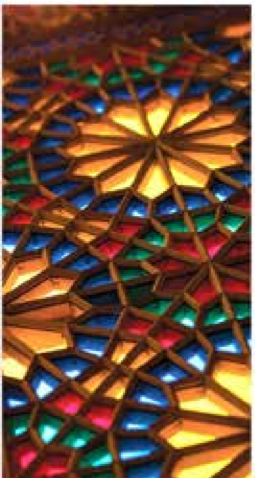
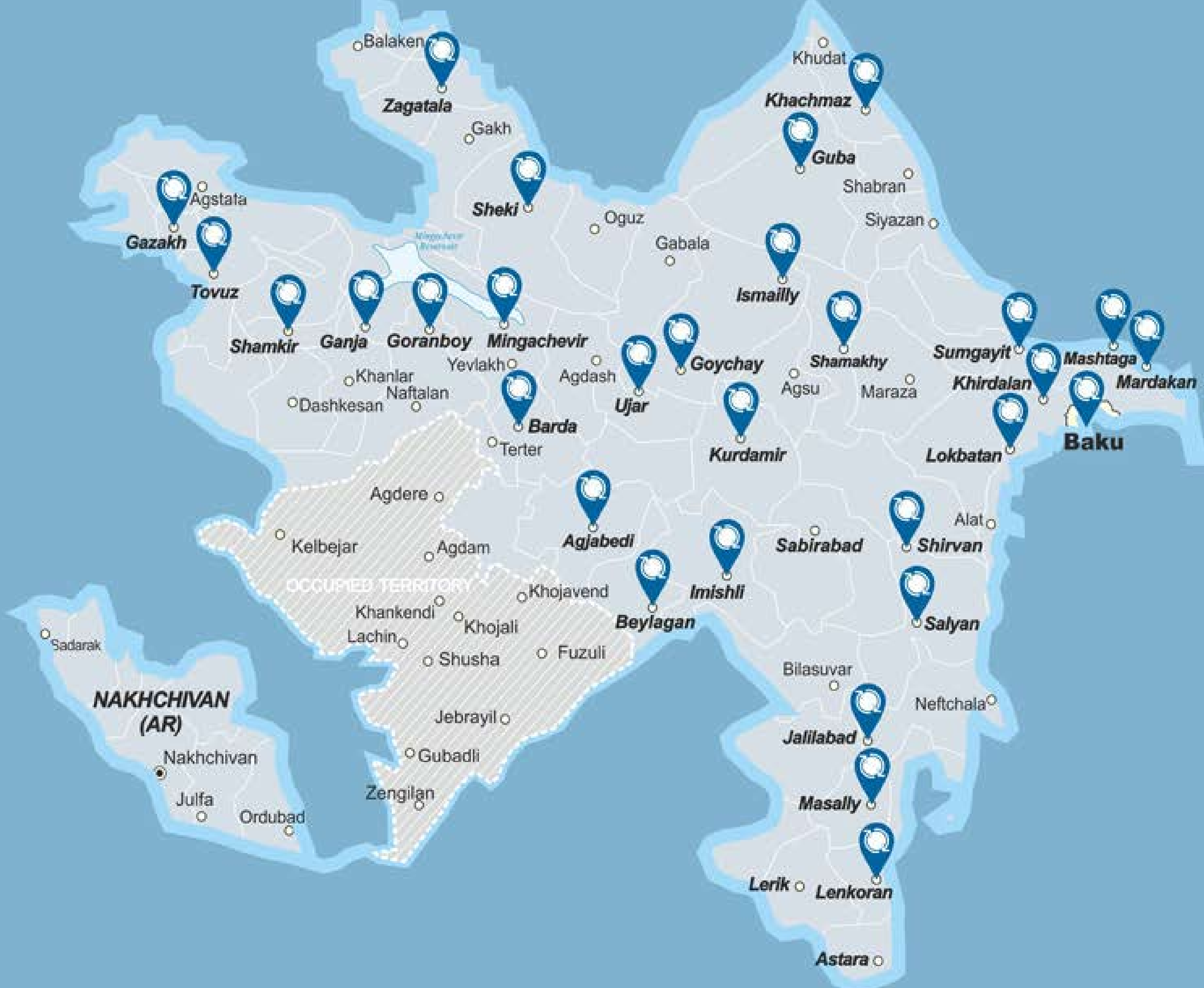
AccessBank

Your Accessible European Bank





ANNUAL REPORT | 2015



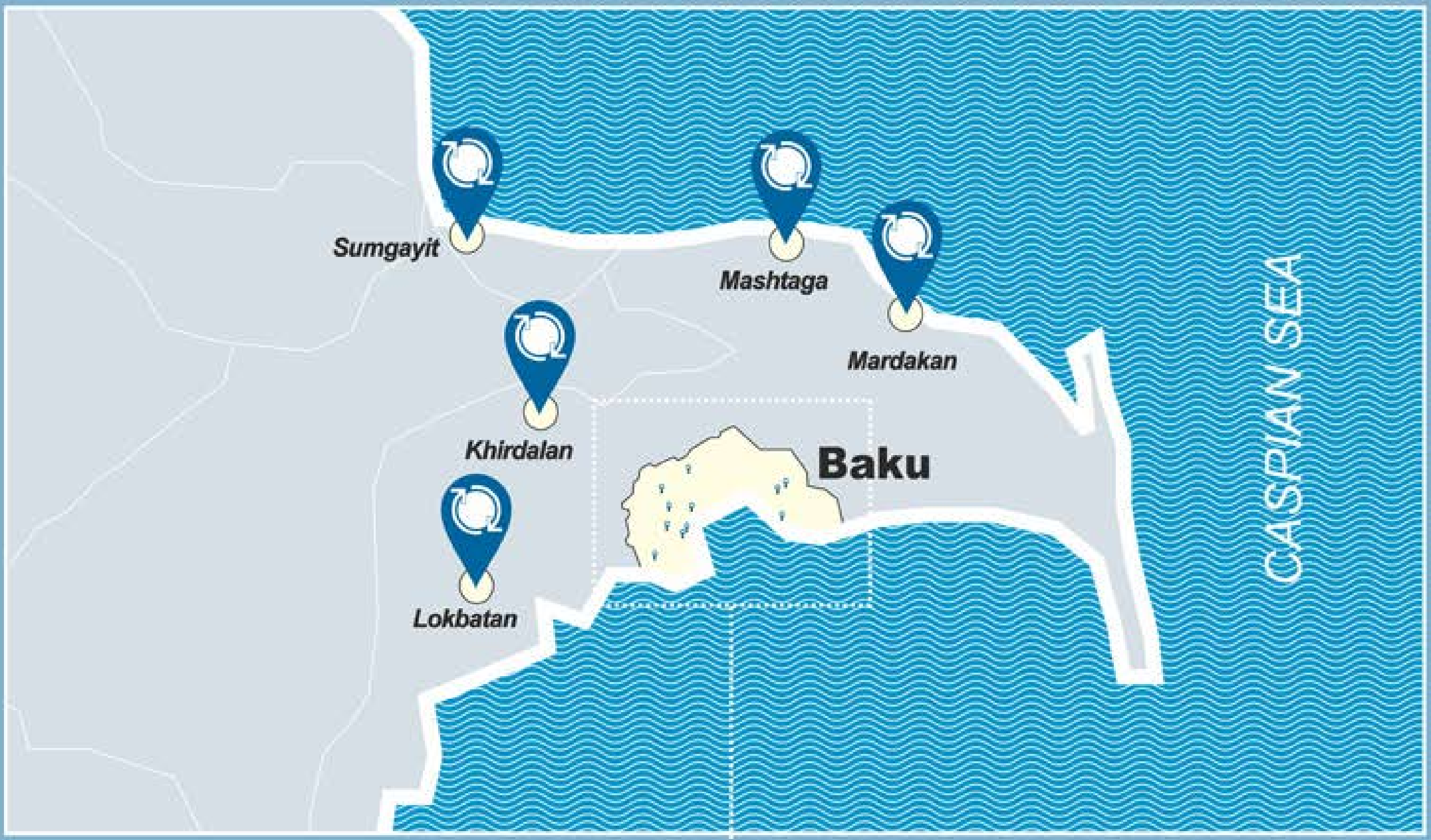
BAKU BRANCHES

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.
Hazi Aslanov – 29/45, M. Hadi St.
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.
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.
Shamakhy – 51, H.Aliyev Ave.
Sheki – 17, M.A. Rasulzade St.
Shirvan – 1T, H. Aliyev Ave.
Sumgayit – 50A, Sh. Badalbeyli St., 9 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 2015

Total Assets	Total Loan Portfolio	Total Equity
USD 752 m	USD 574 m	USD 95 m
AZN 1.2 bn	AZN 895 m	AZN 148 m

SME Loan Portfolio	Micro Loan Portfolio	Agro Loan Portfolio*
USD 333 m	USD 202 m	USD 68 m
AZN 520 m	AZN 314 m	AZN 107 m

* Part of Micro Loan Portfolio

Net Profit	Cost/Income Ratio	NPL Ratio (PaR > 90 days ratio)	Capital Adequacy Ratio
USD 1.7 m AZN 2.6 m	66.7%	4.89%	30.2%

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 tailor-made services for the micro and small business community as a whole, 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

For the banking sector in Azerbaijan and for AccessBank as well, 2015 was a very challenging year. Continuation of the drop in oil prices accompanied by the slowdown of economic growth and currency depreciations in major trading partner countries had a significant impact on Azerbaijan's economy in 2015. The country's current account surplus vanished, and the reserves began to fall while the economic growth turned to negative figures for the first time after many years. The Central Bank responded to these weakening economic conditions by devaluating the Manat twice, more than 98% overall. The government also took various measures to adjust the fiscal policy to the drop in oil revenues and made some structural reforms to improve the business environment.

All these developments had a substantial impact on the banks operating in the country, including AccessBank. The deposits shrank and Manat resources became limited while arrears increased significantly.

Since its establishment in 2002, it was indeed the first time that AccessBank was exposed to such negative economic conditions. Looking at the financial results of 2015, I can happily say that the Bank proved to be resilient and able to sustain its operations successfully in a turbulent economic environment. The strong corporate governance and hard work and dedication of its professional staff, as much as its strong financial standing including a healthy liquidity and capital base, played an important role in overcoming the difficulties faced during the last year. Despite all these challenges, AccessBank succeeded in keeping its leading position in serving micro, small and medium enterprises and continued to provide support to customers that were negatively affected by the macroeconomic conditions.

Looking ahead, the Bank will focus on preserving its traditionally strong asset quality. As a matter of fact, we are aware that many of our clients are facing difficulties in this challenging environment, and it is our responsibility to support them in this difficult period.

I strongly believe that the macroeconomic situation in the country will improve steadily as the measures taken by the government have already begun to show their impact. But in any case, AccessBank will continue to be a reliable partner for the micro and small businesses in the country in this difficult period, as it has all the necessary elements in place to do so.

Orhan Aytemiz
Chairman of the Supervisory Board

CEO Statement

In 2015, the operating environment of the Bank became increasingly challenging due to the strong decline in oil prices and the economic slowdown in neighboring CIS countries. The Azerbaijani economy entered into a downturn cycle with declining consumption and investment. The local currency Manat devalued sharply versus the US Dollar after years of a stable exchange rate peg. Overall, the environment for banks sharply turned from long lasting growth into consolidation which is expected to persist for some time. We at AccessBank have taken on the challenge of the sudden change in the environment by timely implementing adequate measures to mitigate the adverse impact and remain determined to serve best the needs of our customers.

Consolidation in lending business

In 2015, the challenging market environment triggered a consolidation of AccessBank's business volume in particular in its lending activities across all client segments. As a result of the Bank's consistent responsible lending policy during past years the loan portfolio quality continued showing sector leading results. However, compared to the excellent performance of past years asset quality recorded a downward trend reflecting the overall difficulties of small and medium businesses to cope with the economic downturn. The Bank's strong customer focus and trustful relationship with its clients have been key to develop individual solutions to adapt to the new economic reality. In the current environment, we have enhanced our engagement in providing consultancy to our clients who are reorienting business models towards consolidation. The close interaction with our clients remains essential for preserving stability in the Bank's lending operations.

Maintaining focus on regions

Going forward, we will maintain the strong foothold in the regions of the country - in particular in the agricultural sector in rural areas - based on our developed network of regional branches. Meanwhile, the Bank has built up a significant market share in many regional banking markets where farming plays a crucial role in the development of local economies. We remain long-term committed to our clients in the regions and to the development of the regional non-oil economy.

Broad and stable network of international and local partners

The Bank's long-term track record of strong performance as well as the support by its reputable shareholders have been key for building-up our reputation on international capital markets and the mutual trustful relationships with our international partners. This is an important anchor in such turbulent times. Based on the long-term partnership with our lenders and investors we have been able to attract substantial amounts of funding and to develop our track record by setting new benchmarks on international capital markets in this challenging period.

Continued investment in IT and digitalization

Following the successful implementation of the new core banking software T24 in 2014, the Bank continues to develop its IT capacity and to enhance the digitalization of its operations. In the second half of 2015, we have launched a state-of the art internet banking service which was perceived very positively by our clients and contributes to further enhance operational efficiency. We will continue to strengthen the Bank's digital services in the forthcoming years in order to be able to provide attractive and convenient product offerings to our clients.

Successful adaptation to the changed environment

In 2015, the Bank faced a sharp change in the external environment. Based on our strong corporate culture and the commitment of our staff, we have been able to rapidly adapt to the new reality thereby keeping our strong position in the market. The adaptation to the new market environment remains on the top of the Bank's agenda for the time ahead, in particular the continued enhancement of operational efficiency by simultaneously pursuing further improvement and upgrading of client service. In the light of the Bank's sound performance in 2015, we are going forward based on a position of strength. I am convinced that we will be able to successfully tackle the challenges ahead and to further strengthen the position of the Bank in the segments to which we are committed.

