financial liabilities		
Payable to employees	5,954	7,200
Taxes, other than income tax	954	138
Other	604	32
	7,512	**7,370**
Other liabilities	**20,386**	**16,234**

13. Amounts due to credit institutions

Amounts due to credit institutions comprise:

	2014	*2013*
Term deposit	2,003	2,001
Short term loans from banks	–	25,184
Amounts due to credit institutions	**2,003**	**27,185**

As at 31 December 2014, the term deposit represents a deposit placed by one resident bank.

At 31 December 2013, the Bank had short-term loans from one non-resident and four resident banks amounting to AZN 20,704 thousand and AZN 4,480 thousand, respectively, maturing until 18 February 2014.

14. Amounts due to customers

The amounts due to customers include the following:

	2014	*2013*
Current accounts	80,017	59,922
Term deposits	256,765	201,239
Amounts due to customers	**336,782**	**261,161**
Held as security against guarantees (Note 19)	**31**	**117**

(Figures in tables are in thousands of Azerbaijani manats)

14. Amounts due to customers (continued)

As at 31 December 2014, customer deposits included balances with the one hundred (2013 – one hundred) largest customers deposits, which comprised AZN 118,067 thousand or 35% of the total customer deposits portfolio (2013 – AZN 102,672 thousand or 39% of the total customer deposits portfolio).

Customer accounts by economic sectors are as follows:

	2014	*2013*
Individuals	264,670	195,939
Insurance companies and other non-bank financial institutions	57,561	52,768
Other	14,551	12,454
Amounts due to customers	**336,782**	**261,161**

15. Debt securities issued

Debt securities issued consisted of the following:

	2014	*2013*
European Commercial Paper (ECP) issued	37,824	–
Domestic bonds issued	21,862	10,013
Debt securities issued	**59,686**	**10,013**

On 15 October 2014, the Bank issued ECP having nominal value of USD 50,000 thousand maturing on 15 October 2015. As at 31 December 2014, nominal amount of the placement comprised USD 48,080 thousand.

As at 31 December 2014, the Bank had issued corporate bonds that are quoted on the Baku Stock Exchange having an aggregate carrying value of AZN 21,862 thousand (2013 – AZN 10,013 thousand) maturing on 18 June 2015 (AZN 9,981 thousand) and 29 December 2015 (AZN 11,881 thousand) (2013 – maturing on 26 December 2014).

16. Borrowed funds from international lenders

Borrowed funds from international lenders consisted of the following:

	2014	*2013*
Syndicated loans	139,890	47,235
Bilateral borrowings	316,776	301,005
Borrowed funds from international lenders	**456,666**	**348,240**

As at 31 December 2014, the Bank had syndicated loans with twenty-three participating commercial banks (2013 – three participating commercial banks) in the aggregate amount of AZN 139,890 thousand (2013 – AZN 47,235 thousand) maturing through 13 March 2015 – 11 July 2019 (2013 – maturing on 11 September 2017).

As at 31 December, 2014 the Bank had other borrowings with twenty-eight financial institutions (2013 – twenty-eight financial institutions) in the aggregate amount of AZN 316,776 thousand (2013 – AZN 301,005 thousand) maturing through 11 May 2015 – 20 December 2019 (2013 – maturing through 7 February 2014 – 24 July 2018).

All the above loans as well as the loans granted in earlier years bear market interest rates.

The Bank is obliged to comply with financial and non-financial covenants stipulated by several of the aforementioned borrowing agreements. As at 31 December 2014 and 2013, the Bank was in compliance with those covenants.

17. Subordinated loans

As at 31 December 2014, the balance of subordinated loans was AZN 15,993 thousand (2013 – AZN 8,076 thousand).

On 30 July 2014 and 29 December 2014, the Bank signed two subordinated loan agreements with two international financial institutions in the amount of USD 10,000 thousand or AZN 7,844 each, which will mature on 1 August 2022 and 29 December 2022 respectively.

(Figures in tables are in thousands of Azerbaijani manats)

17. Subordinated loans (continued)

As at 31 December 2013, subordinated loans were represented by a loan borrowed from an international financial institution of USD 10,200 thousand that was repaid at maturity in 2014.

All the above loans as well as the loans granted in earlier years bear market interest rates.

