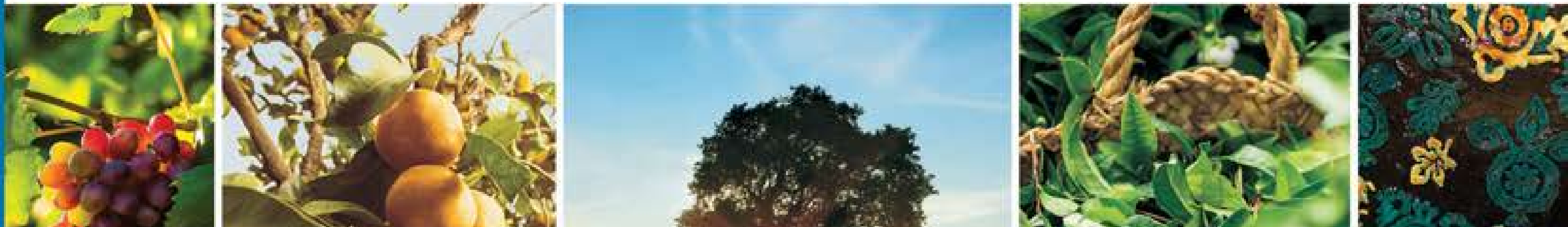
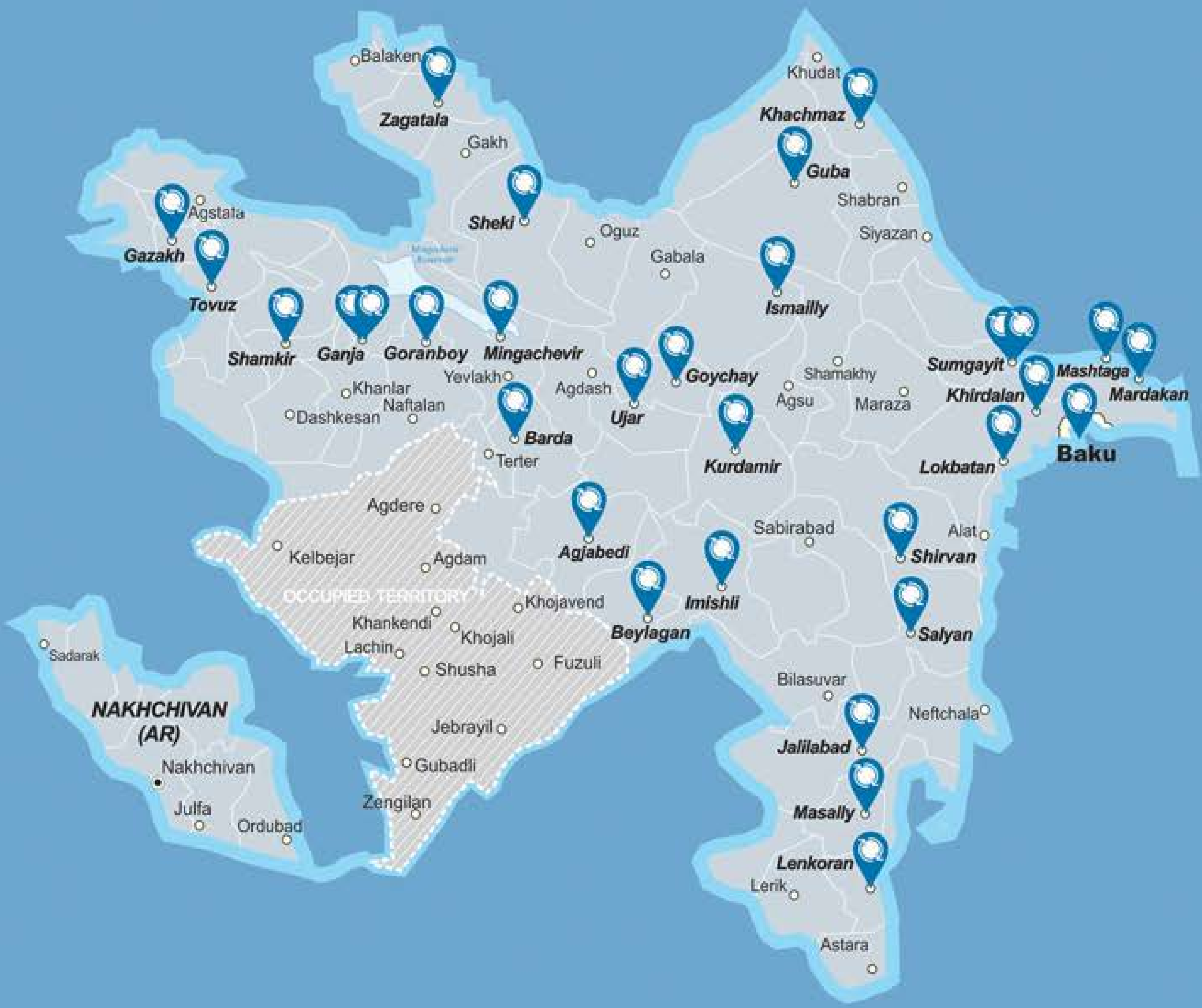
AccessBank
Your Accessible European Bank



ANNUAL REPORT | 2013



BAKU BRANCHES

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

BRANCHES OUTSIDE BAKU

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

BRANCH NETWORK ABSHERON

BRANCH NETWORK BAKU

Contents

General Information

Operational Business

Governing Bodies

Financial Statements

2013
KEY FINANCIAL HIGHLIGHTS

TOTAL ASSETS
USD 1.0 billion

TOTAL LOAN PORTFOLIO
USD 800 million

MICRO LOAN PORTFOLIO
USD 358 million

SME LOAN PORTFOLIO
USD 331 million

NET PROFIT
USD 34.6 million

RETURN ON AVERAGE EQUITY (ROAE)
28.8%

COST / INCOME RATIO
64.8%

CAPITAL ADEQUACY RATIO
22.8%

PORTFOLIO AT RISK RATIO (>30 DAYS)
0.36%

Mission Statement

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

Shareholders

Black Sea Trade & Development Bank	Black Sea Trade and Development Bank	20%
European Bank for Reconstruction and Development	European Bank for Reconstruction and Development	20%
IFC International Finance Corporation Private Enterprise Partnership	International Finance Corporation	20%
KFW	Kreditanstalt für Wiederaufbau	20%
AccessHolding MICROFINANCE AG	Access Microfinance Holding AG	16.53%
LFS FINANCIAL SYSTEMS	LFS Financial Systems GmbH	3.47%

Chairman of the Board Statement

While the uncertainties and turbulences both in the global economy and in the regional economies of the CEE continue, the Azerbaijani economy succeeded in growing 5.8% in 2013, well exceeding expectations. However, more notable than this growth itself was the 10% growth in the non-oil economy, which was the highest since 2008. This growth is a result of the successful policies implemented by the government to support the non-oil sector.

Growth with no compromise on quality

The economic growth had a positive impact on the banking sector as well. In terms of asset size, the banking sector grew more than 25% in 2013. During the same period, AccessBank succeeded in increasing its total assets and its loan portfolio to over USD 1 billion and to around USD 800 million respectively. This constitutes an annual growth rate exceeding 50%, which is significantly beyond the overall growth rate in the sector. The importance of this growth can be better understood when we consider that it was achieved without compromising: neither our focus on micro, small and medium size businesses, nor the quality of our loan portfolio par excellence was compromised. Furthermore, the growth was rather balanced throughout the regions of the country and diversified in various sectors of the economy from trade to agriculture, and from services to manufacturing. With eight new branches opened during 2013, AccessBank increased its network to 42 branches by end of year and, succeeded to expand its outreach to the regions where banking services penetration is still low.

Trusted Partner

AccessBank continues to be a leading microfinance institution in Azerbaijan, not only in terms of size of its loan portfolio and the widespread service network, but also in terms of its responsible and transparent banking practices. We are fully aware of the responsibilities that come with this leading position. Continuous training programs provided for our employees and various social campaigns were organized for different segments of society; children or people with disabilities are examples of our responsible banking practices. As a matter of fact, AccessBank's corporate governance is aimed at serving these responsibilities by creating value for all our stakeholders, including our clients, staff, shareholders, and the society as a whole in a wider sense.

New Headquarters

As a result of our fast growth, the Bank needed a new, modern Head Office building that would comply better with requests from our staff and clients. 2013 was the year that we finalized our new Headquarters building project and moved all our Head Office staff into one single building, which was fully renovated and refurbished with the latest infrastructure technologies. The new premises provide a very convenient work environment for our staff and benefit from modern energy efficient technologies as well.

Overall, we ended another challenging year with great success. AcceessBank once again proved to be a trusted partner for its clients, lenders and all other counterparties. I would like to thank the Bank management and the staff for their devoted efforts that have been the key to this success.