Michael Hoffmann
Chief Executive Officer

Azerbaijan: Key Facts

GENERAL	ECONOMY - 2015	CURRENCY
Population: **9.2 Million**	GDP: **USD 34.9 Billion**	Currency: **Azerbaijani Manat (AZN)**
Area: **86,600 sq. km**	GDP per capita (PPP): **USD 3,658**	1 USD = **AZN 1.5594** (12.2015)
Largest cities: **Baku, Ganja, Sumgayit, Mingachevir, Lenkoran**	GDP growth: **1.1%**	
	Inflation: **4%**	

RATINGS MOODY's: **Ba1** (02/2016) FITCH: **BB+** (02/2016) S&P: **BB+** (01/2016)

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 launched with the introduction of 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
- FitchRatings assigned the first IDR rating to AccessBank at BB+
- 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 Avenue
- AccessBank's total assets reached USD 1 billion

2014
- Successful launch of new banking software T24
- FitchRatings upgraded the Bank's IDR rating to Sovereign level (BBB-)

2015
- Successful launch of new Internet Banking service – "myAccess"
- AccessBank awarded "Bank of the Year" by The Banker and "Best Bank Azerbaijan" by Global Finance

Awards

EUROMONEY AWARDS FOR EXCELLENCE 2016

2010
2011
2012
2013
2014
2016

"Best Bank in Azerbaijan"
Euromoney Awards for Excellence

The Banker
Bank of the Year 2015
AZERBAIJAN

2011
2012
2015

"Bank of the Year"
The Banker

BEST EMERGING MARKET BANKS • 2013
GLOBAL FINANCE

2011
2013
2015

"Best Bank Azerbaijan"
Global Finance

EBRD representative Christopher Falco receiving the award on behalf of AccessBank at The Banker award ceremony in London, 12/2015

Our Customers

105,000
MICRO LOAN CLIENTS

AccessBank is the leading micro-finance bank in Azerbaijan with a total Micro loan portfolio of around USD 200 million. A special focus is on agricultural lending to small farmers in rural areas.

2,500
SME LOAN CLIENTS

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.

142,000
CLIENTS OF BANKING SERVICES

AccessBank provides a broad range of Retail loan products and banking services to private individuals and business clients throughout the country. In 2015, the Bank launched its new state-of-the-art Internet Banking service.

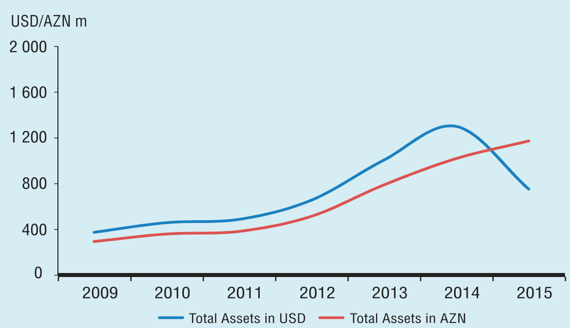
Financial Results

	AZN		USD	
	2015*	2014	2015*	2014
Total Assets	1.2 bn	1.0 bn	752.1 m	1.3 bn
Total Loan Portfolio	894.5 m	819.8 m	573.6 m	1.1 bn
Micro Loan Portfolio	314.3 m	361.3 m	201.6 m	460.6 m
SME Loan Portfolio	519.6 m	350.8 m	333.2 m	447.2 m
Retail Loan Portfolio	43.8 m	74.5 m	28.1 m	95.0 m
Mortgage Loan Portfolio	29.4 m	29.6 m	18.9 m	37.7 m
Client Deposits	318.4 m	336.8 m	204.2 m	429.3 m
Total Equity	148.0 m	145.4 m	94.9 m	185.4 m
Gross Profit	3.6 m	54.2 m	2.3 m	69.1 m
Net Profit	2.6 m	43.0 m	1.7 m	54.9 m

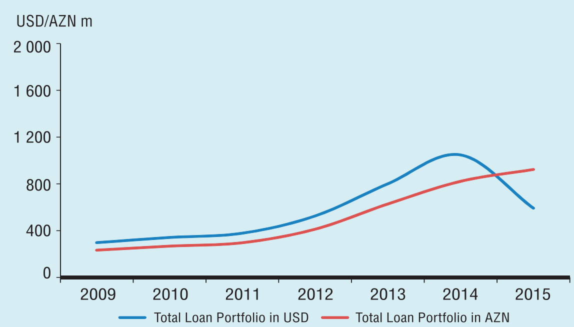
	2015*	2014
Total CAR**	30.2%	24.5%
Tier 1 CAR**	19.6%	21.4%
Return on Equity	1.8%	32.1%
Cost / Income Ratio	66.7%	59.1%
NPL***	4.9%	0.6%

* When comparing financial indicators 2014 and 2015 y-o-y a significant impact stemming from two devaluations in February and December 2015 has to be considered
** According to Basel Capital Accord 1988 *** Portfolio at Risk > 90 days ratio

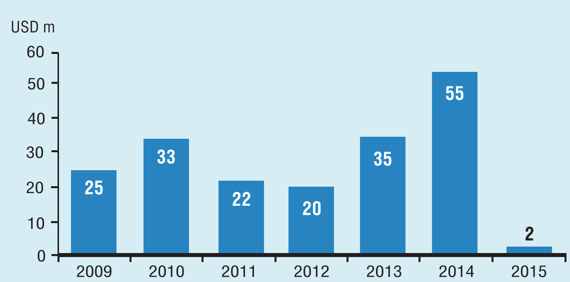
Total Assets



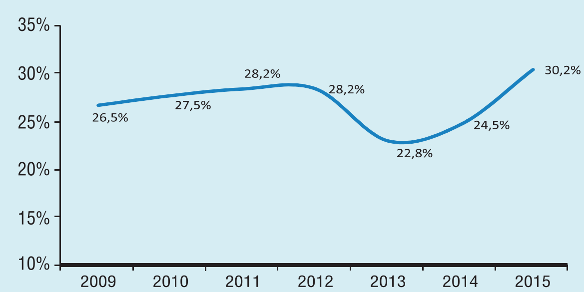
Total Loan Portfolio



Net Profit



Capital Adequacy Ratio



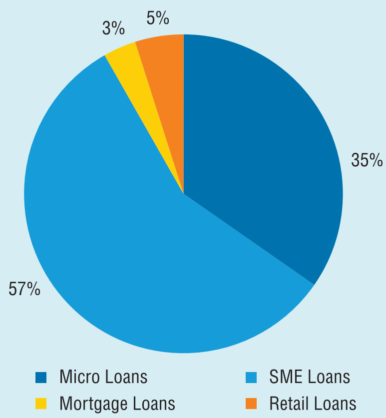
According to Basel Capital Accord 1988

New Branch Concept and Design

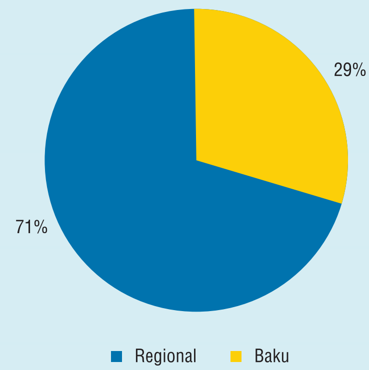
The project of developing the Bank's new branch concept and design was started in 2014 jointly with a leading European architect's office. Key elements of the new concept and design include a customer-focused reception area, separate meeting rooms for individual client consultancy, an upgrade of the cashier-area and new customer friendly service desks. In 2015, the project was successfully launched in a number of pilot branches in Baku and the regions. The new branch format has been perceived very positively by customers and is an important element to enhance the Bank's high level service quality.

Lending Operations

Loan Portfolio by Segment



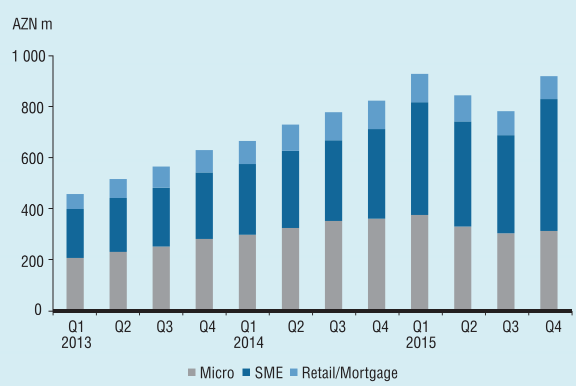
Number of Clients: Regional vs. Baku



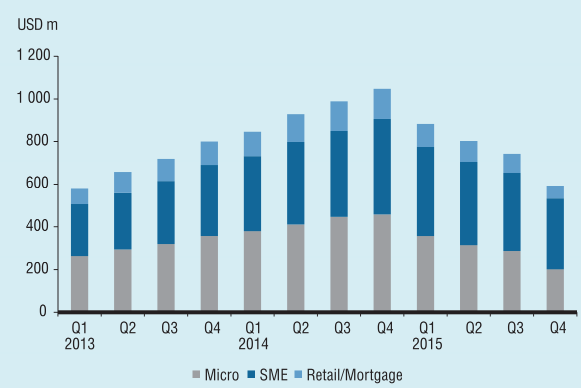
In 2015, the Bank operated in a challenging environment with declining world oil prices and two major devaluations of the local currency AZN versus the US-Dollar exerting stress on clients` income and turnover thereby negatively impacting demand for borrowings. At the same time the economic downturn negatively affected asset quality.

The traditionally close relationship of the Bank with its clients has proven to be critical for the Bank's success in handling the lending business in this challenging environment. This 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) the proximity to the customers and knowing their needs, which is a core value of AccessBank's team and further backed by a tightly knit branch network throughout the entire country with a focus on the regions.

Loan Portfolio in AZN*



Loan Portfolio in USD*



* When comparing financial indicators 2014 and 2015 y-o-y a significant impact stemming from two devaluations in February and December 2015 has to be considered

Micro Lending

Lending to Micro clients is an important business driver of the Bank and at the core of its mission. In 2015, the subdued economic activity and the substantial currency devaluation impacted negatively on the demand for borrowings by Micro clients as well as on asset quality of the Micro loan portfolio.

The historically low share of non-performing loans went up during the year to 4.7%, which, however, is still a sector leading result confirming the Bank's strong capability in managing credit risk. The sound asset quality reflects the Bank's successful practices in responsible lending and in avoiding clients` over-indebtedness. Thereby, AccessBank remains an attractive partner of choice for many micro customers in Azerbaijan.

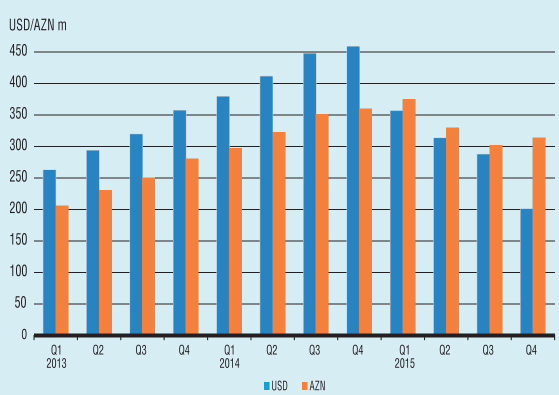
The strong foothold of the Bank's lending activities with Agro clients in rural areas is a major achievement and provides the Bank with a unique position in this promising client segment, which tends to be widely ignored by other banks. Lending to Agro-clients requires profound experience and knowledge about clients' specific business cycles and risk profiles.

"I highly value the professionalism and support of AccessBank, which has proven to be a reliable partner for my business.

Zaur Niftiyev, Micro Business Owner

In AccessBank's regional branches more than half of all Micro loans are disbursed under the Agro-loan product reflecting the strong position of the Bank in rural areas in this strategically important client segment.

Micro Loan Portfolio*



* When comparing financial indicators 2014 and 2015 y-o-y a significant impact stemming from two devaluations in February and December 2015 has to be considered

Elshan Pirmaliyev

Deputy Head of Micro Lending

"Responsible lending practices and providing individual solutions for Micro entrepreneurs are our core principles, which have led to long-term loyal partnerships with our clients."

Regional Focus on Agro Lending

AccessBank is Azerbaijan's leading bank for lending to agricultural businesses, whereby primary agriculture accounts for about 50% of the Bank's Micro client base.

WESTERN REGION
- potato
- cucumber
- tomato
- grape

Share of agro clients in micro loan portfolio **58%**

NORTH-WESTERN REGION
- apple
- walnut
- crops
- beekeeping

Share of agro clients in micro loan portfolio **70%**

NORTH-EASTERN REGION
- apple
- strawberry
- cherry
- fishing

Share of agro clients in micro loan portfolio **66%**

CENTRAL REGION
- pomegranade
- cattle breeding
- grape, quince
- melon, strawberry
- fishing
- onion

Share of agro clients in micro loan portfolio **75%**

SOUTHERN REGION
- lemon
- orange
- tea
- fishing

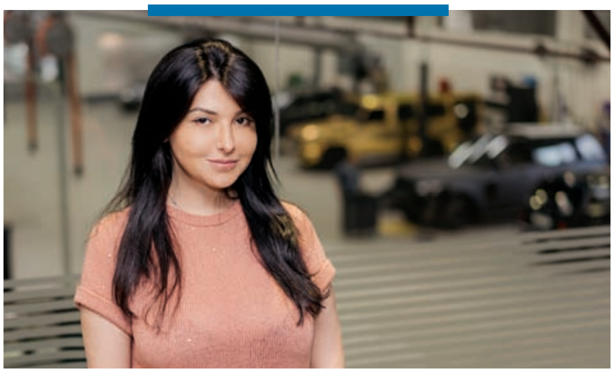
Share of agro clients in micro loan portfolio **69%**

BAKU-ABSHERON
- tomato
- cucumber
- green vegetables
- aubergines
- grape
- figue

Share of agro clients in micro loan portfolio **8%**

SME Lending

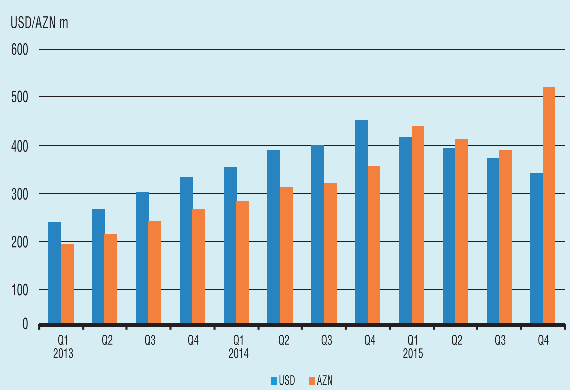
In 2015, the SME segment was affected by the economic downturn as well as by the currency devaluation which impacted negatively on loan demand and asset quality of the Bank's SME portfolio. The historically low share of non-performing loans of 1.1% (2014) went up during the year to 5.7%, which, however, is still sector leading reflecting positively on the Bank's risk conscious approach in handling SME lending operations.