The subordinated loans rank after all other creditors and depositors of the Bank in case of liquidation. The Bank is obliged to comply with certain covenants stipulated by the aforementioned loan agreements. As at 31 December 2014 and 2013, the Bank was in compliance with these covenants.

18. Equity

As at 31 December 2014 and 2013, the Bank had 20,000 authorized, issued and fully paid ordinary shares with a nominal value of AZN 4.25 thousand per share.

The share capital of the Bank was contributed by the shareholders in AZN and they are entitled to dividends and any capital distribution in AZN.

On 11 September 2013, the General Assembly of Shareholders of the Bank declared dividends totalling AZN 7,850 thousand from the Bank's net profit for the second half of 2012 financial year. The dividends were paid to the shareholders of the Bank on 31 January 2014.

On 9 September 2014, the General Assembly of Shareholders of the Bank declared dividends totalling AZN 11,766 thousand from the Bank's net profit for the 2013 financial year. The dividends were paid to the shareholders of the Bank in January 2015 (Note 27).

19. Commitment and contingencies

Legal

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

Taxation

Azerbaijani tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Bank may be challenged by the relevant authorities. Recent events within Azerbaijan suggest that the tax authorities are taking a more assertive position in its interpretation of the legislation and assessments and, as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. As such, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review.

The Bank provides guarantees to customers with primary purpose of ensuring that funds are available to a customer as required. Guarantees represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties.

As at 31 December 2014 the Bank views its interpretation of the relevant legislation is appropriate and that the Bank's tax and social contribution position will be sustained.

As of 31 December the Bank's commitments and contingencies comprised the following:

	2014	*2013*
Credit related commitments		
Undrawn loan commitments	13,019	8,348
Guarantees	6,877	1,813
Commitments and contingencies (before deducting collateral)	**19,896**	**10,161**
Less: deposits held as security against guarantees (Note 14)	(31)	(117)
Commitments and contingencies	**19,865**	**10,044**

(Figures in tables are in thousands of Azerbaijani manats)

20. Net fee and commission income

Net fee and commission income comprises:

	2014	*2013*
Cash operations	6,962	5,847
Plastic cards	1,903	1,102
Settlements operations	1,044	716
Insurance agency activities	237	489
Documentary operations	149	89
Other	39	11
Fee and commission income	**10,334**	**8,254**
Plastic cards	(567)	(381)
Central Credit Registry fees	(400)	(380)
Settlements operations	(132)	(87)
Cash operations	(60)	(50)
Other	(17)	(23)
Fee and commission expense	**(1,176)**	**(921)**
Net fee and commission income	**9,158**	**7,333**

21. Personnel, general and administrative expenses

Personnel expenses comprise:

	2014	*2013*
Salaries	(32,793)	(25,872)
Endowment Life Insurance costs	(10,152)	(7,279)
Social security costs	(7,367)	(5,713)
Other employee related expenses	(715)	(696)
Personnel expenses	**(51,027)**	**(39,560)**

General and administrative expenses comprise:

	2014	*2013*
Advertising and marketing expenses	(4,337)	(4,013)
Stationery and office supplies	(2,541)	(2,524)
Consultancy and other professional fees	(2,245)	(2,200)
Communications	(1,699)	(1,203)
Occupancy and rent	(1,651)	(1,760)
Data processing	(1,438)	(1,503)
Security services	(1,253)	(977)
Repair and maintenance	(1,136)	(1,799)
Business travel expense	(714)	(718)
Utilities	(512)	(419)
Taxes, other than income tax	(402)	(365)
Entertainment	(174)	(155)
Other	(1,261)	(804)
Total general and administrative expenses	**(19,363)**	**(18,440)**

22. Risk management

Introduction

The Bank is exposed to financial and operational risks. Risk exposure is integral to the Bank's business. The Bank's risk management function's aim is to achieve an appropriate balance between risk and return and to minimise potential adverse effects on the Bank's financial performance.

(*Figures in tables are in thousands of Azerbaijani manats*)

22. Risk management (continued)

Introduction (continued)

Risk Management Framework. The Management Board is the primary body responsible for the risk management function in the Bank. The risk management function is carried out in respect of financial risks and operational risks. Financial risk comprises market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The primary objectives of the financial risk management function of the Management Board are (i) determining and assessing the specific risks of the Bank's activity, (ii) establishing risk limits and (iii) ensuring that the exposures stay within these limits. The Management Board is also responsible for ensuring an appropriate balance between risk and return, whilst minimizing any potential adverse effects on the Bank's financial performance. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures to minimise operational and legal risks.