Orhan Aytemiz
Chairman of the Supervisory Board

CEO Statement

In the past year, the economy of Azerbaijan continued its solid growth path backed by strong confidence of investors and consumers. In the light of this favorable environment, the banking sector expanded dynamically with overall increasing lending volumes. AccessBank further developed the business and dedicated its resources to support Micro and SME businesses, in particular in rural areas and in the non-oil economy. We stay firm in our belief that building client relationships with the aim of promoting the development of our customers is the foundation of the Bank's long-term success.

Strong dynamics in lending to business clients

In 2013, AccessBank continued its dynamic development and increased lending volumes across all product lines with a clear focus on serving Micro and SME clients. At the same time, we were able to maintain excellent quality of the loan portfolio. The large client base of the Bank increased further. In 2013, about 111,000 Micro entrepreneurs and 2,300 SME customers countrywide chose AccessBank as their main banking partner. Incited by our attractive customer base we are constantly working to improve our offerings and to further increase accessibility.

Expanding presence in the regions

Extending the outreach to the regions of the country remains an important element in our strategy. In the last year, we opened eight new regional branches in areas where banking penetration is relatively low. Operations in the new regional offices took off with strong dynamics. This confirms our approach to develop the Bank's regional business by building up on the Bank's unique capability to manage lending operations in rural areas with a strong focus on small agricultural businesses. Expanding further the network of regional branches will remain a high priority also in forthcoming years.

Sound funding base to support lending growth

During 2013, the Bank succeeded in increasing the volume of client deposits by more than 50%, which was an important achievement in order to support the strong growth in lending activities. The Bank's basis of deposit clients remains well diversified. At the same time, we were able to benefit from the Bank's broad network of relationships with Development Finance Institutions, which provided substantial long-term financial resources to endorse the Bank's growth. In addition, we broadened the Bank's investor base and succeeded in attracting a number of new refinancing partners among commercial banks from Europe and neighboring CIS countries.

A unique corporate culture

At its very core, AccessBank's corporate culture is based on the belief that the key for long-term success are committed employees who cooperate, apply best practice and strive for continuous improvement – with a mindset of putting the customer first. People who work at AccessBank are well known for being among the best in the industry. Our employees live our values – professionalism, commitment, mutual respect and continuity – on a day to day basis.

Moving into the new Head Office premises on Tbilisi road in October 2013 was another milestone in AccessBank's development. The modern office space with state of the art communication infrastructure will be beneficial to keep up with the challenges of a growing organization.

Clear mission and strategy

Our strategic direction is clear: AccessBank aspires to be a leading bank in Azerbaijan providing financial services to Micro entrepreneurs with a focus on rural areas and we strive to expand our presence in the SME segment to support private entrepreneurship in the country's non-oil economy. By pursuing our strategic goals we will continue to apply the highest standards of sound banking and client protection.

Our large customer base gives us a strong platform to continue our focused expansion. AccessBank's team is well positioned to tackle the challenges of continuing the Bank's successful development.

Michael Hoffmann
Chief Executive Officer

History

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

2005
- Term deposits and international SWIFT, Western Union and Privat Money transfer services introduced;
- First regional branch opened in Ganja;

2006
- Retail business developed with the introduction of additional deposit and money transfer products, retail lending, debit cards, ATMs, and joining the Visa network;

2007
- AccessHolding joined as a new shareholder;
- Dedicated Agro loan product launched;
- AccessBank's total assets and loan portfolio reached USD 100 million;

2008
- Micro Finance Bank of Azerbaijan renamed AccessBank to create a stronger and more distinct brand;
- BB+ (outlook stable) rating received from Fitch Ratings and maintained to date – the highest rating in Azerbaijan's financial sector;

2009
- AccessBank joined the SMART Campaign for client protection – the first bank in Azerbaijan to do so;
- The number of branches reached 23 of which 9 were established in the regions;

2010
- Euromoney for the first time named AccessBank the 'Best Bank in Azerbaijan' in its annual 'Awards for Excellence';
- First dividend of AZN 5 million distributed to shareholders;

2011
- First awards received from The Banker 'Bank of the Year in Azerbaijan' and Global Finance 'Best Emerging Market Bank in Azerbaijan';
- Launch of mortgage lending to retail clients;

2013
- AccessBank's total assets reached USD 1 billion;
- AccessBank opened 8 new branches in the regions, bringing the total number to 42;
- AccessBank moved into new Head Offices on Tbilisi Road.

Awards

2010
2011
2012
2013

'Best Bank in Azerbaijan'
Euromoney Awards
for Excellence

2011
2012

'Bank of the Year'
The Banker

2011
2013

'Best Emerging Market
Bank Azerbaijan'
Global Finance

New Head Office on Tbilisi Road

In October 2013, the refurbishment of the Bank's new Head Office on Tbilisi road was successfully completed. Management and staff are delighted that finally the entire 350 Head Office staff members are united under one roof. Previously, the Head Office staff was spread across three different buildings in Baku's city center. The new Head Office is a representative building in a prominent location close to the diplomatic district and only 2 kilometers from the old town's historic quarters with good access to the transportation infrastructure, including a metro station a mere 500 meters away and a large parking lot just outside the building.

The building is equipped with modern communication infrastructure and provides additional capacity for potential expansion of the Head Office departments in the future. There is ample space with various meeting room facilities for consultations with clients and with the international partners of the Bank. The refurbishment of the new Head Office was conducted by implementing modern energy-efficiency technologies, reducing the environmental foot-print and cost of heating.

The Bank's Central Branch is an integral part of the building and provides a modern infrastructure for serving clients.

Azerbaijan: Key Facts

GENERAL	ECONOMY - 2013	CURRENCY
Population: **9.2 Million**	GDP: **USD 68.8 Billion**	Currency: **Azerbaijani Manat (AZN)**
Area: **86.600 sq. km**	GDP per capita (PPP): **USD 15,500**	1 USD = **AZN 0.7845**
Largest cities: **Baku, Ganja, Sumgayit, Mingachevir, Lenkoran**	GDP growth: **5.8%**	
	Inflation: **1.8%**	

RATINGS MOODY's: **Baa3 / Stable** FITCH: **BBB- / Stable** S&P: **BBB- / Stable**

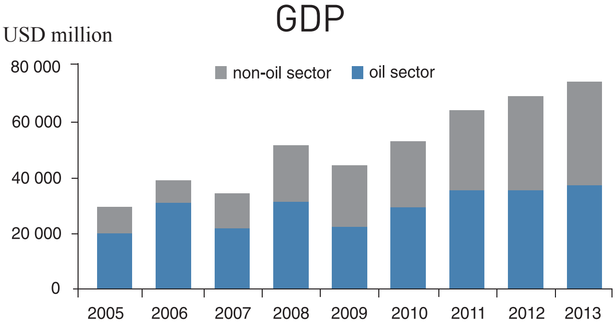
Azerbaijan at a Glance

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

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

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

GDP

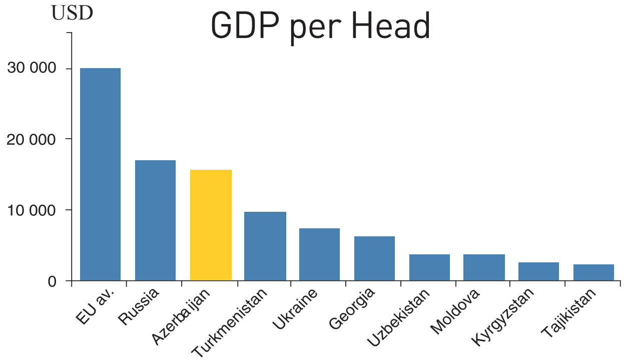


Sources: CBAR, EIU

The revenues from oil and gas production are directed to the State Oil Fund of the Republic of Azerbaijan (SOFAZ), which makes transfers to the state budget, invests in socio-economic and infrastructure projects and preserves wealth for future generations. By end of 2013, SOFAZ holds assets of USD 35.9 billion or 50% of GDP which comfortably exceeds the expenditures of the current annual state budget.

As a result of the strong economic growth in Azerbaijan in recent years, the country's GDP per capita, measured in purchasing power parity, has reached USD 15,500 which is considerably higher than in most neighboring CIS countries. Real GDP growth reached 5.8% in 2013, boosted by a 10% growth in the non-oil GDP. The non-oil economy has become increasingly important as oil production has been stagnant over the last three years. The Azerbaijani government is currently working jointly with leading international energy companies on exploring and extending development of new gas fields. It is projected to deliver the first gas extracted from the Shah Deniz field to Europe by 2019.