"The close and trustful relationship with AccessBank has been key to develop my business.

Konul Akhundova, Small Business Owner

SME Loan Portfolio*



* When comparing financial indicators 2014 and 2015 y-o-y a significant impact stemming from two devaluations in February and December 2015 has to be considered

Kenan Agayev
Executive Director SME Lending / Corporate Services

"Our SME business goes far beyond providing just a loan. We understand ourselves as a partner and consultant of our clients, giving them advice on important business matters."

The Bank maintained its position being one of the largest lenders to SME's in the country with a sound client base. The relationship with SME clients is based on support and mutual trust whereby the Bank understands itself as partner and consultant giving advice in important business matters. The Bank is about to further expand consultancy services to SME clients as e.g. in the area of operational management and investment planning for which there is significant demand.

Trade Finance

AccessBank is supporting its corporate clients with a developed range of Trade Finance products, such as bank guarantees (payment, advance payment, tender, performance guarantees, counterguarantees), letters of credit and stand-by letters of credit. In addition, the Bank offers its customers 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.

Aga Agayev
Head of Corporate Services

"Corporate services are of increasing importance to serve our corporate clients' needs. We are expanding year by year in this area."

TRADE FINANCE TRANSACTIONS

55% Direct Guarantees and LCs
45% Confirmed Guarantees and LCs

MAIN TRADE FINANCE PARTNER COUNTRIES

Italy	Germany	China
Turkey	Finland	Poland

Retail and Mortgage Lending

In 2015, the Retail Loan Portfolio recorded a downward trend due to the sluggish development of the economy. Overall, the situation on the labor market became increasingly challenging during the year thereby impacting negatively on the purchasing power of retail loan clients.

In relative terms, the share of the retail loan portfolio in the Bank's total loan portfolio decreased from 8% to 5%. The Bank continues being committed to pursue its Retail lending operations responsibly to ensure that clients are not overburdened with debt. This is proven by the low arrears rate with the share of non-performing loans of 0.6% which is a sector leading result.

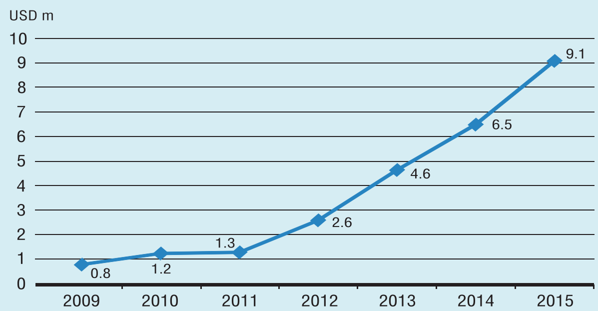
Jahangir Eyyubov
Head of Mortgage Lending

"The market of Mortage lending is still at an early stage of development. We at AccessBank are well-positioned to further expand once the market takes off."

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 the penetration of banking services in the country is generally increasing, the non-interest product line is continuously gaining importance to ensure the clients' needs are covered comprehensively.

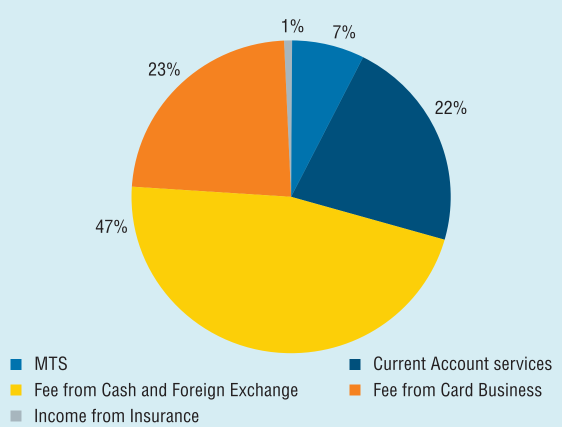
Fee and Commission Income*



* Fee and commission income from non-lending products.

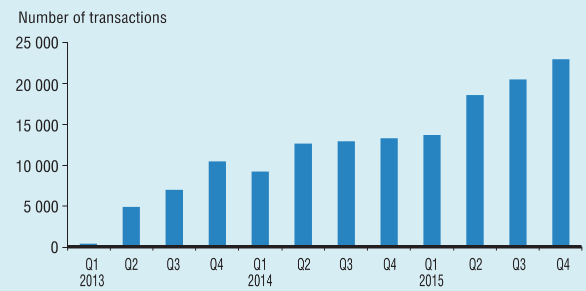
During 2015, the Bank continued to substantially enhance net fee income from non-lending banking services. Turnover of remittance payments, national and international account transfers as well as of currency exchange transactions grew considerably during the year. As a result, in 2015 the Bank succeeded in increasing its total net fee and commission income from such products by about 40% reaching USD 9.1m (2014: USD 6.5m).

Fee and Commission Income by Product



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, most of which are directed at CIS countries. AccessBank offers its clients an in-house money transfer system "AccessTransfer" which allows transferring funds in all regions via our broad network of branches. The system is enjoying increasing popularity. The total number of transactions in 2015 grew by 57% to 74,000 while the total payment turnover grew by 51%.

Access Transfer Turnover



In autumn 2015, the Bank successfully launched its new state-of-the-art Internet Banking service – "myAccess", which was received very positively by its clients. The Bank will continue to focus on developing its non-lending banking services 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.

Rahman Aliyev
Head of Retail Services

"We are strongly committed to further develop the Bank's multi-product offering to our clients in order to serve best their entire financial needs."

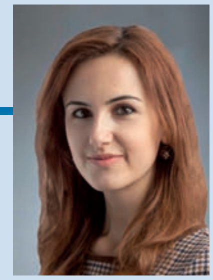
Internet Banking

Following several months of intensive project work, AccessBank successfully completed and launched its new innovative Internet Banking service “myAccess” in October 2015 which is now available to all clients. The new service “myAccess” has been set up jointly with a leading European Internet Banking developer which implemented similar projects with large banks worldwide thereby pushing them into leading positions in Internet Banking services on their home markets. The successful launch of “myAccess” demonstrates that even in the currently challenging market environment AccessBank continues to invest in modern digital banking technology in order to be able to offer advanced e-banking solutions for which there is growing demand in the market.

Finance and Treasury

In 2015, the Bank continued to develop its Finance Division by further strengthening the treasury function as well as the controlling and budgeting units. The Bank strongly benefited from this development when tackling the challenges arising out of the turbulences on local financial markets triggered by the oil price decline and the two major devaluations. Good progress was achieved in further developing the Bank's IFRS accounting unit. For the first time in its history, the Bank prepared its 6-mts audited financial statements in addition to the year-end financial audit thereby further improving its reporting standards.

Farida Pirverdiyeva
International Partner Relations Manager



"Our long-term and mutual trustful relationships with many partners in the international investor community are an important anchor in the current challenging times."

DIVERSIFIED FUNDING BASE

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

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

The Bank's strategy of keeping its funding base highly diversified has proven to be essential for succeeding in maintaining stability throughout the turbulent times of 2015 when the Bank was facing large scale conversion of local currency deposits into foreign currency.

CONTINUED SUPPORT FROM IFI AND DFI PARTNERS

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, including its shareholders and 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. In 2015, the Bank obtained a subordinated loan facility from its shareholder IFC in the amount of USD 25m thereby strengthening the capital base and sending a clear signal to the market that the Bank is supported by its shareholders in challenging times. In addition, the Bank's long-term partner Asian Development Bank (ADB) provided a USD 75m syndicated loan facility with a long-term tenor devoted to further develop AccessBank's activities in rural areas of the country.

SUCCESSFUL TRACK RECORD ON SYNDICATED LOAN MARKET

In April 2015, the Bank succeeded to attract a USD 60m syndicated loan, arranged by Raiffeisen Bank International, and thereby continuing to develop its track record on international capital markets. The transaction directly followed the debut syndication from 2014 with an increased volume and a longer maturity while simultaneously achieving an improvement in the terms. The syndication was joined by 16 participants with a broad geographical coverage.

FitchRatings

FitchRatings on AccessBank – "BB+", the highest rating in the country (March 2016)

HIGHEST INTERNATIONAL CREDIT RATING

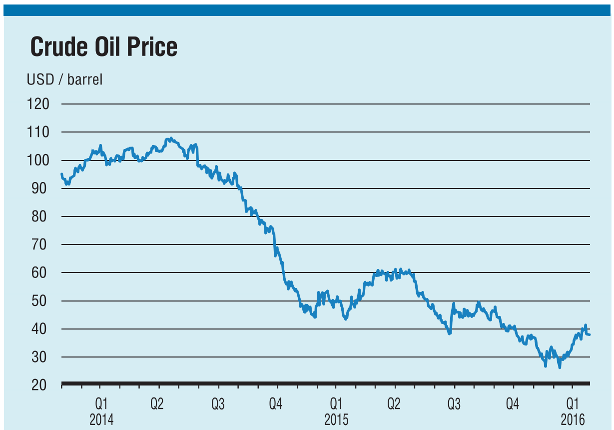
AccessBank remains the highest rated bank in the Azerbaijani banking sector with its rating at sovereign level (Fitch: BBB- until '03/2016, BB+ currently). Thereby the Bank enjoys an excellent standing on international capital markets which positively impacts on its cost of international funding.

Key Refinancing Transactions in 2015

- **Raiffeisen Bank International (RBI):** USD 60m, Syndicated loan, signed in 04/15
- **Asian Development Bank (ADB):** USD 75m, 5-y, Senior loan, signed in 05/15
- **International Finance Corporation (IFC):** USD 25m, 10-y, Subordinated loan, signed in 07/15
- **Austrian Development Bank (OeEB):** USD 15m, 4-y, Senior loan, signed in 12/15

Risk Management

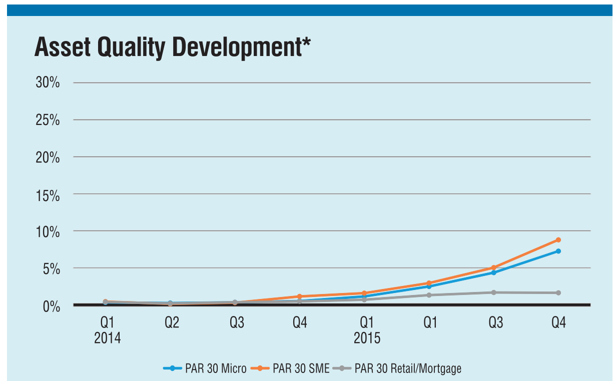
The strong performance of AccessBank in terms of asset quality and operational efficiency reflects the Bank's professional and experienced Risk Management, which is backing the entire operations. As the Bank develops, strengthening risk management is an integral part of the long term strategic planning 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 Team, which has grown to 36 staff members. The team is responsible for reviewing client exposures, undertaking selective portfolio reviews, assisting 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. Furthermore, the Bank 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, control is strengthened by involving Branch management, Head Office units and the Management Board.



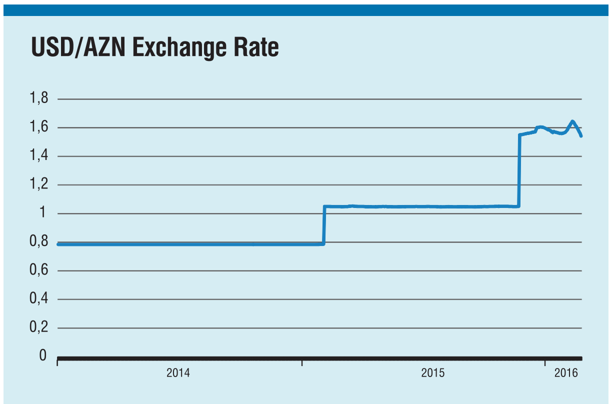
* Share of overdue loans more than 30 days by segment

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 outperforming the average figures for the banking sector.

LIQUIDITY AND CURRENCY RISK

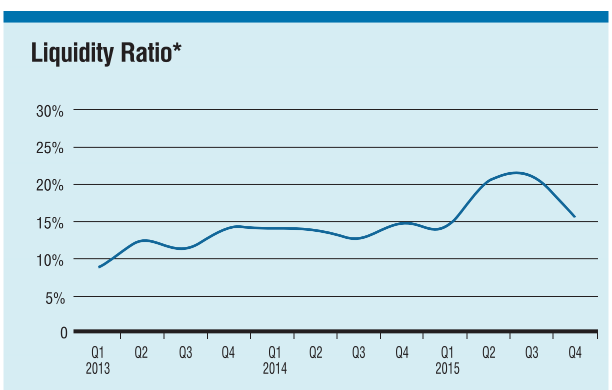
Liquidity and currency risks are managed on the basis of daily reviews of the Bank's currency and liquidity positions and of their compliance with the limits set by the Supervisory Board.