The Bank's risk management methodology, policies and assessment procedures are designed to identify, analyze, mitigate and manage the risks faced by the Bank. This is accomplished through setting of appropriate risk limits and controls, whilst ensuring suitable monitoring of risk levels and compliance with the limits and procedures on an ongoing basis. The risk management policies and procedures are reviewed regularly to reflect changes in market conditions, and new products and services offered. This is to ensure that "best practices" are implemented in the Bank.

Risk Management Bodies and Governance. Risk management policies and processes around the assessment, approval, monitoring and control of risks are performed by a number of specialized bodies within the Bank, including committees and departments which comply with the requirement of the respective Azerbaijani laws, the CBAR regulations and industry best practices.

The Supervisory Board has overall responsibility for the oversight of the risk management framework. This includes the management of key risks, along with the review and approval of risk management policies and key risk limits such as large exposures, economic and product sector limits. It also delegates certain risk supervision authority levels to the Management Board, the Risk Management Committee, the Credit Committee, and the Asset and Liability Committee ("ALCO").

Overall roles and responsibilities for the risk management framework are shown below:

Responsibility area	*Decision-making body*	*Executive Management*
Preparation of policies and procedures in risk management	Management Board Risk Committee	Risk Department
Market and liquidity risk	Risk Committee, ALCO	Finance/Treasury
Credit, country, concentration risk	Risk Committee	Credit Department
Operational risks	Management Board	Management Board
Strategic and organizational risk	Supervisory Board	Management Board

Credit risk

Credit risk is the risk that the Bank will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations. The Bank identifies, measures, monitors and controls the risk inherent in individual credits or transactions as well as the risk of the entire portfolio. The Bank sets limits on the amount of risk it is willing to accept for individual counterparties and for sector, region, industry and product concentrations and by monitoring exposures in relation to such limits.

The Bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. The credit quality review process allows the Bank to assess the potential loss as a result of the risks to which it is exposed, to take corrective action and to provide adequate capital against credit risk incurred.

Credit-related commitments risks

The Bank offers guarantees to its customers which may require that the Bank make payments on their behalf. Such payments are collected from customers based on the terms of the letter of credit. They expose the Bank to risks similar to loans and these are mitigated by the same control processes and policies.

The maximum exposure to credit risk for the components of the statement of financial position, before the effect of mitigation through the use of master netting and collateral agreements, is best represented by their carrying amounts.

(Figures in tables are in thousands of Azerbaijani manats)

22. Risk management (continued)

Credit risk (continued)

Credit quality per class of financial assets

The credit quality of financial assets is assessed by the Bank internal credit ratings. The table below shows the credit quality by class of asset for loan-related lines in the statement of financial position, based on the Bank's credit rating system.

In the table below loans to customers of high grade consist of highly collateralized loans (hard collateral above 150% of outstanding loan amounts) which are without overdue days. Other loans with good debt service are included in the standard grade. Sub-standard grade loans consist of restructured loans with no overdue days.

		Neither past due nor impaired			*Past due*		
	Notes	*High grade 2014*	*Standard grade 2014*	*Sub-standard grade 2014*	*but not impaired 2014*	*Individually impaired 2014*	*Total 2014*
Cash and cash equivalents (excluding cash on hand)	6	–	94,837	–	–	–	**94,837**
Amounts due from credit institutions	7	–	14,361	–	–	–	**14,361**
Loans to customers	8						
Micro loans		32,106	324,575	1,724	2,924	–	**361,329**
SME loans		124,606	219,057	2,727	4,381	–	**350,771**
Retail loans		1,512	72,298	28	689	–	**74,527**
Mortgage loans		7,679	21,846	–	61	–	**29,586**
Staff loans		3,927	8,777	–	3	–	**12,707**
Other financial assets	12	–	1,199	–	–	–	**1,199**
Total		**169,830**	**756,950**	**4,479**	**8,058**	**–**	**939,317**