GDP per Head

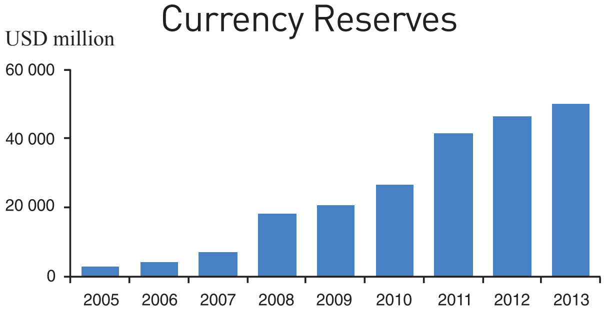


Sources: IMF (2013)

Based on its rich oil resources Azerbaijan has traditionally generated a substantial trade surplus, which amounted to USD 13.3 billion in 2013. As a result, currency reserves reached the level of USD 50 billion, which covers 3 years of the economy's imports.

The stable and strong revenue stream from exports has been a key factor for the stability of the exchange rate of the Azerbaijani Manat (AZN), which has remained stable, fluctuating within a narrow band against the US Dollar for more than 5 years.

Currency Reserves



Sources: CBAR, EIU

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

Our Customers

111,000
MICRO CUSTOMERS

AccessBank is the leading micro-finance bank in Azerbaijan with a total Micro loan portfolio of USD 358 million at the end of 2013. A special focus is on agricultural lending to small farmers in rural areas.

2,300
SME CUSTOMERS

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

34,000
RETAIL CUSTOMERS

AccessBank provides a broad range of Retail loan products and banking services to private individuals throughout the country. These include products and services for everyday finances, savings, loans, cards and insurances. In 2013, the Bank further expanded its Mortgage portfolio.

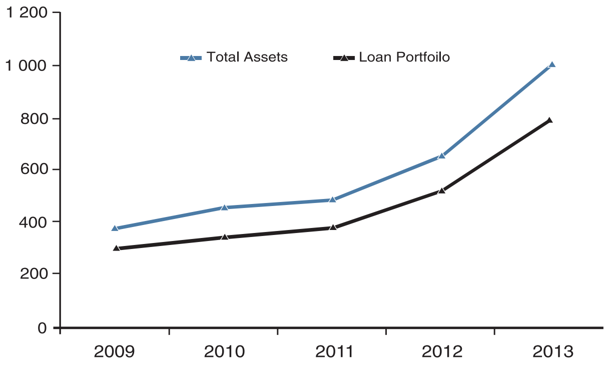
Financial Results

In 2013, AccessBank increased its total assets and the total loan portfolio both by 52.4% reaching USD 1bn and USD 800m respectively. The growth was refinanced by a 55% increase in client deposits reaching USD 333m by year-end (2012: USD 215m) and by a 55% expansion in external borrowings to USD 444m (2012: USD 284m).

Driven by the strong asset growth, net interest income increased by 33% reaching USD 119m by 2013 year-end (2012: USD 89.3m) and net fee and commission income surged 50% to USD 9.3m (2012: USD 6.3m). As a result, the Bank's 2013 pre-tax profit and net profit reached an all-time high of USD 43.9m and USD 34.6m respectively (2012: USD 26.1m and USD 20.2m). The 2013 return on equity increased to 28.8% compared to 18.6% in 2012. Another achievement was the significant decrease in the Cost-Income Ratio from 72.4% in 2012 to 64.8% in 2013, which is a strong result given the labor intensive character of running Micro and SME financing operations.

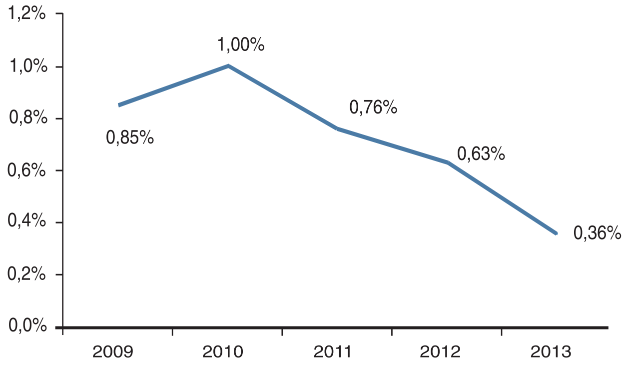
Capital adequacy remained strong, ending the year with a Capital Adequacy Ratio of 22.8% (Total) and 21.2% (Tier 1). At year-end the shareholders decided that the Bank would pay a dividend of USD 10m out of its 2012 net profit.

Total Assets & Loan Portfolio

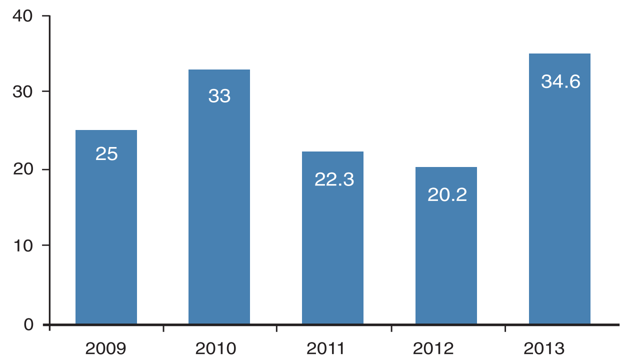


Asset Quality

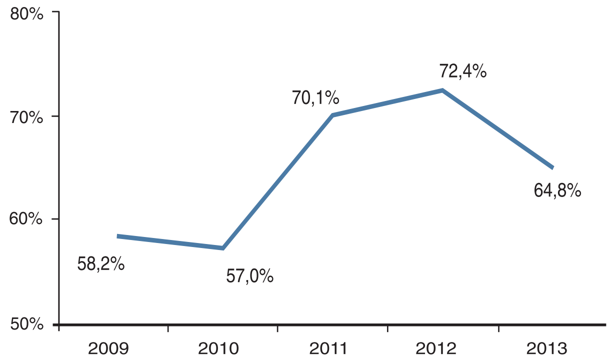
PaR > 30 days ratio



Net Profit



Cost / Income Ratio



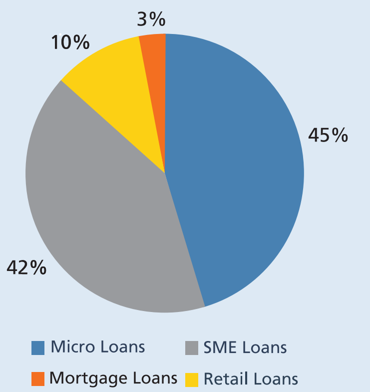
Lending Operations

In 2013, AccessBank continued its dynamic development and increased lending volumes across all product lines. The total outstanding loan portfolio increased by 52.4% to USD 800m (2012: USD 525m) with the largest contribution from Micro and SME lending. With regard to the segment distribution, the Micro portfolio remains the Bank's largest business line with a 45% share in the total loan portfolio followed by the SME portfolio (42%). The figures reflect the Bank's strong commitment to focus on supporting small private entrepreneurship in the country. The share of the Retail and Mortgage portfolio in the total loan portfolio was 10% and 3% respectively.

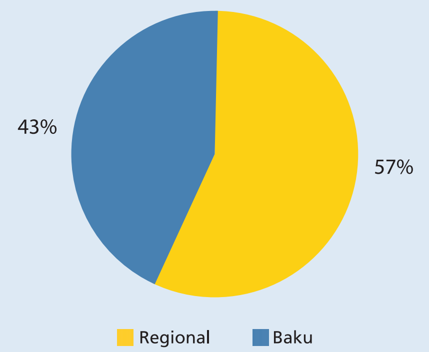
The Bank managed the strong portfolio growth successfully and kept credit risk under control. Overall, the asset quality of the loan portfolio remains excellent and further improved during 2013 with the PaR>30 days ratio of the total loan portfolio declining to 0.36% from 0.63% in 2012. The excellent asset quality reflects the Bank's successful practices in responsible lending and in avoiding client over-indebtedness.

The average loan size slightly increased throughout the year to USD 5,000, up 21% from USD 4,100 in 2012 as a result of the overall growth of the economy and growth of clients' businesses in general.