Risk management (operational) First Line of Defence: **Branch Level**	Control (operational) Second Line of Defence: **Head Office Level**	Evaluation (not operational) Third Line of Defence: **Executive Level**
Controls and manages risks - Business and operations (line) - Day-to-day internal control - Support Units (Finance, IT, Legal a.o.)	Establishes infrastructure and monitors risks - Risk management - Compliance and Support Functions	Evaluates and validates the impact of risk and second lines of defence - Internal Audit - Board Committees



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 regular basis by the Management Board and on at least a quarterly basis by the ALCO, Risk Committee and Supervisory Board.

Moreover, measures such as Value-at-Risk, 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 factors. The Bank had a comfortable liquidity position during 2015, with a Liquidity Ratio (liquid assets / total assets) being constantly in the range of 15% to 25%.



* Liquid Assets / Total Assets

OPERATIONAL RISK

The Bank handles a large number of customer transactions every day. This requires well-functioning processes and risk mitigation techniques. Fraud detecting tools play a key role in operational risk management and are handled by the Risk and Internal Audit Departments. 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 best practices.

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 reviewed the major regulatory, financial and operational risks which the Bank is facing to ensure the efficiency of processes and controls. Internal control mechanisms were tested to assess their adequacy and appropriateness to the Bank's business. In all audited areas, management established relevant control over activities that correspond to the level of risks inherent to these activities and processes.

AccessBank's business success depends on a well-working IT system for its day-to-day operations and management information. All branches are connected online, and all business lines are fully integrated in a central database. This provides management with instant up-to-date information on all activities, available at any time, contributing to efficient management control. The responsibility for the management of operational risks is a task which has been assigned to decision-makers throughout all business lines for continuous risk identification and mitigation.

Thomas Engelhardt
Chairman of Risk Committee,
Member of Supervisory Board

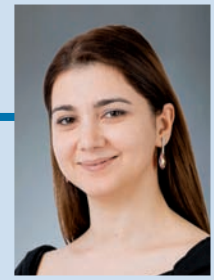
"The Bank's sound risk management has been a key factor of success to preserve stability in the challenging market environment in 2015."

Human Resources

HUMAN RESOURCES AS BUSINESS PARTNER

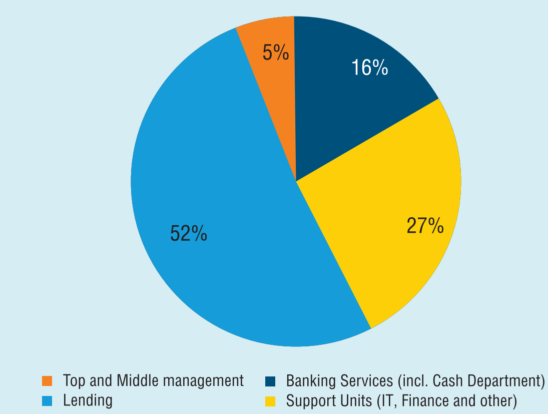
Our people are the Bank's key asset, which becomes even more important during times of change and challenge. AccessBank employees have traditionally shown a high level of loyalty towards the organization, distinctive team- and result-orientation and entrepreneurial thinking in their jobs. This is the result of the Bank's HR philosophy to develop staff alongside the business needs through fair, equal and transparent procedures, performance-based pay and promotions, permanent education and multi-layered motivation systems.

Aynur Suleymanli
Head of HR Department



"Managing and motivating people is our main strength. Our Bankers always make the difference in terms of loyalty and commitment, which has been key to our success."

Staff distribution 2015



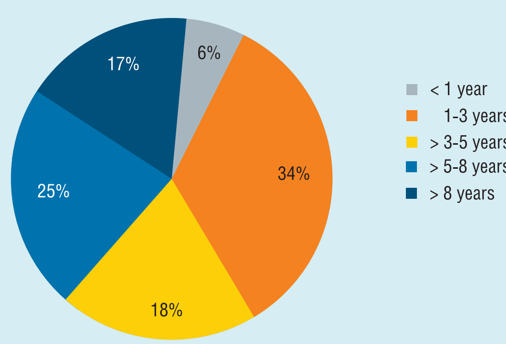
PROFESSIONAL DEVELOPMENT

In 2015, AccessBank had on average 2,100 employees of which about 50% are in lending operations, reflecting the Bank's traditional focus on providing loans to businesses and retail clients. In recent years, the share of staff employed in the Banking Services team has increased as AccessBank developed its product offerings in retail services. The average job tenure of our employees is three years and well balanced between younger and more experienced professionals. Nearly all employees have pursued their entire career within AccessBank. The average age of employees is 30 years and hence one of the youngest in the Azerbaijani Banking Sector, which mirrors the strong achievement of AccessBank in building up young professionals. More than 90% of all staff hold a university degree.

TALENT PROMOTION

AccessBank continues to support the professional development of its talented middle managers by enrolling them in the "AccessCampus" management program conducted by the Bank's strategic partner AccessHolding in Berlin. The program focuses on developing management talent by offering a long-term curriculum consisting of technical and leadership modules taught by AccessHolding executive staff and external experts. In 2015, 12 AccessBank managers participated in AccessCampus, out of which the first five students completed the two-year program and graduated with honors.

Well balanced job tenure



TEAM BUILDING

In order to stimulate sportsmanship and team play among its employees, AccessBank conducted an internal football competition in 2015, in which teams of all branches actively participated.

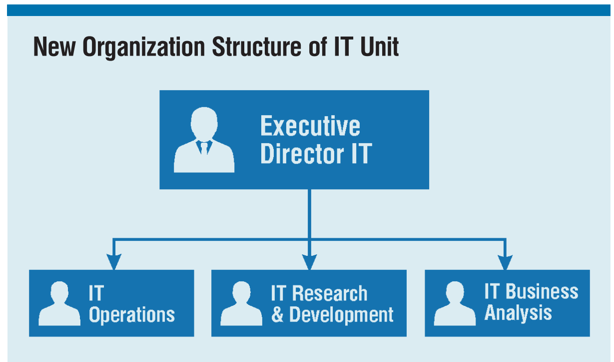
The event, which was broadly covered in the bank-internal media, attracted a lot of attention among the entire staff. As a result everyone strongly enjoyed the football event, which contributed to foster team spirit and to promote a healthy way of life.

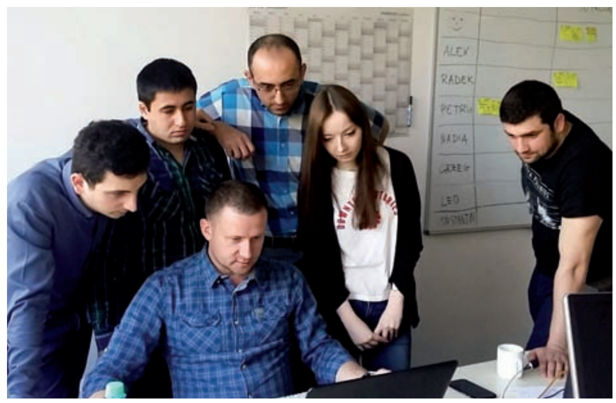
Information Technologies

A powerful core banking system, which is tailored to the needs of a universal Bank specializing in serving Micro, Small and Medium Enterprises, has always been the backbone of AccessBank's strong performance. Real-time processes and online connections enable fast banking transactions and decision-making, while a fully-fledged Management Information System (MIS) supports pro-active management of client-relationships and risk. The Temenos T24 banking software, upgraded by several tailor-made solutions for AccessBank's specific business model, has been further developed and improved during 2015, following the successful launch the year before. At the same time the Bank achieved further progress in improving its IT capacities and procedures, and appointed a Chief Information Officer in order to strengthen the strategic drive.

During 2015, the Bank's IT system took an important step into the future with the implementation of a service-oriented software architecture based on the Enterprise Service Bus (ESB) model. This new design approach allows the Bank to add cloud solutions to the core banking system and improves the interaction between the different applications. Based on this pattern a professional Anti-Money-Laundering program was already successfully implemented. Furthermore, the Bank's new Internet-Banking service "myAccess" (https://myaccess.az) was launched in autumn 2015 and is becoming increasingly popular among clients. In order to further improve business continuity and security in case of emergency, the Bank successfully set up a new Disaster Recovery Site. The site is well equipped with backup hardware and provides real-time safety of vital business data to ensure smooth and robust continuity of business operations and customer service.

AccessBank will continue to invest into technical innovations and strive to spearhead the local market for modern and customer-oriented digital e-banking solutions.





Vasyl Melnychuk
Chief Information Officer

"The role of our IT team is to continuously improve processes, and use cutting-edge technologies and innovations to provide our customers with reliable and convenient banking services."

Corporate Social Responsibility

Social responsibility has always been a core principle of AccessBank and forms an integral part of the Bank`s strategy and corporate identity. Since its early years, the Bank and its staff members have been committed to contributing to the development of society, the environment and people's welfare in Azerbaijan. In recent years, the Bank has been concentrating its sponsorship and support mainly on education, the environment, people with disabilities and orphans. Promoting a healthy lifestyle, AccessBank supports the development of football at schools and among children in all regions of the country.

In 2015, the Bank conducted multiple projects in order to support society and communities:

- fostered the development of inclusive teaching for disabled children in integrated classes;
- initiated educational programs for local physicians, psychologists and parents of children affected by autism;
- sponsored inclusive sport trainings and champion ships jointly for disabled and healthy children;
- organized the planting of trees in the regions and
- continued financial literacy programs targeting schools.

Governing Bodies

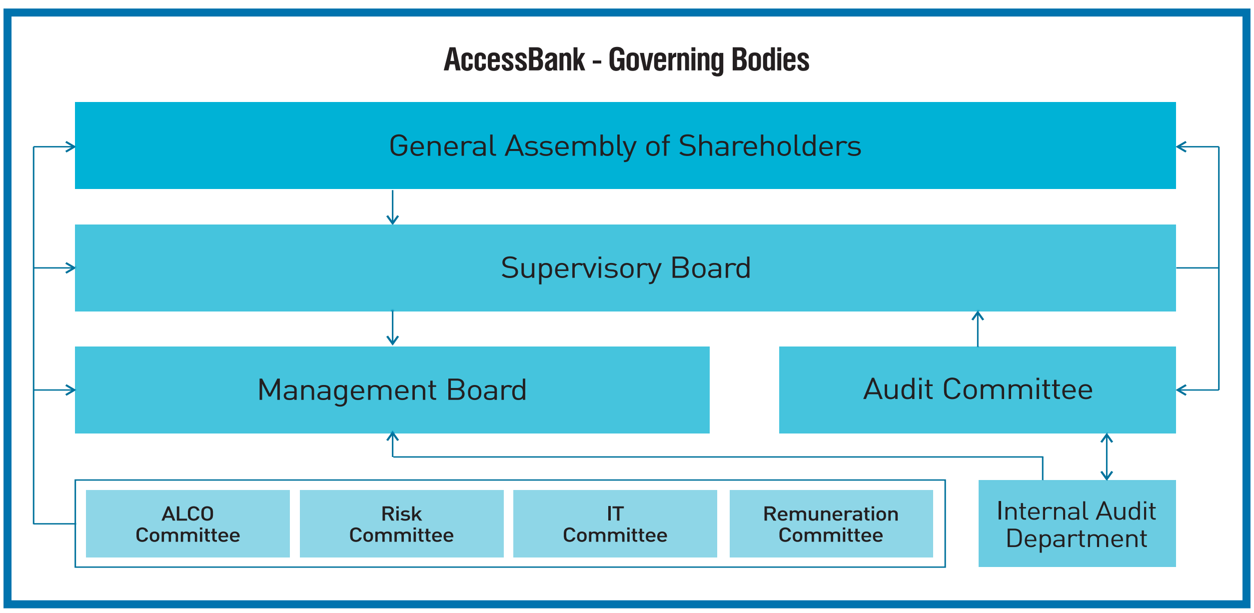
GENERAL ASSEMBLY OF SHAREHOLDERS

The highest decision-making body in AccessBank is the General Assembly of Shareholders (GAS). The GAS appoints 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 as well as branch openings and closures. Further powers include all actions regarding the capital of the Bank, including distribution of profit, increases in charter capital and 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 Board Members 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 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 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 four financial institutions in Europe, as nominee of the IFC. Mr. Ahmed holds a Master's Degree in Economics.

Eva Witt

Member of AccessBank's Supervisory Board since 2011. Ms. Witt joined KfW in 1995 and was appointed Director for Eastern Europe, Caucasus and Central Asia in 2010 with overall responsibility 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 also includes 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 the 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 Azerbaijan. He serves as Chairman of AccessHolding's Management Board and is Managing Director of LFS Financial Systems. Previously Mr. Engelhardt worked on MSME and downscaling projects with LFS in Uzbekistan, Azerbaijan and Bosnia/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, Mr. 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 in Russia. 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 at the University of Warwick's MBA in 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. He was 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

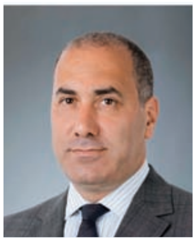
Executive Director Finance / Control

Prior to joining AccessBank, Mr. Hajiyev worked at HSBC Bank in Baku as a financial control supervisor for six 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.

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. He holds a Master's Degree in Finance and completed his post-graduate studies in Economics at the Azerbaijan State Technological University.



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.

Vasyl Melnychuk

Executive Director Informational Technologies

Before starting his activities for AccessBank in May 2015, Mr. Melnychuk had acted as a member of the Management Board of the Ukrainian subsidiary of the Austrian Volksbank Group. In 1998 he joined the Ukrainian subsidiary of Dutch ING financial group. Mr. Melnychuk graduated from Kyiv Polytechnic Institute specializing in engineering and from the Interregional Personnel Management Academy specializing in finance.