		Neither past due nor impaired			*Past due*		
	Notes	*High grade 2013*	*Standard grade 2013*	*Sub-standard grade 2013*	*but not impaired 2013*	*Individually impaired 2013*	*Total 2013*
Cash and cash equivalents (excluding cash on hand)	6	–	67,663	–	–	–	**67,663**
Amounts due from credit institutions	7	–	15,979	–	–	–	**15,979**
Loans to customers	8						
Micro loans		17,629	260,495	1,313	1,078	–	**280,515**
SME loans		72,314	184,688	1,352	586	995	**259,935**
Retail loans		7,207	54,632	–	229	–	**62,068**
Mortgage loans		3,691	13,630	–	–	102	**17,423**
Staff loans		3,682	6,767	–	16	–	**10,465**
Other financial assets	12	–	488	–	–	–	**488**
Total		**104,523**	**604,342**	**2,665**	**1,909**	**1,097**	**714,536**

An analysis of past due loans, by age, is provided below. The majority of the past due loans are not considered to be impaired.

It is the Bank's policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates focused management of the applicable risks and the comparison of credit exposures across all lines of business, geographic regions and products, the rating system is supported by a variety of financial analytics, combined with processed market information to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Bank's rating policy. The attributable risk ratings are assessed and updated regularly.

(Figures in tables are in thousands of Azerbaijani manats)

22. Risk management (continued)

Credit risk (continued)

Aging analysis of past due but not impaired loans per class of financial assets

As at 31 December 2014	*Less than 30 days*	*31 to 90 days*	*More than 90 days*	*Total*
Loans to customers				
SME loans	175	332	3,874	**4,381**
Micro loans	870	688	1,366	**2,924**
Retail loans	146	187	356	**689**
Mortgage loans	30	31	–	**61**
Staff loans	–	–	3	**3**
Total	**1,221**	**1,238**	**5,599**	**8,058**

As at 31 December 2013	*Less than 30 days*	*31 to 90 days*	*More than 90 days*	*Total*
Loans to customers				
SME loans	191	66	329	**586**
Micro loans	218	180	681	**1,079**
Retail loans	57	62	109	**228**
Mortgage loans	–	–	–	**–**
Staff loans	14	2	–	**16**
Total	**480**	**310**	**1,119**	**1,909**

See Note 8 for more detailed information with respect to the allowance for impairment of loans to customers.

Impairment assessment

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue by more than 90 days or whether there are any known difficulties for repayments by counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Bank addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances.

Individually assessed allowances

The Bank determines the allowances appropriate for each individually significant loan on an individual basis. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected dividend payout should bankruptcy ensue, the availability of other financial support and the realizable value of collateral, and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

Collectively assessed allowances

Allowances are assessed collectively for losses on loans to customers that are not individually significant and for individually significant loans where there is not yet objective evidence of individual impairment. Allowances are evaluated on each reporting date with each portfolio receiving a separate review.

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is no yet objective evidence of the impairment in an individual assessment. Impairment losses are estimated by taking into consideration the following information: historical losses on the portfolio, current economic conditions, the appropriate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance, expected receipts and recoveries once impaired and excess of expected growth in the portfolio. Local management is responsible for deciding the length of this period which can extend for as long as one year. The impairment allowance is then reviewed by credit management to ensure alignment with the Bank's overall policy.

Financial guarantees are assessed and provisions are made in a similar manner as for loans.

(Figures in tables are in thousands of Azerbaijani manats)

22. Risk management (continued)

Credit risk (continued)

The geographical concentration of Bank's financial assets and liabilities is set out below:

	2014				*2013*			
	Azerbaijan	*OECD*	*CIS and other foreign banks*	*Total*	*Azerbaijan*	*OECD*	*CIS and other foreign banks*	*Total*
Assets								
Cash and cash equivalents	86,052	53,355	128	**139,535**	65,041	27,349	2,372	**94,762**
Amounts due from credit institutions	14,361	–	–	**14,361**	15,619	–	360	**15,979**
Investment securities available-for-sale	40	–	–	**40**	40	–	–	**40**
Loans to customers	819,780			**819,780**	617,191	–	–	**617,191**
Other assets	721	240	238	**1,199**	207	220	61	**488**
	920,954	**53,595**	**366**	**974,915**	**698,098**	**27,569**	**2,793**	**728,460**
Liabilities								
Amounts due to credit institutions	2,003	–	–	**2,003**	22,705	–	4,480	**27,185**
Amounts due to customers	336,782	–	–	**336,782**	261,161	–	–	**261,161**
Debt securities issued	21,862	37,824	–	**59,686**	10,013	–	–	**10,013**
Borrowed funds from international lenders	–	397,985	58,681	**456,666**	–	288,780	59,460	**348,240**
Other liabilities	425	12,383	66	**12,874**	388	8,457	19	**8,864**
Subordinated loans	–	15,993	–	**15,993**	–	8,076	–	**8,076**
	361,072	**464,185**	**58,747**	**884,004**	**294,267**	**305,313**	**63,959**	**663,539**
Net assets/(liabilities)	**559,882**	**(410,590)**	**(58,381)**	**90,911**	**403,831**	**(277,744)**	**(61,166)**	**64,921**