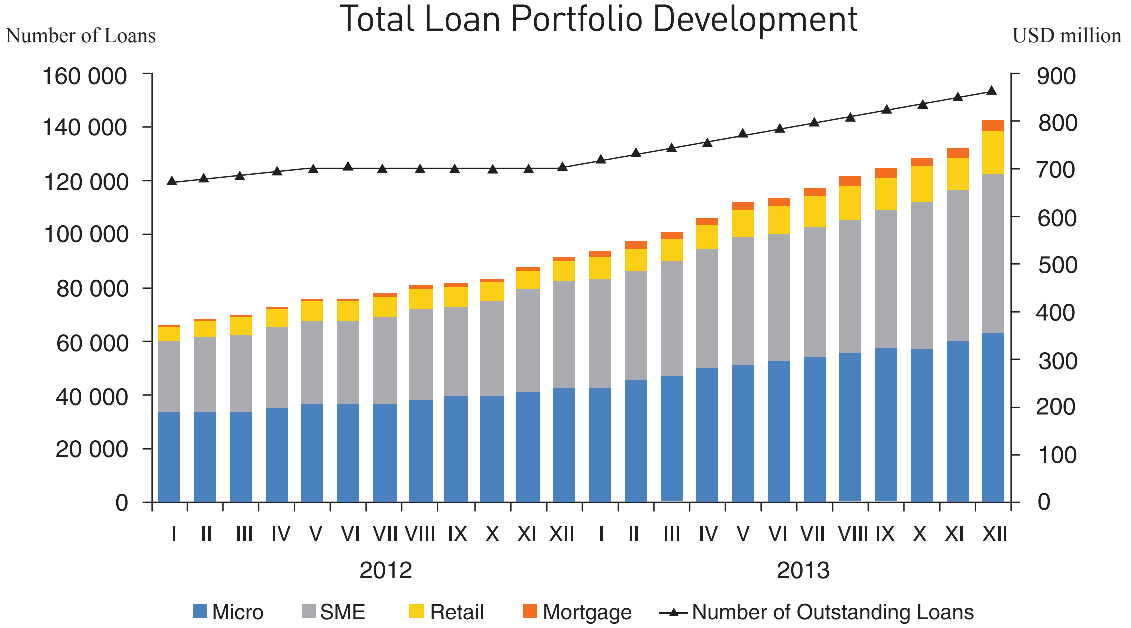
Loan Portfolio by Segment



Loan Portfolio: Regional vs. Baku



Total Loan Portfolio Development



In line with the strong portfolio growth, the Bank managed to successfully increase its loan client base by an additional 19% to 148,000 indicating that Accessbank remains an attractive partner of choice for many micro, small and medium entrepreneurs as well as for many private households in Azerbaijan.

Supported by the successful opening of eight new regional branches in 2013, the Bank has been able to further increase the share of the regional loan portfolio in the total loan portfolio to 57% compared to 54% in 2012. The regional loan portfolio meanwhile exceeds the loan portfolio with Baku based clients which is fully in line with the Bank's mission to focus on supporting clients in the regions where penetration with banking services is still low.

Micro & SME Lending

Lending to Micro and SME clients is the Bank's main business driver and the core of the mission. In 2013, the Micro loan portfolio surged by 49% reaching USD 358m (2012: USD 240m) representing almost half of the Bank's total loan portfolio and being by far the largest Micro loan portfolio of any bank or financial institution in Azerbaijan.

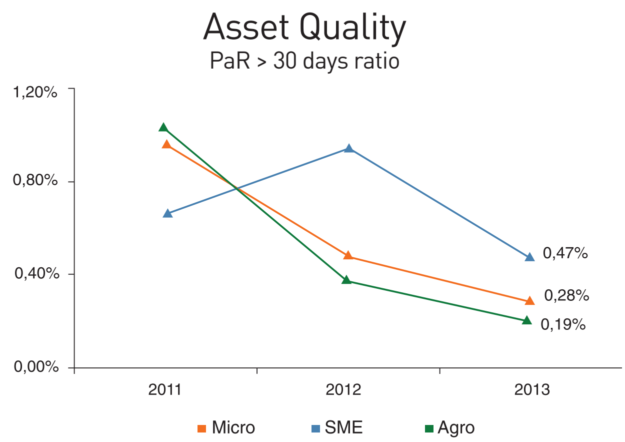
The SME loan portfolio grew by 48% to USD 331m (2012: USD 223m) indicating that the Bank has further strengthened its foothold in the SME sector. Today, AccessBank belongs to the most active banks in the country serving this important customer segment.

The asset quality of the Micro and SME loan portfolio could be further improved with the PaR>30 days ratio decreasing to 0.28% and 0.47% respectively (2012: 0.48% and 0.94%) – an outstanding result compared to the average NPL figures in the country's banking sector.

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

In 2013, the Bank succeeded in further diversifying the loan portfolio across sectors compared to previous years. While five years ago the trade sector held a share exceeding 70% of the entire Micro and SME loan portfolio, this figure decreased by the end of 2013 to 45%, followed by services (27%) and agriculture (20%).

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



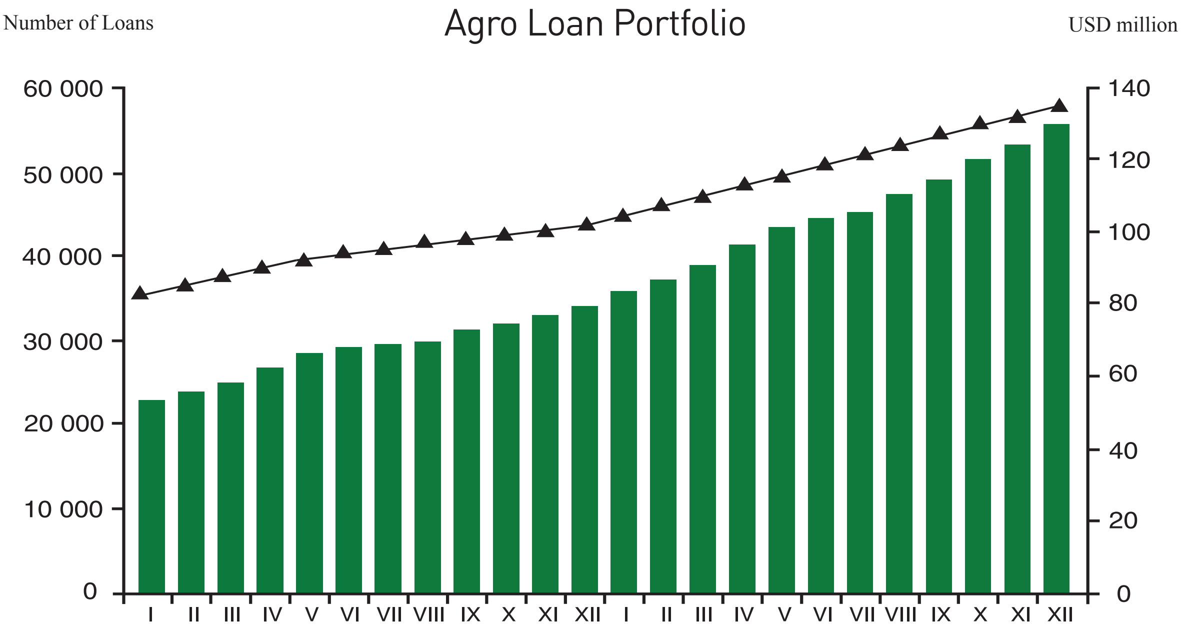
By year-end 2013, the Agro loan portfolio reached USD 130.5m with an average loan amount of USD 2,400. The quality of the Agro loan portfolio remains excellent with a PaR>30 days ratio of 0.19%, down from 0.37% in 2012. The Bank's exposure to the agricultural sector is in fact even higher than illustrated in the figure of the Agro loan portfolio since there is additional indirect exposure to Agro clients classified in the "trade and service segment" for financing agriculture related business such as clients trading in seeds and fertilizers or offering veterinary services.

Expanding in the Regions with a Focus on Agro Lending

AccessBank has become Azerbaijan's leading bank for lending to agricultural businesses, whereby primary agriculture now accounts for 19% of the Bank's total business portfolio in terms of amount, and 47% of our Micro client base.

The extensive network of 42 branches, of which 30 are located outside Baku, allows the Bank to reach its rural customers and to focus on providing appropriately targeted products. In AccessBank's regional branches, more than half of all business loans are now disbursed under this product.

The Agro loan product recognizes the particular needs of agriculture clients by taking into account the specifics of the investment and harvesting cycles in the agricultural sector.



Trade Finance

Azerbaijan's economy is developing very rapidly and the volume of foreign trade increases year by year. AccessBank continues to grow its trade finance activities alongside with its customers and with the country's economy. Products offered to customers are bank guarantees (payment, advance payment, tender, performance guarantees), counter-guarantees, letters of credit and stand-by letters of credit. In addition, the Bank supports customers with pre-export and post-import financing, as well as ECA covered financing. AccessBank continues cooperating with the EBRD (European Bank for Reconstruction and Development) and ADB (Asian Development Bank) on the Trade Finance Programs (TFP's). This provides the Bank with the opportunity to cooperate with more than 700 financial institutions worldwide participating as confirming banks in these TFP's. In addition, the Bank succeeded in 2013 to enter into a direct relationship with leading commercial banks from Europe such as with UniCredit (Italy), Deutsche Bank (Germany), LBBW (Germany) and with Credit Agricole CIB (France) which established trade finance limits for AccessBank.