Dr. Rolf Reichardt

Executive Director Finance / Treasury

Before joining AccessBank in May 2014, Dr. 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 the Financial Market Association (ACI) in Germany. Furthermore, he has contributed to academic research on accounting and finance issues. Dr. Reichardt holds a 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 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/operations and of IT. The remuneration of the Management Board is determined by the Supervisory Board following recommendations from the remuneration committee. Remuneration includes annual bonuses related to the performance of the Bank. None of the managers or employees of AccessBank is a shareholder 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 end 2015, 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. The Committee is comprised of five members: Michael Hoffmann (CEO), Shakir Rahimov (Deputy CEO), Anar Hasanov (Deputy CEO), Dr. Rolf Reichardt (Executive Director Finance/Treasury) and Elshan Hajiyev (Executive Director Finance/Control).

Audit Committee

Sohrab Farhadov

Chairman

Member of AccessBank's Audit Committee since 2010, appointed Chairman of the Committee in June 2011. Mr. Farhadov has previously worked with Ernst & Young and is a Certified Public Accountant of the US. Since 2014, he is the Head of E-Finance in UBM Group, a private investment company. He has recently been elected to the Supervisory Board of Millikart, a card-processing company in Azerbaijan. 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.

Christoph Diehl

Member of AccessBank's Audit Committee since 2014. Mr. Diehl has been working for LFS Financial Systems GmbH since 2000 and is responsible for LFS projects in Africa. He is a member of the Management Board of AccessHolding, as well as Chairman of the Supervisory Board of AB Bank Zambia, and Director of the Supervisory Boards of AccessBank Tanzania and AB Bank Rwanda. Mr. Diehl has extensive professional experience as General Manager of a former LFS-managed Microfinance Bank in Mozambique and held senior management positions in MSME and housing finance projects in various countries. Mr. Diehl holds an M.Sc. in Economics.

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.

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), Christoph Diehl - a Senior Manager of LFS Financial Systems and Bayan Carter - a Senior Banker in EBRD.

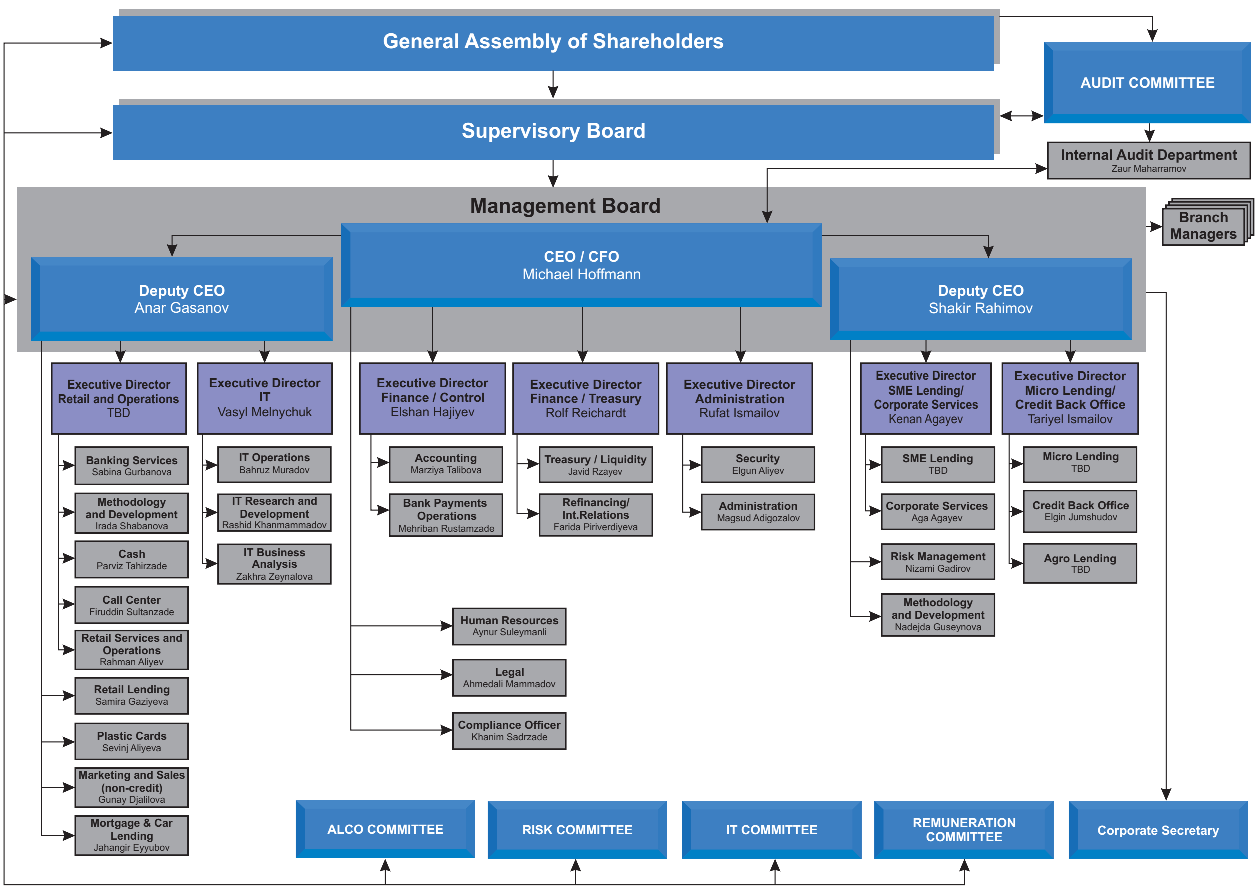
REMUNERATION COMMITTEE

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 2015, 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, performance of the banking system, and project development. The Committee is comprised of six members: Michael Hoffmann (CEO), Shakir Rahimov (Deputy CEO), Anar Hasanov (Deputy CEO), Dr. Rolf Reichardt (Executive Director Finance/Treasury) and Vasyl Melnychuk (Executive Director IT).

Organizational Chart



AccessBank Closed Joint Stock Company

Financial statements

Year ended 31 December 2015
together with Independent Auditors' Report

Contents

Independent auditors' report

Notes to the financial statements

Building a better working world

Ernst & Young Holdings (CIS) B.V.
Port Baku Towers Business Centre
South Tower, 9th floor
153, Neftchilar Ave.
Baku, AZ1010, Azerbaijan
Tel: +994 (12) 490 7020
Fax: +994 (12) 490 7017
www.ey.com/az

Ernst & Yanq Holdinqs (SiAyEs) Bi.Vi.
Port Baku Tauers Biznes Mərkəzi
Cənub Qülləsi, 9-cu mərtəbə
Neftçilər prospekti, 153
Bakı, AZ1010, Azərbaycan
Tel: +994 (12) 490 7020
Faks: +994 (12) 490 7017

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 2015, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year 2015, 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 audit procedures selected depend on our 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 2015, and its financial performance and cash flows for the year 2015 in accordance with International Financial Reporting Standards.

Ernst & Young Holdings (CIS) B.V.

29 April 2016

Statement of financial position

As of 31 December 2015

(Figures in tables are in thousands of Azerbaijani manats)

	Notes	2015	2014
Assets			
Cash and cash equivalents	6	145,748	139,535
Amounts due from credit institutions	7	36,724	14,361
Derivative financial assets	8	4,347	–
Investment securities available-for-sale		40	40
Loans to customers	9	894,528	819,780
Property and equipment	10	45,528	42,819
Intangible assets	11	25,333	20,869
Current income tax assets		8,853	–
Deferred income tax assets	12	913	–
Other assets	13	10,883	4,806
Total assets		**1,172,897**	**1,042,210**
Liabilities			
Amounts due to credit institutions	14	50,990	2,003
Amounts due to customers	15	318,420	336,782
Borrowed funds from international lenders	16	578,493	456,666
Debt securities issued	17	–	59,686
Current income tax liabilities		–	4,744
Deferred income tax liabilities	12	–	541
Other liabilities	13	6,513	20,386
Subordinated loans	18	70,446	15,993
Total liabilities		**1,024,862**	**896,801**
Equity	19		
Share capital		85,000	85,000
Retained earnings		63,035	60,409
Total equity		**148,035**	**145,409**
Total liabilities and equity		**1,172,897**	**1,042,210**

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

29 April 2016

Azərbaycan Respublikası "Access Bank" QSC Access Bank

The accompanying notes on pages 5 to 37 are an integral part of these financial statements

Statement of profit or loss and other comprehensive income

For the year ended 31 December 2015

(Figures in tables are in thousands of Azerbaijani manats)

	Notes	2015	2014
Interest income			
Loans to customers		174,773	169,636
Amounts due from credit institutions		298	35
Cash and cash equivalents		–	142
		175,071	**169,813**
Interest expense			
Borrowed funds from international lenders		(31,574)	(23,811)
Amounts due to customers		(21,060)	(24,071)
Debt securities issued		(3,696)	(1,884)
Subordinated loans		(2,774)	(1,213)
Amounts due to credit institutions		(2,355)	(726)
		(61,459)	**(51,705)**
Net interest income		**113,612**	**118,108**
(Allowance for loan impairment) / Reversal of allowance	9	(39,101)	3,515
Net interest income after allowance for loan impairment		**74,511**	**121,623**
Net fee and commission income	21	7,393	9,158
Net gains/(losses) from foreign currency operations:			
- foreign exchange transactions		2,896	902
- translation differences		(20,624)	(15)
- foreign currency derivatives		24,202	–
Other income		896	805
Non-interest income		**14,763**	**10,850**
Personnel expenses	22	(52,286)	(51,027)
General and administrative expenses	22	(22,668)	(19,363)
Depreciation and amortization	10,11	(10,693)	(7,159)
Other impairment		(23)	(713)
Other operating expenses		**(85,670)**	**(78,262)**
Profit before income tax expense		**3,604**	**54,211**
Income tax expense	12	(978)	(11,171)
Profit for the year		**2,626**	**43,040**
Other comprehensive income for the year		–	–
Total comprehensive income for the year		**2,626**	**43,040**

The accompanying notes on pages 5 to 37 are an integral part of these financial statements

Statement of changes in equity

For the year ended 31 December 2015

(Figures in tables are in thousands of Azerbaijani manats)

	Share capital	*Retained earnings*	*Total equity*
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 19)	–	(11,766)	**(11,766)**
31 December 2014	**85,000**	**60,409**	**145,409**
Profit for the year	–	2,626	**2,626**
Total comprehensive income for the year	–	**2,626**	**2,626**
31 December 2015	**85,000**	**63,035**	**148,035**

Statement of cash flows

For the year ended 31 December 2015

(Figures in tables are in thousands of Azerbaijani manats)

	Notes	2015	2014
Cash flows from operating activities			
Interest received		165,293	164,904
Interest paid		(54,053)	(48,462)
Fees and commissions received		9,010	10,334
Fees and commissions paid		(1,617)	(1,176)
Realized gains less losses from transactions with foreign currency derivatives		19,855	–
Realized gains less losses from exchange transactions in foreign currencies		2,896	902
Other income received		896	805
Personnel expenses paid		(53,611)	(52,330)
Other operating expenses paid		(23,374)	(19,010)
Cash flows from operating activities before changes in operating assets and liabilities		**65,295**	**55,967**
Net (increase)/decrease in operating assets			
Amounts due from credit institutions		(16,265)	1,611
Loans to customers		277,578	(194,159)
Other assets		(1,025)	(1,216)
Net increase/(decrease) in operating liabilities			
Amounts due to credit institutions		39,861	(25,123)
Amounts due to customers		(135,289)	74,142
Other liabilities		(1,877)	579
Net cash from / (used) in operating activities before income tax		**228,278**	**(88,199)**
Income tax paid		(16,029)	(10,222)
Net cash from / (used) in operating activities		**212,249**	**(98,421)**
Cash flows from investing activities			
Purchase of property and equipment		(7,640)	(4,712)
Proceeds from sale of property and equipment		–	713
Acquisition of intangible assets		(8,290)	(9,136)
Net cash used in investing activities		**(15,930)**	**(13,135)**
Cash flows from financing activities			
Proceeds from bonds issued		–	59,714
Redemption of bonds issued		(73,036)	(10,000)
Proceeds from borrowed funds from international lenders		65,598	197,122
Repayment of borrowed funds from international lenders		(286,601)	(90,320)
Proceeds from issuance of subordinated loans		25,429	15,688
Repayment of subordinated loans		–	(8,010)
Dividends paid	19	(11,766)	(7,850)
Net cash (used in) / from financing activities		**(280,376)**	**156,344**
Effect of exchange rates changes on cash and cash equivalents		90,270	(15)
Net increase in cash and cash equivalents		**6,213**	**44,773**
Cash and cash equivalents, beginning		**139,535**	**94,762**
Cash and cash equivalents, ending	6	**145,748**	**139,535**

The accompanying notes on pages 5 to 37 are an integral part of these financial statements

(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. As at 31 December 2015, 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 branches within the Republic of Azerbaijan as at 31 December 2015 (31 December 2014: forty three branches).

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

As at 31 December 2015 and 2014, 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. 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 and derivative financial instruments 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 2015:

Annual improvements 2010-2012 Cycle
These improvements are effective from 1 July 2014. They include:

IFRS 8 Operating Segments
The amendments are applied retrospectively and clarify 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.

The Bank has not applied the aggregation criteria in IFRS 8.12.

3. Summary of accounting policies (continued)

Changes in accounting policies (continued)

IFRS 13 Short-term Receivables and Payables – Amendments to IFRS 13
This amendment to IFRS 13 clarifies in the Basis for Conclusions that short-term receivables and payables with no stated interest rates can be measured at invoice amounts when the effect of discounting is immaterial. This is consistent with the Bank's current accounting policy, and thus this amendment does not impact the Bank's accounting policy.

IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets
The amendment is applied retrospectively and clarifies in IAS 16 and IAS 38 that the asset may be revalued by reference to observable data on either the gross or the net carrying amount. In addition, the accumulated depreciation or amortization is the difference between the gross and carrying amounts of the asset. The Bank did not record any revaluation adjustments during the current period.