Liquidity risk and funding management

Liquidity risk is the risk that the Bank cannot meet its payment obligations when they fall due under normal or stress circumstances. To limit this risk, management has established a broad range of diversified funding sources in addition to its core deposit base. As part of the asset-liability management the Bank monitors and steers its liquidity position based on the expected future cash in- and outflows on a daily basis.

The Bank pursues a policy of keeping at all times a comfortable level of liquid funds mainly in form of cash on accounts with highly rated international banks in OECD countries. Liquid funds are also held on accounts of the CBAR and with several of the most creditworthy local banks. In addition, the Bank maintains with the CBAR a cash deposit (obligatory reserve), the amount of which depends on the level of customer deposits attracted.

The liquidity position is assessed and managed by the Bank primarily on a standalone basis and is monitored against regulatory requirements. A key ratio set up by the CBAR for assessing the liquidity position is the Instant Liquidity Ratio which is defined as the relation of highly liquid assets to liabilities payable on demand. The ratio was 144.1 as at 31 December 2014 (171.4 as at 31 December 2013), whereas the minimum percentage required by the CBAR is 30%.

(Figures in tables are in thousands of Azerbaijani manats)

22. Risk management (continued)

Liquidity risk and funding management (continued)

Analysis of financial liabilities by remaining contractual maturities

The tables below summarize the maturity profile of the Bank's financial liabilities at 31 December based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were given immediately. In accordance with the Azerbaijan legislation, the Bank is obliged to repay the principal amounts of a term deposit upon demand of a depositor. However, in line with its deposit retention history the Bank expects the average deposit tenors to exceed the contractual maturities of its customer deposits that are displayed below.

As at 31 December 2014	*Less than 1 month*	*1 to 6 months*	*6 to 12 months*	*1 to 5 years*	*More than 5 years*	*Total*
Financial liabilities						
Amounts due to credit institutions	–	2,025	–	–	–	**2,025**
Amounts due to customers	96,587	97,936	124,561	32,764	–	**351,848**
Debt securities issued	–	10,990	51,909	–	–	**62,899**
Borrowed funds from international lenders	3,371	114,070	108,877	262,947	–	**489,265**
Other liabilities	12,874	–	–		–	**12,874**
Subordinated loans	–	910	661	5,543	20,352	**27,466**
Total undiscounted financial liabilities	**112,832**	**225,931**	**286,008**	**301,254**	**20,352**	**946,377**

As at 31 December 2013	*Less than 1 month*	*1 to 6 months*	*6 to 12 months*	*1 to 5 years*	*More than 5 years*	*Total*
Financial liabilities						
Amounts due to credit institutions	22,771	4,511	–	–	–	**27,282**
Amounts due to customers	69,380	56,854	85,611	66,814	–	**278,659**
Debt securities issued	–	–	10,903	–	–	**10,903**
Borrowed funds from international lenders	1,786	67,947	53,305	274,032	–	**397,070**
Other liabilities	8,864	–	–	–	–	**8,864**
Subordinated loans	–	447	8,529	–	–	**8,976**
Total undiscounted financial liabilities	**102,801**	**129,759**	**158,348**	**340,846**	–	**731,754**

The table below shows the contractual expiry by maturity of the Bank's financial commitments and contingencies. Each undrawn loan commitment is included in the time band containing the earliest date it can be drawn down. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

	Less than 1 month	*1 to 6 months*	*6 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
2014	13,080	2,431	3,822	549	14	**19,896**
2013	8,513	730	804	–	114	**10,161**

The Bank expects that not all of the contingent liabilities or commitments will be drawn before expiry of the commitments.

The Bank capability to repay its liabilities relies on its ability to realize an equivalent amount of assets within the same period of time.

The maturity analysis does not reflect the historical stability of current accounts. Their liquidation has historically taken place over a longer period than indicated in the tables above. These balances are included in amounts due in less than three months in the tables above.