During past years some of AccessBank's micro clients have grown substantially and joined the ranks of leading small and medium-sized enterprises. Some of the SME customers, heavily engaged in import/export deals are about to make the jump to become large corporate customers – supported by AccessBank's trade finance team. The Bank's trade finance specialists are permanently in contact with SME customers consulting them on available facilities to realize their import/export deals in a secure, cost and time efficient way.

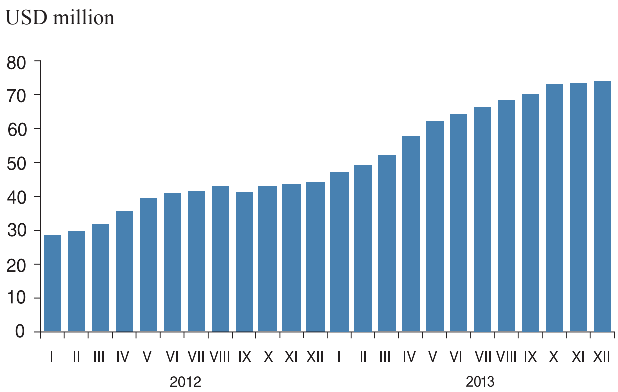
Retail Lending

AccessBank's Retail lending serves three strategic objectives: it fulfills the mission of providing financial services to low and middle income households, it helps AccessBank to develop a Retail client base for attracting deposits of private individuals and it strengthens links with SME and corporate clients by providing financing to their customers and employees. AccessBank's range of Retail loan products includes (i) cash loans to individuals in selected stable professions, (ii) deposit loans, i.e. loans secured by a deposit that allow clients to obtain short-term financing without having to break their long-term deposits, (iii) partner loans for providing financing to customers of retailers of core household goods and (iv) car loans.

In 2013, the total Retail loan portfolio increased by 67% to reach USD 75.6m by year-end. The share of the Retail loan portfolio in the Bank's total loan portfolio remains relatively constant at around 10%.

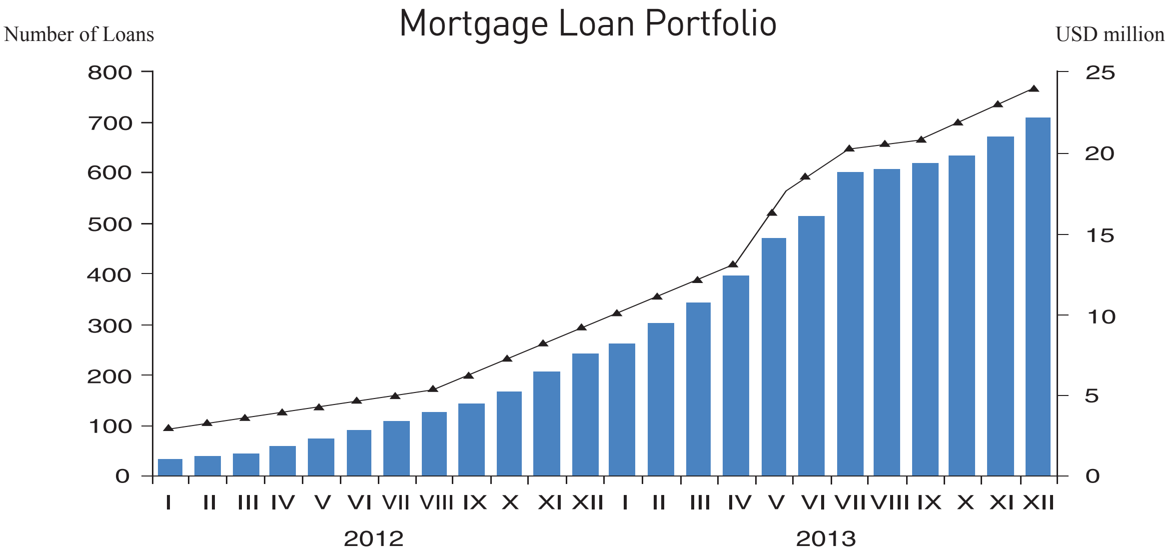
The Bank is committed to developing its Retail lending responsibly to ensure that clients are not overburdened with debt. The clearest proof of AccessBank applying responsible lending practices is the low arrears rate, with the PaR>30 days ratio standing at 0.27% by year-end.

Retail Lending Portfolio



Mortgage Lending

The Mortgage lending activities were launched in June 2011 and developed dynamically in 2012 and 2013. This market segment is still widely underserved by local banks. The main objective for the Mortgage loan product is to fulfill AccessBank's mission of providing access to essential financial services for low and middle-income households to improve their housing. The loan can be disbursed to the borrower in several tranches and the borrower must prove that the proceeds are used for the intended purpose. In 2013, the Mortgage portfolio grew to USD 22.2m with 772 outstanding loans. At the end of 2013, the Mortgage product was offered to clients in 9 Baku based and 8 regional branches by specialized Mortgage loan officers. A further roll-out of the Mortgage product to more branches, including regional, is planned for 2014.



Banking Services

The Bank, via the Customer Service unit, is offering its clients a broad range of banking services such as money transfer systems, payment cards, 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 can be covered comprehensively.

MONEY TRANSFER SYSTEMS

International remittances from family members working abroad are a vital source of revenue for many Azerbaijani families. To serve this market, AccessBank offers clients a broad range of leading international money transfer systems such as Western Union, CoinStar, Caspian Money a.o. most of which are oriented to CIS countries. In 2013, the total number of transactions via these systems grew by 65% to 172,000 while the total amount transferred increased by 77% to USD 64m.

In March 2013 the Bank launched a new system for local money transfers between AccessBank branches - AccessTransfer. A wide network of branches allows the Bank to provide money transfer services in all regions of the country. The system is enjoying increasing popularity. Within the first 10 months, the total number of transactions reached 22,500 with the total payment turnover of USD 25.4m.

PAYMENT CARDS

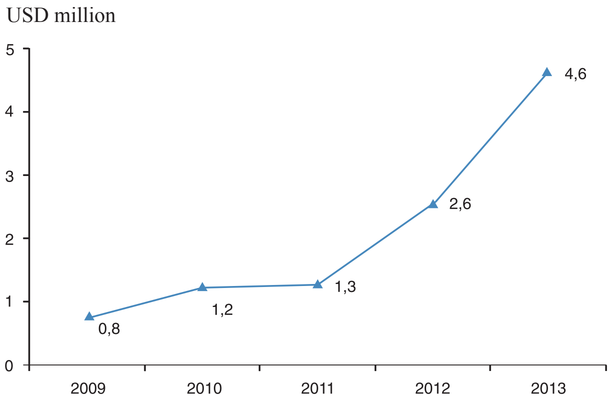
AccessBank introduced Visa debit cards as a convenience product for its clients and to encourage clients using their current accounts and keeping excess cash on deposits in the Bank. The Bank is cooperating with a rising number of corporate clients on Salary Projects whereby the clients' employees receive salaries via their AccessBank debit cards.

In the second half of 2012, AccessBank launched the credit card product (VISA, Mastercard) as an available option for its clients. In 2013, the number of customers using AccessBank's credit cards successfully increased and reached 7,300 with a total turnover of USD 33m by the end of the year.

INSURANCE

In January 2012, AccessBank was granted a license to operate as authorized insurance agent, thereby providing the Bank with an opportunity to offer its clients various insurance products from reputable Azerbaijan based insurance companies. The insurance products provide effective protection for the client and also for the Bank against an unexpected drop in the clients' income streams, in particular for loans with longer maturities.

Fee and Commission Income*



* Fee and commission income from non-lending products.

FEE AND COMMISSION INCOME

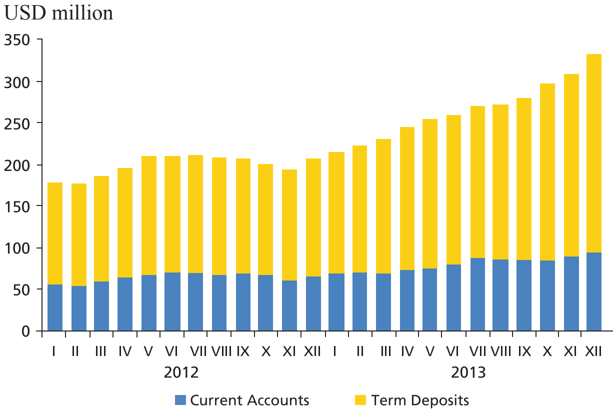
During 2013, the Bank substantially enhanced its net fee income from non-lending banking services. Turnover of remittance payments, of national and international account transfers as well as of currency exchange transactions grew considerably during the year. As a result, in 2013 the Bank succeeded in increasing its total net fee and commission income from such products by about 80% reaching USD 4.6m (2012: USD 2.6m). The Bank will continue to focus on developing its non-lending banking products with the aim to comprehensively meet the clients' needs. This will contribute to further enhance income generated from fees and commissions to support the Bank's profitability against the trend of declining interest margins.