Annual improvements 2011-2013 cycle

These improvements are effective from 1 July 2014 and the Bank has applied these amendments for the first time in these interim condensed financial statements. 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 does not apply the portfolio exception in IFRS 13.

Fair value measurement

The Bank measures available-for-sale securities and derivatives 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.

(Figures in tables are in thousands of Azerbaijani manats)

3. Summary of accounting policies (continued)

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.

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.

(Figures in tables are in thousands of Azerbaijani manats)

3. Summary of accounting policies (continued)

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, amounts due from the Central Bank of Azerbaijan Republic (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.

Derivative financial instruments

In the normal course of business, the Bank enters into various derivative financial instruments including futures, forwards, swaps and options in the foreign exchange and capital markets. Such financial instruments are held for trading and are recorded at fair value. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses resulting from these instruments are included in the statement of profit or loss as net gains/(losses) from trading securities or net gains/(losses) from foreign currencies, depending on the nature of the instrument.

Derivatives embedded in other financial instruments are treated as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contract, and the host contract is not itself held for trading or designated at fair value through profit or loss. The embedded derivatives separated from the host are carried at fair value in the trading portfolio with changes in fair value recognised in profit or loss.

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.

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 recognised in profit or loss on a straight-line basis over the lease term. The aggregate cost of incentives provided to lessees is recognised 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.

(Figures in tables are in thousands of Azerbaijani manats)

3. Summary of accounting policies (continued)

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.

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.

3. Summary of accounting policies (continued)

Impairment of financial assets (continued)

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.

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 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.

(Figures in tables are in thousands of Azerbaijani manats)

3. Summary of accounting policies (continued)

Derecognition of financial assets and liabilities (continued)

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.

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 basis 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.

(Figures in tables are in thousands of Azerbaijani manats)

3. Summary of accounting policies (continued)

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.

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.

Repossessed collateral

In certain circumstances, collateral is repossessed following the foreclosure on loans that are in default. Repossessed collateral is measured at the lower of carrying amount and net realizable value and reported within 'Other assets'.

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.

(Figures in tables are in thousands of Azerbaijani manats)

3. Summary of accounting policies (continued)

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.

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, 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 2015 and 31 December 2014 were as follows:

	31 December 2015	*31 December 2014*
USD/AZN	1.5594	0.7844
EUR/AZN	1.7046	0.9522

(Figures in tables are in thousands of Azerbaijani manats)

3. Summary of accounting policies (continued)

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

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.

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

The amendments clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are effective prospectively for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Bank given that the Bank has not used a revenue-based method to depreciate its non-current assets.

Annual improvements 2012-2014 Cycle

These improvements are effective from 1 January 2016 and are not expected to have a material impact on the Bank. They include:

IFRS 7 Financial Instruments: Disclosures - applicability of the offsetting disclosures to condensed interim financial statements

In December 2011, IFRS 7 was amended to add guidance on offsetting of financial assets and financial liabilities. In the effective date and transition for that amendment IFRS 7 states that "[A]n entity shall apply those amendments for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods. The interim disclosure standard, IAS 34, does not reflect this requirement, however, and it is not clear whether those disclosures are required in the condensed interim financial report.

The amendment removes the phrase 'and interim periods within those annual periods', clarifying that these IFRS 7 disclosures are not required in the condensed interim financial report. The amendment must be applied retrospectively for annual periods beginning on or after 1 January 2016, with earlier application permitted.

3. Summary of accounting policies (continued)

Standards issued but not yet effective (continued)

IAS 34 Interim Financial Reporting – disclosure of information 'elsewhere in the interim financial report'

The amendment states that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report (e.g., in the management commentary or risk report). The Board specified that the other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. If users do not have access to the other information in this manner, then the interim financial report is incomplete. The amendment should be applied retrospectively for annual periods beginning on or after 1 January 2016, with earlier application permitted.

IFRS 16 Leases

In January 2016, the IASB issued IFRS 16 Leases with an effective date of annual periods beginning on or after 1 January 2019. IFRS 16 results in lessees accounting for most leases within the scope of the standard in a manner similar to the way in which finance leases are currently accounted for under IAS 17 Leases. Lessees will recognise a "right of use" asset and a corresponding financial liability on the balance sheet. The asset will be amortised over the length of the lease and the financial liability measured at amortised cost. Lessor accounting remains substantially the same as in IAS 17. The Bank is currently assessing the impact of IFRS 16 on its financial statements.

IAS 12 Income Taxes

In January 2016, the IASB issued amendments to IAS 12 Income Taxes. The amendments clarify how to account for deferred tax assets related to debt instruments measured at fair value and clarify recognition of deferred tax assets for unrealised losses, to address diversity in practice. Entities are required to apply the amendments for annual periods beginning on or after 1 January 2017. Earlier application is permitted. These amendments are not expected to have any impact on the Bank.

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.

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 9 for more detailed information with respect to the allowance for impairment of loans to customers.

5. Segment information

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

- Micro loans – all loans in the amount up to AZN equivalent of USD 20 thousand (AZN 31 thousand) and partially the loans in the amount between AZN equivalent of USD 20 thousand and USD 30 thousand (AZN 31 thousand and AZN 47 thousand, respectively) issued to entrepreneurs and farmers;
- SME loans – partially the loans in the amount between AZN equivalent of USD 20 thousand and AZN equivalent of USD 30 thousand (AZN 31 thousand and AZN 47 thousand, respectively) and all loans in the amount in excess of AZN equivalent of USD 30 thousand (AZN 47 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 and other non-lending services to individual customers.

(Figures in tables are in thousands of Azerbaijani manats)

5. Segment information (continued)

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 2015 or 2014.

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

2015	*Micro loans*	*SME loans*	*Retail and Services*	*Unallocated*	*Total*
Revenue					
Third party					
Interest income	91,980	60,867	21,332	892	**175,071**
Fee and commission income	4,734	3,133	1,098	46	**9,010**
Net gains from – foreign exchange transactions	–	–	2,896	24,202	**27,098**
Other income	455	117	199	125	**896**
Total revenue	**97,169**	**64,117**	**25,525**	**25,265**	**212,075**
Interest expense	(32,290)	(21,367)	(7,489)	(313)	**(61,459)**
Fee and commission expense	(850)	(562)	(197)	(8)	**(1,617)**
Allowance for loan impairment	(15,799)	(21,356)	(1,946)	–	**(39,101)**
Net losses from foreign exchange transactions – translation differences	–	–	–	(20,624)	**(20,624)**
Personnel expenses	(27,720)	(6,885)	(7,752)	(9,929)	**(52,286)**
General and administrative expenses	–	–	–	(22,668)	**(22,668)**
Depreciation and amortization	–	–	–	(10,693)	**(10,693)**
Other impairment	–	–	–	(23)	**(23)**
Segment results before income tax	**20,510**	**13,947**	**8,141**	**(38,993)**	**3,604**
Segment assets	305,029	501,072	88,427	–	894,528

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 before income tax	**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)

Geographic information

The Bank's revenues from third party customers for the years ended 31 December 2015 and 2014 are generated in the Republic of Azerbaijan.

6. Cash and cash equivalents

Cash and cash equivalents comprise:

	2015	*2014*
Cash on hand	79,703	44,698
Current accounts with the CBAR	29,862	39,552
Current accounts with other banks	36,183	55,285
Cash and cash equivalents	**145,748**	**139,535**

Current accounts with other banks consist of correspondent account balances with resident and non-resident banks in the amount of AZN 4,202 thousand (2014 – AZN 1,801 thousand) and AZN 31,981 thousand (2014 – AZN 53,484 thousand), respectively.

7. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	2015	*2014*
Blocked current account with the CBAR	32,124	–
Obligatory reserve with the CBAR	4,600	14,361
Amounts due from credit institutions	**36,724**	**14,361**

As at 31 December 2015, blocked current account with the CBAR of AZN 32,124 thousand (2014: nil) represented funds blocked against borrowings from the CBAR (Note 14).

Credit institutions are required to maintain a non-interest earning cash deposit (obligatory reserve) with the CBAR at 0.5% (2014 – 2%) 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.

8. Derivative financial assets

On 6 April 2015, the Bank has entered into non-deliverable foreign currency forward agreements with one international financial institution with a notional amount of AZN 23,391 thousand, as part of the foreign currency denominated liabilities' economic hedge. As at 31 December 2015, the fair value of such contracts aggregated to an asset of AZN 4,347 thousand.

Forward contracts are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future. Forwards are customized contracts transacted in the over-the-counter market.

9. Loans to customers

Loans to customers comprise:

	2015	*2014*
SME loans	528,517	350,771
Micro loans	320,161	361,329
Retail loans	44,209	74,527
Mortgage loans	29,640	29,586
Staff loans	15,683	12,707
Gross loans to customers	**938,210**	**828,920**
Less: allowance for impairment	(43,682)	(9,140)
Loans to customers	**894,528**	**819,780**

(Figures in tables are in thousands of Azerbaijani manats)

9. Loans to customers (continued)

As at 31 December 2015, out of the total amount of loans 72.1% (2014 – 56.5%) are denominated in foreign currencies. The increase in the share of the foreign currency denominated loan portfolio as compared to the previous year is mostly due to the devaluation of AZN against major currencies by approximately 34% and 48%, on 21 February 2015 and on 21 December 2015, respectively.

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 2015	**2,765**	**5,866**	**325**	**129**	**55**	**9,140**
Charge for the year	15,799	21,356	1,725	118	103	39,101
Recoveries	300	703	47	121	–	1,171
Amounts written off	(3,732)	(480)	(1,481)	(34)	(3)	(5,730)
At 31 December 2015	**15,132**	**27,445**	**616**	**334**	**155**	**43,682**
Individual impairment	3,942	17,216	–	42	5	**21,205**
Collective impairment	11,190	10,229	616	292	150	**22,477**
	15,132	**27,445**	**616**	**334**	**155**	**43,682**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**6,599**	**35,681**	**–**	**189**	**34**	**42,503**

	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	**–**	**–**	**–**	**–**	**–**	**–**

Individually impaired loans

As at 31 December 2015, loans in the amount of AZN 42,503 thousand (2014 – nil) were assessed individually. An individual impairment allowance of AZN 21,205 thousand (2014 – nil) were recognized for such loans. Interest income from loans, for which individual impairment allowances have been recognized, for the year ended 31 December 2015, comprised AZN 3,310 thousand (2014 – nil).

In light of challenging economic conditions, for the purpose of allowance assessment in 2015, the Bank has considered loans for individual assessment when the exposure of a borrower is more than 10 thousand USD equivalent, is overdue for more than 90 days and is covered by hard collateral. In 2014, exposures above 3,000 thousand USD equivalent were considered for individual assessment.

(Figures in tables are in thousands of Azerbaijani manats)

9. 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 2015, the Bank had a concentration of loans represented by AZN 105,571 thousand due from the twenty (2014 – twenty) largest third party borrowers (11% of gross loan portfolio) (2014 – AZN 61,598 thousand or 7% of gross loan portfolio). An allowance of AZN 11,261 thousand (2014 – AZN 2,514 thousand) was recognized against these loans.

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

	2015	*2014*
Trade	380,260	311,720
Services	256,897	189,202
Agriculture	119,210	147,915
Household	96,775	118,667
Manufacturing	67,190	43,159
Transportation	17,878	18,257
	938,210	**828,920**

10. 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 2014	**45,307**	**10,865**	**6,705**	**909**	**63,786**
Additions	5,630	2,068	1,206	364	**9,268**
Disposals	(438)	(283)	(195)	(26)	**(942)**
31 December 2015	**50,499**	**12,650**	**7,716**	**1,247**	**72,112**
Accumulated depreciation					
31 December 2014	**(9,041)**	**(7,236)**	**(4,080)**	**(610)**	**(20,967)**
Depreciation charge	(3,263)	(1,765)	(1,344)	(158)	**(6,530)**
Disposals	445	275	169	24	**913**
31 December 2015	**(11,859)**	**(8,726)**	**(5,255)**	**(744)**	**(26,584)**
Net book value					
31 December 2014	**36,266**	**3,629**	**2,625**	**299**	**42,819**
31 December 2015	**38,640**	**3,924**	**2,461**	**503**	**45,528**

(Figures in tables are in thousands of Azerbaijani manats)

10. Property and equipment (continued)

	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)**	**(16,154)**
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**

11. Intangible assets

The movements in intangible assets were as follows:

	Licenses	*Computer software*	*Total*
Cost			
31 December 2014	**7,247**	**17,653**	**24,900**
Additions	1,687	7,071	**8,758**
Disposals	(131)	(114)	**(245)**
31 December 2015	**8,803**	**24,610**	**33,413**
Accumulated amortization			
31 December 2014	**(1,430)**	**(2,601)**	**(4,031)**
Amortization charge	(1,221)	(2,942)	**(4,163)**
Disposals	-	114	**114**
31 December 2015	**(2,651)**	**(5,429)**	**(8,080)**
Net book value			
31 December 2014	**5,817**	**15,052**	**20,869**
31 December 2015	**6,152**	**19,181**	**25,333**

	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**

(Figures in tables are in thousands of Azerbaijani manats)

12. Taxation

The corporate income tax expense comprises:

	2015	*2014*
Current tax charge	(2,432)	(10,441)
Deferred tax credit / (charge)	1,454	(730)
Income tax expense	**(978)**	**(11,171)**

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:

	2015	*2014*
Profit before tax	**3,604**	**54,211**
Statutory tax rate	20%	20%
Theoretical income tax expense at the statutory rate	**(721)**	**(10,842)**
Tax effect of non-deductible expenses	(257)	(329)
Income tax expense	**(978)**	**(11,171)**