Included in due to customers are term deposits of individuals. In accordance with the Azerbaijan legislation, the Bank is obliged to repay the principal amounts of such deposits upon demand of a depositor. Refer to Note 14.

(Figures in tables are in thousands of Azerbaijani manats)

22. Risk management (continued)

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates and foreign exchanges. The Bank classifies exposures to market risk into non-trading portfolios. Non-trading positions are managed and monitored using sensitivity analysis. Except for concentrations in foreign currencies, the Bank has no significant concentrations of market risk.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates (e.g. interbank rates such as LIBOR) will affect future cash flows or the fair values of financial instruments. The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Bank's statement of profit or loss and other comprehensive income.

The sensitivity of the statement of profit or loss and other comprehensive income is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held at 31 December.

Currency	*Increase in basis points in % 2014*	*Sensitivity of net interest income 2014*	*Increase in basis points in % 2013*	*Sensitivity of net interest income 2013*
USD	0.02	(27)	0.03	(28)

Currency	*Decrease in basis points in % 2014*	*Sensitivity of net interest income 2014*	*Decrease in basis points in % 2013*	*Sensitivity of net interest income 2013*
USD	(0.02)	27	(0.03)	28

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Management Board has set limits on positions by currency based on the CBAR regulations. Positions are monitored on a daily basis.

The tables below indicate the currencies to which the Bank had significant exposure at 31 December on its non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the manat, with all other variables held constant on the statement of profit or loss and other comprehensive income (due to the fair value of currency sensitive non-trading monetary assets and liabilities). The effect on equity does not differ from the effect on the statement of profit or loss and other comprehensive income. A negative amount in the table reflects a potential net reduction in statement of profit or loss and other comprehensive income or equity, while a positive amount reflects a net potential increase.

Currency	*Increase in currency rate in % 2014*	*Effect on profit before tax 2014*	*Increase in currency rate in % 2013*	*Effect on profit before tax 2013*
USD	35.00	(5,163)	1.37	(114)
EUR	35.00	(1,076)	10.16	(184)

Currency	*Decrease in currency rate in % 2014*	*Effect on profit before tax 2014*	*Decrease in currency rate in % 2013*	*Effect on profit before tax 2013*
USD	(8.74)	1,289	(1.37)	114
EUR	(10.70)	329	(10.16)	184

(Figures in tables are in thousands of Azerbaijani manats)

22. Risk management (continued)

Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Bank cannot expect to eliminate all operational risks, but it has a control framework to manage such risks. Controls include effective segregation of duties, access, authorization and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

Operating environment

Azerbaijan continues economic reforms and development of its legal, tax and regulatory frameworks as required by the market economy. The future stability of the Azerbaijan economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

Considering the significant drop in crude oil prices during the second half of 2014, there continues to be uncertainty regarding economic growth, access to capital and cost of capital, which could negatively affect the Bank's future financial position, results of operations and business prospects. In addition, as described in Note 27, the Azerbaijani Manat has been devalued against major currencies by approximately 34% on 21 February 2015.

While the Bank has taken 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 a manner not currently determinable.

23. Fair value measurement

Fair value hierarchy

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					
Investment securities available-for-sale	31 December 2014	–	–	40	**40**
Assets for which fair values are disclosed					
Cash and cash equivalents	31 December 2014	139,535	–	–	**139,535**
Amounts due from credit institutions	31 December 2014	–	–	14,361	**14,361**
Loans to customers	31 December 2014	–	–	819,780	**819,780**
Liabilities for which fair values are disclosed					
Amounts due to credit institutions	31 December 2014	–	–	2,003	**2,003**
Amounts due to customers	31 December 2014	–	–	336,782	**336,782**
Debt securities issued	31 December 2014	22,122	–	37,823	**59,945**
Borrowed funds from international lenders	31 December 2014	–	–	456,666	**456,666**
Subordinated loans	31 December 2014	–	–	15,993	**15,993**

(Figures in tables are in thousands of Azerbaijani manats)

23. Fair value measurement (continued)

Fair value hierarchy (continued)