Refinancing

DEPOSITS

During 2013, the Bank succeeded in increasing the volume of client deposits by more than 50%, which was an important achievement in order to support the strong growth in lending activities. The total deposit volume reached USD 333m compared to USD 215m in 2012.

Customer Deposit Development



The largest increase was made in term deposits which grew by USD 83m to USD 225m (2012: USD 142m). Funds on client current accounts increased by 43% reaching USD 77m (2012: USD 54m). Likewise, savings deposits increased steadily by USD 5.8m, reaching USD 17m. At the same time, the Bank's basis of deposit clients remains well diversified. As the total loan portfolio grows, the Bank will continue to increase the amount of deposits to balance the total share of assets funded by external borrowings.

EXTERNAL BORROWINGS

In 2013, AccessBank continued to benefit from the broad network of relationships with International Development Finance Institutions, which provided long-term financial resources to endorse the Bank's growth. In addition, the Bank succeeded to further broaden the investor base by attracting a number of commercial banks - mainly from Europe and neighboring CIS countries - as new refinancing partners.

The Bank is pursuing the strategy of further diversifying its funding sources and funding products. In December 2013, AccessBank issued, for the first time, a local currency bond in an amount of AZN 10m with a maturity of one year, which was placed successfully among investors on the local Azerbaijani market.

In addition, by the end of 2013 the Bank started to prepare its first fully commercial syndicated loan transaction, which was successfully signed and disbursed after the reporting period in March 2014. The USD 60m transaction with a one-year tenor was arranged by Raiffeisenbank International (RBI) and joined by 16 commercial banks with a broad regional diversification including banks from Europe, CIS countries, Asia and Middle East. During 2013, AccessBank attracted a total of USD 215m in new funding from international lenders and USD 12.5m in rolled-over loan facilities from existing refinancing partners. The total volume of external borrowings reached USD 444m.

AccessBank has proven itself to be a reliable partner for international lenders and continues to enjoy a close relationship with a wide pool of refinancing partners.

FitchRatings

Fitch Ratings consistently reaffirms AccessBank's 'BB+ outlook stable' rating - the highest in the country (reconfirmed in December 2013)

This is further substantiated by the continuing annual reconfirmation of AccessBank's BB+ credit rating (outlook stable) assigned by Fitch Ratings which is the highest credit rating in the Azerbaijani financial sector.

Key Refinancing Transactions in 2013

- **Asian Development Bank:** USD 50m, 5-y, Senior loan, signed in 07/13
- **FMO (Arranger):** USD 60m, 4-y, Syndicated loan, signed in 06/13
- **BSTDB:** USD 15m, 3-y, Senior loan, signed in 06/13
- **EFSE:** USD 15m, 5-y, Senior loan, signed in 12/13
- **Pashabank (Arranger):** AZN 10m, 1-y, Local currency bond issued in 12/13

Risk Management

The strength of AccessBank's risk management is reflected by the excellent results which the Bank has achieved year by year in terms of asset quality, profitability and operational efficiency. Nevertheless, management is not complacent, recognizing that as the Bank increases in scale, strengthening risk management and control is a key priority and remains a continual and constant process.

Day-to-day risk management is performed by the Risk Management Department. Since its creation in 2008, the Risk Management Department has grown to 18 staff members, responsible for reviewing all exposures over USD 100,000, undertaking selective portfolio reviews, assisting with problem loan recovery, strategic monitoring and analysis of all aspects of risk. The Risk Committee which reports to the Supervisory Board reviews quarterly the Bank's risk profile on a bank-wide or global level and investigates specific risk aspects.

CREDIT AND OPERATIONAL RISK

Credit and operational risk management starts at branch level with clearly defined policies and procedures and segregation of functions. Dedicated middle managers are responsible for supervising and controlling each business area. The branch teams are supported by their branch managers and Head Office departments as well as training and support staff. This 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.

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

The efficacy of the control mechanisms and risk management in AccessBank is subject to constant review by the Internal Audit function. By 2013-end, the Audit Department consisted of 15 full-time staff who audit each branch and Head Office department at least annually. The work of the department is led and supported by the audit committee which reports directly to both the supervisory board and the general assembly of shareholders.

AccessBank's business success is reliant on the Bank's IT systems for day-to-day operations and management information. All branches are connected online, and all business is fully integrated in a central database. This provides management with instant up-to-date information on all activities, available at any time at their desktop PCs, contributing to management's control capacities and risk management.

LIQUIDITY AND CURRENCY RISK

Liquidity and currency risk is managed on the basis of daily review of the Bank's currency and liquidity positions and of their compliance with limits set by the supervisory board. Currency risk is minimized by balancing lending in local and foreign currency with the Bank's local and foreign currency resources. Management of currency, liquidity and interest rate risk is then reviewed on a monthly basis by the ALCO committee and on at least a quarterly basis by the risk committee and supervisory board.


AZƏRBAYCAN RESPUBLİKASI


Vintage
Type of loan
Appendix A – derivation of the unexpected loss formula
From the formula for variance, it simply foll
Now assume the value of the loan (or portfolio in ge
In general we know that the expected value is sum-product o
To get the variance of the portfolio (which will give us VaR like measure of the

Outlook

The favorable economic environment in Azerbaijan prevalent in 2013 is expected to persist through 2014, whereby energy exports should ensure continued economic stability in the medium term. The outlook for 2014 is favorable with regard to new opportunities for further advancing the Bank's business across all segments. This applies particularly to the Bank's activities in the regions of the country. However, intensifying competition in the financial sector is expected to push further the trend of contracting interest rates, which will exert additional pressure on the Bank's interest margins. In 2013, AccessBank was able to over-compensate the negative impact of declining interest margins by strong growth in the loan portfolio and a continued reduction in refinancing costs so that net profit increased significantly compared to the previous year. From today's perspective, the key factors impacting the Bank's profitability in 2014 are similar to those in 2013.

Furthermore, it is expected that credit risk will continue to challenge the banking sector due to intensifying competition, which leads many clients to obtain loans from multiple lenders with an increasing risk of over-indebtedness. Portfolio quality will therefore be closely monitored when pursuing further growth opportunities. The strategy to enhance commission income which showed promising results in 2013 will be further pursued in order to support the Bank's profitability against the trend of declining interest margins.

Although competition in the sector has intensified in recent years, AccessBank remains the leading bank focused on serving the needs of Azerbaijan's Micro and SME businesses as well as low and middle income households with both dedicated products and proven risk management expertise to serve these market segments responsibly and sustainably. Unlike non-bank microfinance institutions, AccessBank is able to offer a complete range of financial services to clients, including current and savings accounts as well as money transfer systems. AccessBank's leading reputation in the Azerbaijani banking market has been cemented by good service, reliability and visibility.

In 2013, AccessBank opened eight new branches, increasing the total number of branches to 41, of which more than 50% are located outside Baku and the Absheron peninsula. After the reporting period, in Q1-2014, the Bank opened one more regional branch, bringing the total number to 42. In order to further improve services for the Bank's clients in rural areas where financial services penetration is still low, the Bank intends to open new regional branches in 2014.

AccessBank enters 2014 in a robust position with a solid capital base, a sound profit generation capacity and a comprehensive pool of experienced and well-trained staff to support the Bank's further development

A major project underway to be completed in H2 2014 is the development of the Bank's new core banking software based on the Temenos 24 system. In 2013, good progress was achieved by the project team, which consists of dedicated staff both from the Bank and from our partners at LFS Financial Systems.

AccessBank enters 2014 in a robust position with a solid capital base, a sound profit generation capacity and a comprehensive pool of experienced and well-trained staff to support the Bank's further development. The management team and staff are confident that, together with the shareholders, AccessBank will face up to the challenges that 2014 may bring.

Corporate Governance

CORPORATE VALUES AND ORGANIZATION

From the foundation of AccessBank in 2002, the shareholders have been committed to pursuing the highest standards and international best practices in corporate governance and organization of the Bank.

The organizational structure of the Bank is clearly defined with all duties, responsibilities and processes delimitated and documented in policies, procedures and job descriptions. The revision and improvement of these policies and procedures, as well as corporate governance in the Bank as a whole, is a continual and constant process. AccessBank's leading commitment to corporate governance was confirmed in 2010 by Standard & Poor's Rating Agency, which ranked AccessBank as the 'most transparent Azerbaijani bank' in its inaugural Transparency & Disclosure (T&D) Survey of Azerbaijan's banking sector. Fitch Rating Agency's rating of BB+, the highest rating in Azerbaijan's banking sector also acknowledges the Bank's strong corporate governance.