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

	2013	*Origination and reversal of temporary differences in statement of profit or loss and other comprehensive income*	*2014*	*Origination and reversal of temporary differences in statement of profit or loss and other comprehensive income*	*2015*
Tax effect of deductible temporary differences					
Loans to customers	–	–	–	443	443
Intangible assets	–	–	–	430	430
Other liabilities	631	(233)	398	(180)	218
Deferred tax asset	**631**	**(233)**	**398**	**693**	**1,091**
Tax effect of taxable temporary differences					
Cash and cash equivalent	–	(111)	(111)	38	(73)
Loans to customers	(103)	(409)	(512)	512	–
Property and equipment	(339)	23	(316)	304	(12)
Other assets	–	–	–	(93)	(93)
Deferred tax liability	**(442)**	**(497)**	**(939)**	**761**	**(178)**
Net deferred tax asset/(liability)	**189**	**(730)**	**(541)**	**1,454**	**913**

(Figures in tables are in thousands of Azerbaijani manats)

13. Other assets and liabilities

Other assets comprise:

	2015	*2014*
Other financial assets		
Settlements through payment terminals	5,605	–
Settlements on money transfers and plastic cards	846	1,010
Cash blocked by Visa Card	315	176
Other	303	13
	7,069	**1,199**
Other non-financial assets		
Deferred expenses	1,744	365
Collaterals repossessed in lieu of non-performing loans	1,372	652
Prepayments for operating lease agreements	457	286
Prepayments for acquisition of property, equipment and intangible assets	121	2,057
Other	120	247
	3,814	**3,607**
Other assets	**10,883**	**4,806**

Other liabilities comprise:

	2015	*2014*
Other financial liabilities		
Settlements on money transfer	418	617
Payables for professional services	300	215
Dividends payable (Note 18)	–	11,766
Other	–	276
	718	**12,874**
Other non-financial liabilities		
Payable to employees	4,660	5,954
Taxes, other than income tax	633	954
Other	502	604
	5,795	**7,512**
Other liabilities	**6,513**	**20,386**

14. Amounts due to credit institutions

Amounts due to credit institutions comprise:

	2015	*2014*
Loans from the CBAR	20,000	–
Short term loans from banks	15,766	–
Term deposits	12,158	2,003
Funds received from National Fund for Entrepreneurship Support	3,066	–
Amounts due to credit institutions	**50,990**	**2,003**

As at 31 December 2015, the Bank had loans from the CBAR amounting to AZN 20,000 thousand maturing until 6 September 2018 (2014: nil). The Bank pledged USD 20,600 thousand (AZN 32,124 thousand) against these loans (Note 7).

At 31 December 2015, the Bank had a short-term loan from one resident bank amounting to AZN 15,766 thousand maturing on 5 August 2016 (2014: nil).

As at 31 December 2015, the term deposits represent deposit placed by two resident banks (2014: one resident bank).

As at 31 December 2015, the Bank had loans received from the National Fund for Support of Entrepreneurship amounting to AZN 3,066 thousands (2014: nil), maturing through December 2022, and bearing annual interest rate of 1% p.a. The loans were acquired for the purposes of assistance in gradually improving entrepreneurship environment in Azerbaijan under the government program. The loans have been granted to local entrepreneurs at 6%.

(Figures in tables are in thousands of Azerbaijani manats)

15. Amounts due to customers

The amounts due to customers include the following:

	2015	*2014*
Current accounts	107,400	80,017
Term deposits	210,920	256,765
Amounts due to customers	**318,420**	**336,782**
Held as security against guarantees (Note 20)	**25**	**31**

As at 31 December 2015, customer accounts included balances with one hundred (2014 – one hundred) largest customers, which comprised AZN 131,474 thousand or 41% of the amounts due to customers (2013 – AZN 118,067 thousand or 35% of the amounts due to customers).

Customer accounts by economic sectors are as follows:

	2015	*2014*
Individuals	248,229	264,670
Insurance companies	55,424	57,561
Other	14,767	14,551
Amounts due to customers	**318,420**	**336,782**

16. Borrowed funds from international lenders

Borrowed funds from international lenders consisted of the following:

	2015	*2014*
Syndicated loans	221,037	139,890
Bilateral borrowings	357,456	316,776
Borrowed funds from international lenders	**578,493**	**456,666**

As at 31 December 2015, the Bank had syndicated loans with twenty-one participating commercial banks (2014 – twenty three participating commercial banks) in the aggregate amount of AZN 221,037 thousand (2014 – AZN 139,890 thousand) maturing between 28 April 2016 and 11 July 2019 (2014 – maturing between 13 March 2015 and 11 July 2019).

As at 31 December 2015, the Bank had bilateral borrowings with fourteen financial institutions (2014 – twenty-eight financial institutions) in the aggregate amount of AZN 357,456 thousand (2014 – AZN 316,776 thousand) maturing between 28 March 2016 and 15 May 2020 (2014 – maturing between 11 May 2015 and 20 December 2019).

In 2015, the Bank has entered into loan agreements with three international financial institutions from which it had undrawn loan facilities available of approximately USD 72,000 thousand as at 31 December 2015.

The Bank is obliged to comply with financial and non-financial covenants stipulated by several of the aforementioned borrowing agreements. As at 31 December 2015, the Bank was not in compliance with certain covenants under two borrowing agreements caused by the devaluation of AZN on 21 December 2015 by approximately 48%. Due to the short time period available between the breaches occurring and the reporting date, the lenders were not able to issue the intended waiver letters before 31 December 2015. Therefore, the non-current amount of AZN 89,280 thousand (out of a total outstanding amount of AZN 176,572 under these agreements) was reclassified to current as at 31 December 2015 (Note 25). The Bank obtained the respective waiver letters subsequently.

(Figures in tables are in thousands of Azerbaijani manats)

17. Debt Securities Issued

Debt securities issued consisted of the following:

	2015	*2014*
European Commercial Paper (ECP) issued	–	37,824
Domestic bonds issued	–	21,862
Debt securities issued	**–**	**59,686**

On 15 October 2014, the Bank had issued ECP having nominal value of USD 50,000 thousand which was repaid at maturity.

As at 31 December 2014, the Bank had issued corporate bonds that were quoted on the Baku Stock Exchange having an aggregate carrying value of AZN 21,862 thousand which were repaid in 2015 at maturity.

18. Subordinated loans

As at 31 December 2015, the Bank had subordinated loans from three financial institutions (2014 – two financial institutions) in the aggregate amount of AZN 70,446 thousand (2014 – AZN 15,993 thousand) maturing through 1 August 2022 – 15 December 2025 (2014 – 1 August 2022 – 29 December 2022).

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 one of the aforementioned loan agreements. As at 31 December 2015 and 2014, the Bank was in compliance with these covenants.

19. Equity

As at 31 December 2015 and 2014, the Bank had 20,000 thousand authorized, issued and fully paid ordinary shares with a nominal value of AZN 4.25 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 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.

20. Commitments 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 their 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.

As at 31 December 2015 the Bank views its interpretation of the relevant legislation is appropriate and that the Bank's tax and social contribution position will be sustained.

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.

(Figures in tables are in thousands of Azerbaijani manats)

20. Commitments and contingencies (continued)

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

	2015	*2014*
Credit related commitments		
Undrawn loan commitments	14,915	13,019
Guarantees	9,133	6,877
Commitments and contingencies (before deducting collateral)	**24,048**	**19,896**
Less: deposits held as security against guarantees (Note 15)	(25)	(31)
Commitments and contingencies	**24,023**	**19,865**

21. Net fee and commission income

Net fee and commission income comprises:

	2015	*2014*
Cash operations	4,208	6,962
Settlements operations	2,260	1,044
Plastic cards	2,069	1,903
Documentary operations	239	149
Insurance agency activities	128	237
Other	106	39
Fee and commission income	**9,010**	**10,334**
Plastic cards	(799)	(567)
Central Credit Registry fees	(366)	(400)
Cash operations	(260)	(60)
Settlements operations	(112)	(132)
Other	(80)	(17)
Fee and commission expense	**(1,617)**	**(1,176)**
Net fee and commission income	**7,393**	**9,158**

22. Personnel, general and administrative expenses

Personnel expenses comprise:

	2015	*2014*
Salaries	(43,862)	(42,945)
Social security costs	(7,710)	(7,367)
Other employee related expenses	(714)	(715)
Personnel expenses	**(52,286)**	**(51,027)**

(Figures in tables are in thousands of Azerbaijani manats)

22. Personnel, general and administrative expenses (continued)

General and administrative expenses comprise:

	2015	*2014*
Data processing	(3,917)	(1,438)
Consultancy and other professional fees	(3,788)	(2,245)
Stationery and office supplies	(2,618)	(2,541)
Occupancy and rent	(2,431)	(1,651)
Advertising and marketing expenses	(2,180)	(4,337)
Repair and maintenance	(1,677)	(1,136)
Communications	(1,640)	(1,699)
Security services	(1,337)	(1,253)
Business travel expense	(615)	(714)
Utilities	(500)	(512)
Taxes, other than income tax	(454)	(402)
Entertainment	(185)	(174)
Other	(1,326)	(1,261)
Total general and administrative expenses	**(22,668)**	**(19,363)**

23. 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.

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 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, analyse, 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 on-going 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 Committee and the Asset and Liability Committee ("ALCO").

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

Responsibility Area	*Supervising Body*	*Executive Management*
Strategic and organizational risk	Supervisory Board	Management Board
Credit risk	Management Board / Risk Committee	Business Banking / Risk Department
Market and liquidity risk	Risk Committee, ALCO	Finance/Treasury
Operational risks	Management Board	Internal Audit / Risk Department

(Figures in tables are in thousands of Azerbaijani manats)

23. Risk management (continued)

Credit risk

Credit risk is the risk that the Bank will incur a loss because its customers, clients or counterparties fail 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.

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.

As at 31 December 2015 cash and cash equivalents as well as amounts due from credit institutions held at the CBAR and OECD investment grade banks are classified as high grade. Cash and cash equivalents held in other banks is included in standard grade.

The loans to customers of high grade consist of highly collateralized loans (cash or 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					
As at 31 December 2015	*Notes*	*High grade*	*Standard grade*	*Sub-standard grade*	*Past due but not impaired*	*Individually impaired*	*Total*
Cash and cash equivalents (excluding cash on hand)	6	61,843	4,202	–	–	–	**66,045**
Amounts due from credit institutions	7	36,724	–	–	–	–	**36,724**
Derivative financial assets	8	4,347	–	–	–	–	**4,347**
Loans to customers	9						
Micro loans		23,404	169,702	60,093	60,558	6,403	**320,160**
SME loans		127,063	163,346	122,634	79,597	35,877	**528,517**
Retail loans		3,142	37,411	1,005	2,651	-	**44,209**
Mortgage loans		20,390	7,578	926	557	189	**29,640**
Staff loans		6,382	2,239	6,768	261	34	**15,684**
Other financial assets	13	–	7,069	–	–	–	**7,069**
Total		**283,295**	**391,547**	**191,426**	**143,624**	**42,503**	**1,052,395**

(Figures in tables are in thousands of Azerbaijani manats)

23. Risk management (continued)

Credit risk (continued)

As at 31 December 2014	Notes	Neither past due nor impaired: High grade	Standard grade	Sub-standard grade	Past due but not impaired	Individually impaired	Total
Cash and cash equivalents (excluding cash on hand)	6	92,907	1,930	–	–	–	**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	13	–	1,199	–	–	–	**1,199**
Total		**277,098**	**649,682**	**4,479**	**8,058**	**–**	**939,317**

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.

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

As at 31 December 2015	*Less than 30 days*	*31 to 90 days*	*More than 90 days*	*Total*
Loans to customers				
SME loans	64,612	14,338	647	**79,597**
Micro loans	42,028	8,439	10,091	**60,558**
Retail loans	1,626	725	300	**2,651**
Mortgage loans	345	152	60	**557**
Staff loans	259	-	2	**261**
Total	**108,870**	**23,654**	**11,100**	**143,624**

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**

See Note 9 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.

(Figures in tables are in thousands of Azerbaijani manats)

23. Risk management (continued)

Credit risk (continued)

Individually assessed allowances

The Bank determines the allowances appropriate for each individually significant loan on an individual basis. Factors 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 pay-out 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.

In light of challenging economic conditions, for the purpose of allowance assessment in 2015, the Bank has considered loans for individual assessment when the exposure of a borrower is more than 10 thousand USD equivalent, is overdue for more than 90 days and is covered by hard collateral. In 2014, exposures above 3,000 thousand USD equivalent were considered for individual assessment.

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.

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

	2015				*2014*			
	Azerbaijan	*OECD*	*CIS and other countries*	*Total*	*Azerbaijan*	*OECD*	*CIS and other countries*	*Total*
Assets								
Cash and cash equivalents	113,828	31,920	–	**145,748**	86,052	53,355	128	**139,535**
Amounts due from credit institutions	36,724	–	–	**36,724**	14,361	–	–	**14,361**
Derivative financial assets	–	4,347	–	**4,347**	–	–	–	–
Investment securities available-for-sale	40	–	–	**40**	40	–	–	**40**
Loans to customers	894,528	–	–	**894,528**	819,780	–	–	**819,780**
Other assets	6,014	555	500	**7,069**	721	240	238	**1,199**
	1,051,134	**36,822**	**500**	**1,088,456**	**920,954**	**53,595**	**366**	**974,915**
Liabilities								
Amounts due to credit institutions	50,990	–	–	**50,990**	2,003	–	–	**2,003**
Amounts due to customers	294,157	14,569	9,694	**318,420**	315,603	11,395	9,784	**336,782**
Debt securities issued	–	–	–	–	21,862	37,824	–	**59,686**
Borrowed funds from international lenders	–	510,368	68,125	**578,493**	–	397,985	58,681	**456,666**
Other liabilities	717	–	1	**718**	425	12,383	66	**12,874**
Subordinated loans	–	70,446	–	**70,446**	–	15,993	–	**15,993**
	345,864	**595,383**	**77,820**	**1,019,067**	**339,893**	**475,580**	**68,531**	**884,004**
Net assets/(liabilities)	**705,270**	**(558,561)**	**(77,320)**	**69,389**	**581,061**	**(421,985)**	**(68,165)**	**90,911**

(Figures in tables are in thousands of Azerbaijani manats)

23. Risk management (continued)

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 the CBAR and highly rated international banks in OECD countries. 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 219.1% as at 31 December 2015 (144.1% as at 31 December 2014), as compared to the minimum percentage required by the CBAR of 30%.