		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					
Investment securities available-for-sale	31 December 2013	–	–	40	**40**
Assets for which fair values are disclosed					
Cash and cash equivalents	31 December 2013	94,762	–	–	**94,762**
Amounts due from credit institutions	31 December 2013	–	–	15,979	**15,979**
Loans to customers	31 December 2013	–	–	617,191	**617,191**
Liabilities for which fair values are disclosed					
Amounts due to credit institutions	31 December 2013	–	–	27,185	**27,185**
Amounts due to customers	31 December 2013	–	–	261,161	**261,161**
Debt securities issued	31 December 2013	10,013	–	–	**10,013**
Borrowed funds from international lenders	31 December 2013	–	–	348,240	**348,240**
Subordinated loans	31 December 2013	–	–	8,076	**8,076**

The Bank believes the amounts presented as financial assets and liabilities in the financial statements are reasonable estimates of their fair values. As of 31 December 2014 and 2013, the fair value of cash and cash equivalents, amounts due from credit institutions, loans to customers and other monetary current assets and liabilities is estimated to approximate carrying value. As of 31 December 2014 and 2013, the carrying value of amounts due to credit institutions, amounts due to customers, debt securities issued, borrowed funds from international lenders and the subordinated loans approximate their fair values as their interest rates are close to the market indices.

Assets 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 their fair value. This assumption is also applied to demand deposits and savings accounts without a specific maturity.

Financial assets and financial liabilities carried at amortized cost

The fair value of loans to customers, customer deposits, amounts due from credit institutions and amounts due to credit institutions, debt securities issued and borrowed funds from international lenders is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

(Figures in tables are in thousands of Azerbaijani manats)

24. Maturity analysis of assets and liabilities

The table below shows an analysis of assets and liabilities according to when they are expected to be due or settled. See Note 22 "Financial risk management" for the Bank's contractual undiscounted repayment obligations.

	2014			2013		
	Within one year	*More than one year*	*Total*	*Within one year*	*More than one year*	*Total*
Cash and cash equivalents	139,535	–	**139,535**	94,762	–	**94,762**
Amounts due from credit institutions	14,361	–	**14,361**	15,979	–	**15,979**
Investment securities available-for-sale	40	–	**40**	40	–	**40**
Loans to customers	465,514	354,266	**819,780**	361,819	255,372	**617,191**
Property and equipment	–	42,819	**42,819**	–	45,465	**45,465**
Intangible assets	–	20,869	**20,869**	–	13,431	**13,431**
Deferred income tax assets	–	–	–	189	–	**189**
Other assets	4,806	–	**4,806**	2,512	–	**2,512**
Total	**624,256**	**417,954**	**1,042,210**	**475,301**	**314,268**	**789,569**
Amounts due to credit institutions	2,003	–	**2,003**	27,185	–	**27,185**
Amounts due to customers	306,819	29,963	**336,782**	202,049	59,112	**261,161**
Debt securities issued	59,686	–	**59,686**	10,013	–	**10,013**
Borrowed funds from international lenders	209,762	246,904	**456,666**	109,340	238,900	**348,240**
Current income tax liabilities	4,744	–	**4,744**	4,525	–	**4,525**
Deferred income tax liabilities	–	541	**541**	–	–	–
Other liabilities	20,386	–	**20,386**	16,234	–	**16,234**
Subordinated loans	305	15,688	**15,993**	8,076	–	**8,076**
Total	**603,705**	**293,096**	**896,801**	**377,422**	**298,012**	**675,434**
Net	**20,551**	**124,858**	**145,409**	**97,879**	**16,256**	**114,135**

25. Related party disclosures

In accordance with IAS 24 *Related Party Disclosures*, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties. The Bank controls transactions with related parties to assure they are carried out at market terms.

The volumes of related party transactions, outstanding balances at the year end, and related expense and income for the year are as follows:

	2014			2013		
	Share-holders	*Entities under common control*	*Key manage-ment personnel*	*Share-holders*	*Entities under common control*	*Key manage-ment personnel*
Loans outstanding at 1 January, gross	–	**360**	**211**	–	**1,306**	**185**
Loans issued during the year	–	2,118	160	–	353	104
Loan repayments during the year	–	(2,471)	(443)	–	(1,306)	(76)
Other movements	–	(7)	430	–	7	1
Loans outstanding at 31 December, gross	–	–	**358**	–	**360**	**214**
Less: allowance for impairment at 31 December	–	–	–	–	–	(3)
Loans outstanding at 31 December, net	–	–	**358**	–	**360**	**211**

(Figures in tables are in thousands of Azerbaijani manats)