AccessBank's professionally trained and highly motivated team is the basis for the success of the Bank. We take pride in the transparent and equal-opportunity staff selection and promotion process. The Bank recruits primarily university graduates, valuing integrity and motivation over previous banking experience. Professional and banking skills are taught to new staff through extensive training, most of which is conducted through in-house seminars and on the job. The rapid growth of the Bank offers dynamic career opportunities. Management positions that were initially held by foreign managers have meanwhile been filled by local candidates from within the institution, with only the CEO position still filled by an expatriate. As a result, the Bank can rely on a team of experienced, tested, confident and loyal employees who are willing to work and think independently.

AccessBank has a matrix management structure, in which technical supervision by Head Office departments complements a hierarchical structure where staff in branches report to their respective branch managers. Business managers for micro, SME and retail lending, credit back office, banking services, plastic cards and cashiers oversee their respective activities throughout the branch network, providing branch managers and staff with invaluable support and guidance.

GENERAL ASSEMBLY OF SHAREHOLDERS

The highest decision-making body in AccessBank is the General Assembly of Shareholders (GAS), which met twice in 2013, with 100% of the shares represented by individuals at the meetings. The GAS elects the members of the Supervisory and Management Boards as well as audit, risk, remuneration, ALCO and IT committees, and also determines the remuneration of the supervisory board and audit committee members. Other responsibilities include the approval of the external auditor and the audited financial statements, creation of reserves, extraordinary audits and branch openings and closures. Further powers include all actions regarding the shares of the Bank, including distribution of profit, increases in charter capital, issuance, listing or sale of shares to any party.

SUPERVISORY BOARD

The Supervisory Board of AccessBank is elected by the GAS and determines the business policy of the Bank, within the mission framework set by the GAS, and oversees and reviews the work of the management board and committees of the Bank. The Supervisory Board met 4 times in person in 2013, with all Supervisory Board members physically attending.

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

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

Supervisory Board

Orhan Aytemiz

Chairman

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

Syed Aftab Ahmed

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

Thomas Engelhardt

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

Victoria Miles

Member of AccessBank's Supervisory Board since February 2010. Ms. Miles joined JPMorgan in 2000 and now heads Emerging Markets credit trading strategy. She previously worked for 10 years in fixed income research at JPMorgan, latterly as Co-Head of the Global Emerging Market Corporate Research team. She has specialized in emerging markets research since 1993. Ms. Miles has received the number one ranking in the Institutional Investor Poll for Eastern European Credit Analysts and in the Euromoney Poll for emerging markets credit research many times. She graduated from Durham University with a BA in Economics and Spanish. Ms. Miles is British and is fluent in English and Spanish.

Eva Witt

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

Management Board

Michael Hoffmann

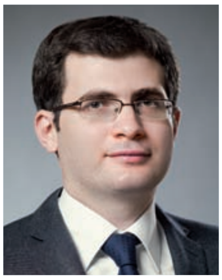
CEO and Chairman of the Management Board

Before joining AccessBank in 2012, Michael Hoffmann was with the European Bank of Reconstruction and Development (EBRD) for seven years, five of which as Head of the Volga Federal District Resident Office in Russia. Mr. Hoffmann started his career in 1996 with HSH Nordbank AG, where he was responsible for the bank's business in the Baltic countries (Estonia, Latvia, Lithuania). Mr. Hoffmann holds an Executive MBA from the University of Chicago, Booth School of Business, and a Diploma as an Economist from Kiel University. Mr. Hoffmann is German national and is fluent in German, English and Russian.

Anar Hasanov

Deputy CEO

Joined AccessBank in 2002 as a Micro Loan Officer. In 2006 he was appointed to the newly created post of Head of Retail Banking. In 2007, Mr. Hasanov was appointed to the Management Board as the Director of Retail Banking and Operations. Mr. Hasanov obtained 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. He is Azeri and is fluent in Azerbaijani, Turkish, Russian and English.

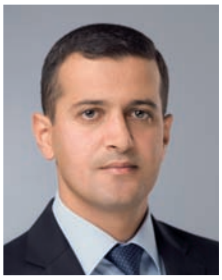


Shakir Rahimov

Deputy CEO

Joined AccessBank in 2002 as a Micro Loan Officer. In 2005 he 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 has a Master's Degree in Business Administration and Finance from the Azerbaijan State Economic University. He is also currently enrolled in the University of Warwick's MBA by distance learning program. He is Azeri and is fluent in Azerbaijani, Russian and English.

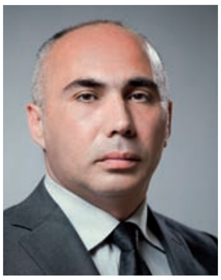
Executive Directors



Kenan Agayev

Executive Director SME Lending / Corporate Services

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



Elshan Hajiyev

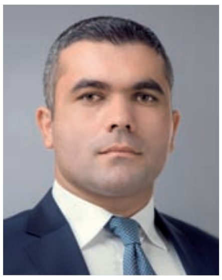
Executive Director Finance / Control

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

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.
Mr. Ismayilov is Azeri and is fluent in Azerbaijani, Russian and English.



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 to Executive Director Micro Lending/Credit Back Office. Tariyel Ismayilov holds a Master's Degree in Finance and completed his post-graduate studies in Economics at the Azerbaijan State Technological University. He is Azeri and is fluent in Azerbaijani, Russian and English.

Vahid Najafzade

Executive Director Retail Banking / Operations

Mr. Najafzade joined AccessBank in 2003 as a Loan Officer and was promoted to Manager of the Khalglar Dostlugu Branch in 2004. In 2006, he was appointed Head of the Micro Department and took over the position of Head of SME Department in 2008. In 2010, Vahid Najafzade was appointed Deputy Manager Retail Banking/Operations and in 2013 he was promoted to Executive Director of this unit. He holds an MBA from the Azerbaijan State Economic University. Mr. Najafzade is Azeri and is fluent in Azerbaijani, Russian and English.

MANAGEMENT BOARD

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

RISK COMMITTEE

The Risk Committee is appointed by and reports directly to the Supervisory Board. The Committee monitors and reviews on a quarterly basis systemic and Bank specific risks, including sector, currency, liquidity, refinancing, market and operational risks. As of the end 2013, 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), Nizami Gadirov (Head of Risk Department), Vadim Aldjanov (Head of IT Department) and Sohrab Farhadov (Chairman of Audit Committee).

ALCO COMMITTEE

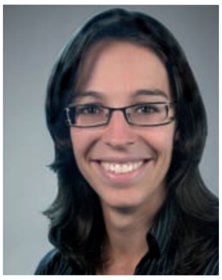
The ALCO Committee is appointed by and reports directly to the Supervisory Board. The Committee reviews, on a monthly basis: liquidity, maturity, currency and interest rate matching, compliance with regulatory norms and covenants including capital adequacy and large loan exposures. The Committee is comprised of the Management Board and the treasury manager.

Audit Committee

Sohrab Farhadov

Chairman

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



Alexandra Weichesmiller

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

Christopher Falco

Member of AccessBank's Audit Committee since 2009. Christopher Falco, US national, has over twenty years of international banking and economic development experience. He started his banking career as a trader of US government securities for Prudential Bache Securities. He joined the EBRD in 2008 as Senior Banker in the Financial Institutions with a geographic focus on Central Asia, the Caucasus and Mongolia and finances banks, microfinance institutions and oversees energy efficiency programs. Recently he has been working in Credit Control and helping monitoring the Corporate Portfolio. Mr. Falco holds a graduate degree in international affairs and business from Columbia University.

AUDIT COMMITTEE

The Audit Committee is appointed by the GAS and reports directly both to 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); Christopher Falco – a Senior Banker at the European Bank for Reconstruction and Development; and Alexandra Weichesmiller – an international audit specialist with LFS Financial Systems.

REMUNERATION COMMITTEE

The Remuneration Committee was newly 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 2013, AccessBank's Remuneration Committee has been chaired by Thomas Engelhardt (Supervisory Board member). Other committee members are Victoria Miles (Supervisory Board member), Michael Hoffmann (CEO), Shakir Rahimov (Deputy CEO) and Aynur Suleymanli (Head of HR department).

IT COMMITTEE

The IT Committee is appointed by and reports directly to the Supervisory Board. The Committee monitors and manages IT issues in AccessBank on a quarterly basis, including IT investments, development projects and communication links between the branches and Head Office. The Committee is comprised of the Management Board and the Head of the IT department.

Corporate Social Responsibility

Adherence to high ethical standards and responsible banking have been at the core of AccessBank's corporate culture since its inception, and corporate social responsibility permeates all aspects of the Bank's work – starting with the treatment of staff, extending to relations with clients and including responsibilities to local communities, authorities, shareholders and refinancing partners.