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. Term deposits of individuals are included in due to customers at their contractual maturities. The borrowed funds from international lenders are shown in the below table based on the original contractual repayment schedules.

As at 31 December 2015	*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	–	22,493	27,859	4,050	–	**54,402**
Amounts due to customers	128,398	99,136	78,315	20,819	–	**326,668**
Debt securities issued	–	–	–	–	–	–
Borrowed funds from international lenders	31,950	150,265	143,529	303,235	–	**628,979**
Other liabilities	718	–	–	–	–	**718**
Subordinated loans	712	2,289	2,950	63,584	38,036	**107,571**
Total undiscounted financial liabilities	**161,778**	**274,183**	**252,653**	**391,688**	**38,036**	**1,118,338**

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**

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.

(Figures in tables are in thousands of Azerbaijani manats)

23. Risk management (continued)

Liquidity risk and funding management (continued)

	Less than 1 month	*1 to 6 months*	*6 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
2015	15,252	4,174	3,412	1,140	67	**24,048**
2014	13,080	2,431	3,822	549	14	**19,896**

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

The Bank's 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 one month 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 15.

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 (LIBOR) non-trading financial assets and financial liabilities held at 31 December.

Currency	*Increase in basis points in % 2015*	*Sensitivity of net interest income 2015*	*Increase in basis points in % 2014*	*Sensitivity of net interest income 2014*
USD	0.50	(1,168)	0.02	(27)

Currency	*Decrease in basis points in % 2015*	*Sensitivity of net interest income 2015*	*Decrease in basis points in % 2014*	*Sensitivity of net interest income 2014*
USD	(0.25)	584	(0.02)	27

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.

(Figures in tables are in thousands of Azerbaijani manats)

23. Risk management (continued)

Market risk (continued)

Currency	*Increase in exchange rate* in % in 2015*	*Effect on profit before tax 2015*	*Increase in exchange rate* in % in 2014*	*Effect on profit before tax 2014*
USD/AZN	30.00	6,089	35.00	(5,163)
EUR/AZN	30.00	(1)	35.00	(1,076)

** This means revaluation of the currencies indicated in the table against AZN.*

Currency	*Decrease in exchange rate** in % in 2015*	*Effect on profit before tax 2015*	*Decrease in exchange rate** in % in 2014*	*Effect on profit before tax 2014*
USD/AZN	(30.00)	(6,089)	(8.74)	1,289
EUR/AZN	(30.00)	1	(10.70)	329

*** This means devaluation of the currencies indicated in the table against AZN.*

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.

The Bank has adopted detailed procedures for managing operational risks which are centred on a strict KYC (Know Your Customer) policy and which serve to protect the Bank, its customers and the laws. The procedures have been prepared in accordance with FATF (Financial Action Task Force) and other international recommendations. The implementation of the T24 banking software further improves operational risk management by allowing up-to-date information on all activities available for management analysis at any time.

The Internal Audit Department (IAD) plays an active role in the risk management process. The IAD focuses on and reviews the major regulatory, financial and operational risks which the Bank is facing to ensure the efficiency of the processes and controls. A risk based audit approach was adopted with the 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 establishes relevant controls over activities that correspond to the level of risks inherent to these activities and processes.

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.

In 2015, the Azerbaijan economy has been negatively impacted by a significant drop in crude oil prices which has triggered two major devaluations. The Azerbaijani manat devalued against the US dollar from AZN 0.7862 to AZN 1.0500 for 1 USD on 21 February 2015 and further to AZN 1.5500 for 1 USD on 21 December 2015. Following the second devaluation, the Central Bank of the Republic of Azerbaijan announced a floating exchange rate regime.

The deteriorating economic environment had a negative impact on the asset quality of the banking sector as a result of which the Bank's financial position, operational result and business prospects could get worse.

The Bank's Management is monitoring these developments in the current environment and taking precautionary measures it considered necessary in order to support the sustainability and development of the Bank's business in the foreseeable future.

(Figures in tables are in thousands of Azerbaijani manats)

24. 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					
Derivative financial assets	31/12/2015	–	4,347	–	**4,347**
Investment securities available-for-sale	31/12/2015	–	–	40	**40**
Assets for which fair values are disclosed					
Cash and cash equivalents	31/12/2015	145,748	–	–	**145,748**
Amounts due from credit institutions	31/12/2015	–	36,724	–	**36,724**
Loans to customers	31/12/2015	–	–	894,528	**894,528**
Liabilities for which fair values are disclosed					
Amounts due to credit institutions	31/12/2015	–	–	50,990	**50,990**
Amounts due to customers	31/12/2015	–	–	318,420	**318,420**
Borrowed funds from international lenders	31/12/2015	–	–	578,493	**578,493**
Subordinated loans	31/12/2015	–	–	70,446	**70,446**

		Fair value measurement using			
	Date of valuation	***Quoted prices in active markets (Level 1)***	***Significant observable inputs (Level 2)***	***Significant unobservab le inputs (Level 3)***	***Total***
Assets measured at fair value					
Investment securities available-for-sale	31/12/2014	–	–	40	**40**
Assets for which fair values are disclosed					
Cash and cash equivalents	31/12/2014	139,535	–	–	**139,535**
Amounts due from credit institutions	31/12/2014	–	14,361	–	**14,361**
Loans to customers	31/12/2014	–	–	819,780	**819,780**
Liabilities for which fair values are disclosed					
Amounts due to credit institutions	31/12/2014	–	–	2,003	**2,003**
Amounts due to customers	31/12/2014	–	–	336,782	**336,782**
Debt securities issued	31/12/2014	22,122	–	37,823	**59,945**
Borrowed funds from international lenders	31/12/2014	–	–	456,666	**456,666**
Subordinated loans	31/12/2014	–	–	15,993	**15,993**

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 2015 and 2014, 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 2015 and 2014, 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.

(Figures in tables are in thousands of Azerbaijani manats)

24. Fair value measurement (continued)

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.

25. 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.

	2015			*2014*		
	Within one year	*More than one year*	*Total*	*Within one year*	*More than one year*	*Total*
Cash and cash equivalents	145,748	–	**145,748**	139,535	–	**139,535**
Amounts due from credit institutions	36,724	–	**36,724**	14,361	–	**14,361**
Derivative financial assets	–	4,347	**4,347**	–	–	–
Investment securities available-for-sale	40	–	**40**	40	–	**40**
Loans to customers	554,123	340,405	**894,528**	465,514	354,266	**819,780**
Property and equipment	–	45,528	**45,528**	–	42,819	**42,819**
Intangible assets	–	25,333	**25,333**	–	20,869	**20,869**
Current income tax assets	8,853	–	**8,853**	–	–	–
Deferred income tax assets	–	913	**913**			
Other assets	10,883	–	**10,883**	4,806	–	**4,806**
Total	**756,371**	**416,526**	**1,172,897**	**624,256**	**417,954**	**1,042,210**
Amounts due to credit institutions	37,924	13,066	**50,990**	2,003	–	**2,003**
Amounts due to customers	299,421	18,999	**318,420**	306,819	29,963	**336,782**
Debt securities issued	–	–	–	59,686	–	**59,686**
Borrowed funds from international lenders	391,336*	187,157	**578,493**	209,762	246,904	**456,666**
Current income tax liabilities	–	–	–	4,744	–	**4,744**
Deferred income tax liabilities	–	–	–	–	541	**541**
Other liabilities	6,513	–	**6,513**	20,386	–	**20,386**
Subordinated loans	762	69,684	**70,446**	305	15,688	**15,993**
Total	**735,956**	**288,906**	**1,024,862**	**603,705**	**293,096**	**896,801**
Net	**20,415**	**127,620**	**148,035**	**20,551**	**124,858**	**145,409**

* This amount includes AZN 89,280 with maturity above one year which was classified as current as a result of covenant breaches for which waiver letters were not yet received as at 31 December 2015 (see Note 16). The Bank has subsequently obtained the waiver letters for these covenant breaches.

26. 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:

(Figures in tables are in thousands of Azerbaijani manats)

26. Related party disclosures (continued)

	2015			*2014*		
	Share-holders	*Entities under control of shareholders*	*Key manage-ment personnel*	*Share-holders*	*Entities under control of shareholders*	*Key manage-ment personnel*
Loans outstanding at 1 January, gross	**–**	**–**	**358**	**–**	**360**	**211**
Loans issued during the year	–	–	548	–	2,118	160
Loan repayments during the year	–	–	(606)	–	(2,471)	(443)
Foreign currency translation difference		–	277			
Other movements	–	–	(123)	–	(7)	430
Loans outstanding at 31 December, gross	**–**	**–**	**454**	**–**	**–**	**358**
Less: allowance for impairment at 31 December	–	–	–	–	–	–
Loans outstanding at 31 December, net	**–**	**–**	**454**	**–**	**–**	**358**
Deposits at 1 January	**–**	**–**	**–**	**–**	**–**	**–**
Deposits placed during the year	–	3,145	–	–	–	–
Deposits withdrawn during the year		(3,193)				
Other movements	–	48	–	–	–	–
Deposits placed, at 31 December	**–**	**–**	**–**	**–**	**–**	**–**
Deposits at 1 January	**–**	**–**	**493**	**–**	**–**	**222**
Deposits received during the year	–	–	1,479	–	–	479
Deposits repaid during the year	–	–	(1,327)	–	–	(208)
Foreign currency translation difference	–	–	382	–	–	–
Other movements	–	–	(39)	–	–	–
Deposits received, at 31 December	**–**	**–**	**988**	**–**	**–**	**493**
Borrowings at 1 January	**72,564**	**50,329**	**–**	**67,645**	**32,584**	**–**
Borrowings received during the year	–	–	–	27,454	27,454	–
Borrowings repaid during the year	(31,561)	(20,155)	–	(22,486)	(9,477)	–
Foreign currency translation difference	56,237	39,005	–	–	–	–
Other movements	(192)	748	–	(49)	(232)	–
Borrowings at 31 December	**97,048**	**69,927**	**–**	**72,564**	**50,329**	**–**
Current accounts at 31 December	**–**	**–**	**245**	**–**	**–**	**355**
Subordinated loans at 1 January	–	–	–	–	–	–
Subordinated loans received during the year	26,220	–	–	–	–	–
Foreign currency translation difference	12,765	–	–	–	–	–
Other movements	(334)	–	–	–	–	–
Subordinated loans at 31 December	**38,651**	**–**	**–**	**–**	**–**	**–**
Dividends payable at 31 December	**–**	**–**	**–**	**11,766**	**–**	**–**

(Figures in tables are in thousands of Azerbaijani manats)

26. Related party disclosures (continued)

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

	2015			*2014*		
	Share-holders	***Entities under control of shareholders***	***Key manage-ment personnel***	***Share-holders***	***Entities under control of shareholders***	***Key manage-ment personnel***
Interest income on loans	–	–	33	–	8	99
Interest expense on deposits	–	48	–	–	–	30
Interest expense on borrowings	5,413	3,425	–	3,240	1,896	–
Interest expense on subordinated loans	864	–	–	–	–	–
Other operating expenses	4,501	–	–	1,320	–	–

Other operating expenses include an amount of AZN 3,461 thousand for support and maintenance of T24 banking software by LFS (2014 – nil). An amount of AZN 841 thousand (2014 - AZN 755 thousand) is expensed under a management service agreement with LFS, under which LFS provides management and consulting services to the Bank.

As at 31 December 2015, key management personnel of the Bank consisted of 9 members (2014 – 8 members) and compensation of key management personnel was AZN 2,733 thousand (2014 – AZN 2,654 thousand) which comprises salaries, bonuses and other short-term benefits.

27. 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 5% and 10%, (2014 – 6% and 12%) respectively, of risk-weighted assets for regulatory capital. As at 31 December 2015 and 2014 the Bank's Tier 1 and total capital adequacy ratios on this basis were as follows:

	2015	*2014*
Tier 1 capital	120,374	121,747
Tier 2 capital	82,964	24,284
Total capital	**203,338**	**146,031**
Risk weighted assets	**988,429**	**895,068**
Tier 1 capital ratio	12.2%	13.6%
Total capital ratio	20.6%	16.3%

(Figures in tables are in thousands of Azerbaijani manats)

27. Capital adequacy (continued)

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:

	2015	*2014*
Tier 1 capital	148,035	145,409
Tier 2 capital	79,844	20,933
Total capital	**227,879**	**166,342**
Risk weighted assets	**755,014**	**679,741**
Tier 1 capital ratio	19.6%	21.4%
Total capital ratio	30.2%	24.5%

28. Events after the reporting period

On 26 February, 2016, Fitch Ratings downgraded Azerbaijan's Long-term Issuer Default Ratings (IDR) and Country Ceiling from 'BBB-' to 'BB+' (Outlook Negative). Following the country's downgrade, Fitch Ratings also downgraded the Bank's rating from 'BBB-' to 'BB+' (Outlook Negative) on 9 March, 2016. The Negative Outlook on the Bank's IDR reflects that of the sovereign.

AccessBank Azerbaijan
3 Tbilisi avenue
Baku, AZ1000 Azerbaijan
Tel: (+994 12) 490 80 10
Fax: (+994 12) 490 80 12

151
CALL CENTER

This report is also available in Azerbaijani. Both versions are on our website.
Hesabat Azərbaycan dilində də mövcüddur. Hesabatın hər iki dildə variantı ilə həmcinin bizim saytimızda tanış ola bilərsiniz.

www.accessbank.az