25. Related party disclosures (continued)

	2014			2013		
	Share-holders	*Entities under common control*	*Key manage-ment personnel*	*Share-holders*	*Entities under common control*	*Key manage-ment personnel*
Deposits at 1 January	–	–	**222**	–	–	**80**
Deposits received during the year	–	–	479	–	–	222
Deposits repaid during the year	–	–	(208)	–	–	(80)
Deposits at 31 December	–	–	**493**	–	–	**222**
Borrowings at 1 January	**67,645**	**32,584**	–	**78,325**	**23,458**	–
Borrowings received during the year	27,454	27,454	–	15,040	11,768	–
Borrowings repaid during the year	(22,486)	(9,477)	–	(25,545)	(2,800)	–
Other movements	(49)	(232)	–	(175)	158	–
Borrowings at 31 December	**72,564**	**50,329**	–	**67,645**	**32,584**	–
Current accounts at 31 December	–	–	355	–	–	3
Dividends payable at 31 December	**11,766**	–	–	**7,850**	–	–

The income and expense arising from related party transactions are as follows:

	2014			2013		
	Share-holders	*Entities under common control*	*Key manage-ment personnel*	*Share-holders*	*Entities under common control*	*Key manage-ment personnel*
Interest income on loans	–	8	99	–	31	26
Interest expense on deposits	–	–	30	–	–	8
Interest expense on borrowings	3,240	1,896	–	3,852	1,330	–
Other operating expenses	1,320	–	–	2,150	–	–

Other operating expenses include an amount of AZN 755 thousand (2013 - AZN 1,283 thousand) for a management service agreement with LFS, under which LFS provides management and consulting services to the Bank.

As mentioned in Note 10, the Bank implemented the new T24 banking software. Services on implementation were rendered by one of the shareholders of the Bank – LFS consulting company, which amount to AZN 12,060 thousand, of which AZN 5,257 thousand was paid in 2014 (2013 – AZN 4,626 thousand). These costs were capitalized to intangible assets.

As at 31 December 2014, key management personnel of the Bank consisted of 8 members (2013 – 5 members) and compensation of key management personnel was AZN 2,654 thousand (2013 – AZN 1,788 thousand) which comprises salaries, bonuses and other short-term benefits.

(Figures in tables are in thousands of Azerbaijani manats)

26. Capital adequacy

The Bank maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using, among other measures, the ratios established by the CBAR and Basel Capital Accord 1988.

During the past year, the Bank had complied in full with all its externally imposed capital requirements.

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit ratings and healthy capital ratios in order to support its business and to maximize shareholders' value.

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous years.

CBAR capital adequacy ratio

The CBAR requires banks to maintain a minimum Tier 1 and total capital adequacy ratio of 6% and 12%, respectively, of risk-weighted assets for regulatory capital. As at 31 December 2014 and 2013 the Bank's Tier 1 and total capital adequacy ratios on this basis were as follows:

	2014	*2013*
Tier 1 capital	121,747	83,165
Tier 2 capital	24,284	37,568
Total capital	**146,031**	**120,733**
Risk weighted assets	**895,068**	**703,187**
Tier 1 capital ratio	13.6%	11.8%
Total capital ratio	16.3%	17.2%

Capital adequacy ratio under Basel Capital Accord 1988

The Bank's capital adequacy ratio, computed in accordance with the Basel Capital Accord 1988, with subsequent amendments including the amendment to incorporate market risks, as of 31 December 2014 and 2013, comprised:

	2014	*2013*
Tier 1 capital	145,409	114,135
Tier 2 capital	20,933	8,331
Total capital	**166,342**	**122,466**
Risk weighted assets	**679,741**	**537,274**
Tier 1 capital ratio	21.4%	21.2%
Total capital ratio	24.5%	22.8%

27. Events after the reporting period

In January 2015, the Bank paid to its shareholders dividends of AZN 11,766 thousand from the Bank's net profit for the 2014 financial year (Note 18).

On 21 February 2015, the Azerbaijani Manat has been devalued against the US Dollar and other major currencies by approximately 34%. The exchange rates before and after devaluation were AZN 0.786 and AZN 1.050 to USD 1, respectively. This event could adversely affect the Bank's future results and financial position, including the quality of the loan portfolio. The Bank has taken precautionary measures it considered necessary in order to support the sustainability and development of the Bank's business in the foreseeable future.

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