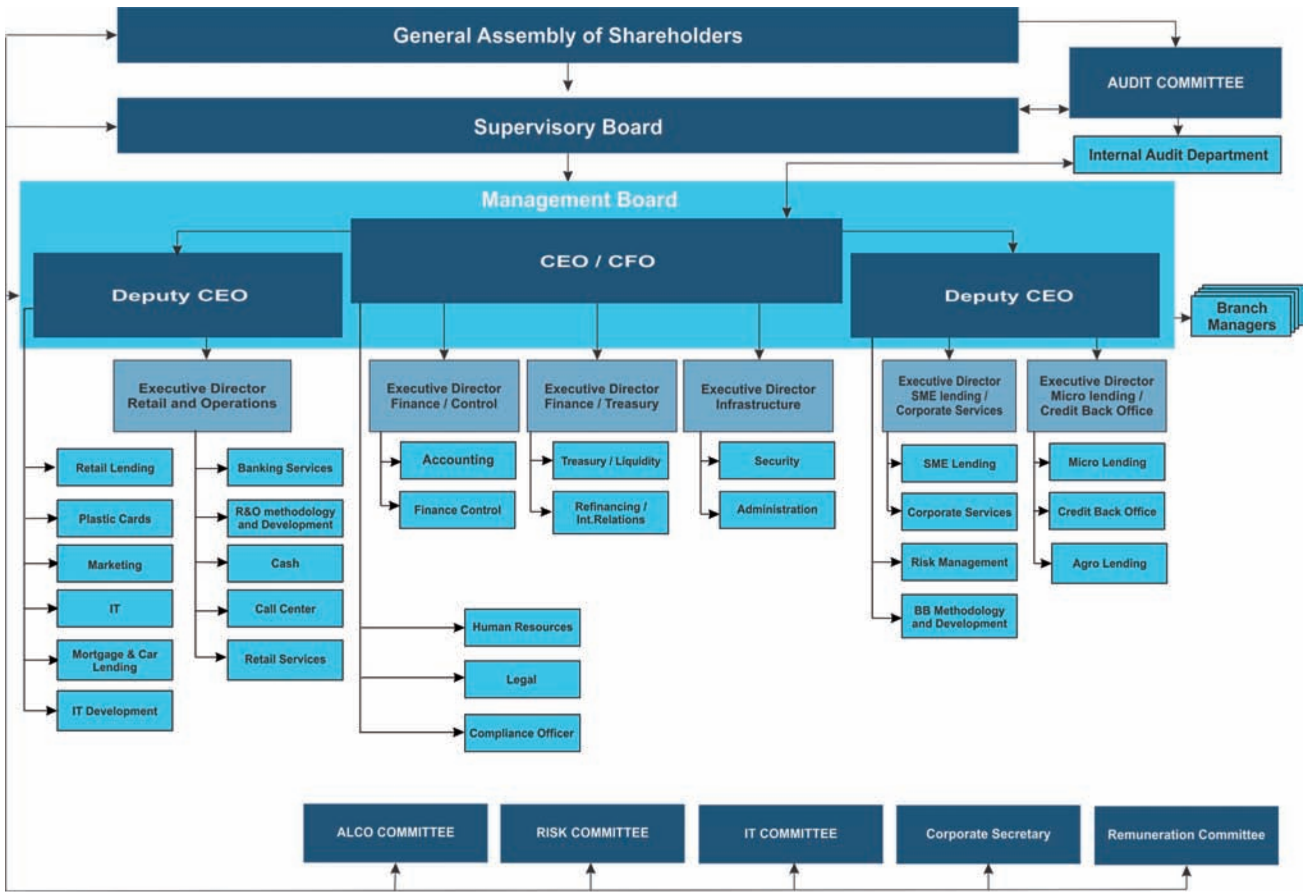
AccessBank is committed to fair and equal opportunity recruitment, treatment, and promotion of staff, irrespective of gender, race, nationality, religion or disability. This is set out within the staff and gender policies and includes a code of conduct providing guidance to staff on professional behavior.

AccessBank has been taking proactive measures to encourage, train and support women and disabled people to pursue professional careers in the Bank. Women make up 32% of the total workforce of the Bank and 20% of the management. The Bank has provided professional employment for 20 disabled staff.

AccessBank does more than just play an important role in the economic development of local communities across Azerbaijan and has become an important employer in the regions. The Bank also supports, sponsors and encourages staff to become involved in charitable and community projects that both benefit and promote the evolution of inclusive local communities. Examples of such projects in 2013 include: sponsoring the Girls Leading Our World (GLOW) summer camp for schoolgirls from the regions of Azerbaijan; distributing food packages for the Novruz holidays to refugee and disadvantaged families; creating a playroom at a local orphanage for disabled children; organizing arts and craft exhibition by disabled members of local community; as well as material support for organization of numerous day-trips and parties for residents of orphanages and homes for the disabled and pensioners.

1. Exhibition for disabled people in Sumgayit
2. Playground in Barda
3. Entertainment event for orphans organized by Mashtaga branch staff

Organizational Chart



AccessBank Closed Joint Stock Company

Financial statements

Year ended 31 December 2013
together with Independent Auditors' Report

Contents

Independent auditors' report

Notes to financial statements

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 2013, and the statement of profit or loss and other comprehensive income and statement of changes in equity and statement of cash flows for the year 2013 and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

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

Auditors' responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of AccessBank CJSC as at 31 December 2013, and its financial performance and cash flows for the year 2013 in accordance with International Financial Reporting Standards.

Ernst & Young Holdings (CIS) B.V.

18 April 2014

Statement of financial position
As of 31 December 2013

(Figures in tables are in thousands of Azerbaijani manats)

	Notes	2013	2012
Assets			
Cash and cash equivalents	6	94,762	50,719
Amounts due from credit institutions	7	15,979	10,682
Investment securities available-for-sale		40	40
Loans to customers	8	617,191	403,988
Property and equipment	9	45,465	37,306
Intangible assets	10	13,431	7,885
Deferred income tax assets	11	189	-
Other assets	12	2,512	4,649
Total assets		**789,569**	**515,269**
Liabilities			
Amounts due to credit institutions	13	27,185	-
Amounts due to customers	14	261,161	168,694
Debt securities issued	15	10,013	-
Borrowed funds from international lenders	16	348,240	230,377
Current income tax liabilities		4,525	1,466
Deferred income tax liabilities	11	-	434
Other liabilities	12	16,234	11,465
Subordinated loan	17	8,076	8,070
Total liabilities		**675,434**	**420,506**
Equity	18		
Share capital		85,000	85,000
Retained earnings		29,135	9,763
Total equity		**114,135**	**94,763**
Total liabilities and equity		**789,569**	**515,269**

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

18 April 2014

Azərbaycan Respublikası "AccessBank" QSC AccessBank

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 2013

(Figures in tables are in thousands of Azerbaijani manats)

	Notes	*2013*	*2012 As reclassified (Note 2)*
Interest income			
Loans to customers		127,809	94,628
Cash and cash equivalents		104	47
Amounts due from credit institutions		31	82
Investment securities available-for-sale		-	40
		127,944	**94,797**
Interest expense			
Borrowed funds from international lenders		(16,587)	(11,521)
Amounts due to customers		(16,315)	(12,339)
Subordinated loans		(918)	(918)
Amounts due to credit institutions		(536)	-
Debt securities issued		(13)	-
		(34,369)	**(24,778)**
Net interest income		**93,575**	**70,019**
Allowance for loan impairment	8	(3,882)	(3,124)
Net interest income after allowance for loan impairment		**89,693**	**66,895**
Net fee and commission income	20	7,333	4,881
Net gains/(losses) from foreign currency operations:			
- foreign exchange transactions		691	494
- translation differences		(37)	(176)
Other income		837	1,187
Non-interest income		**8,824**	**6,386**
Personnel expenses	21	(39,560)	(32,828)
General and administrative expenses	21	(18,440)	(15,426)
Depreciation and amortization	9,10	(5,855)	(4,482)
Other impairment		(283)	(99)
Other operating expenses		**(64,138)**	**(52,835)**
Profit before income tax expense		**34,379**	**20,446**
Income tax expense	11	(7,157)	(4,606)
Profit for the year		**27,222**	**15,840**
Other comprehensive income for the year		-	-
Total comprehensive income for the year		**27,222**	**15,840**

Statement of changes in equity
For the year ended 31 December 2013
(Figures in tables are in thousands of Azerbaijani manats)

	Share capital	*Retained earnings*	*Total equity*
31 December 2011	**67,800**	**17,523**	**85,323**
Profit for the year	-	15,840	15,840
Total comprehensive income for the year	**-**	**15,840**	**15,840**
Increase in share capital (Note 18)	17,200	(17,200)	-
Dividends declared (Note 18)	-	(6,400)	(6,400)
31 December 2012	**85,000**	**9,763**	**94,763**
Profit for the year	-	27,222	27,222
Total comprehensive income for the year	**-**	**27,222**	**27,222**
Dividends declared (Note 18)	-	(7,850)	(7,850)
31 December 2013	**85,000**	**29,135**	**114,135**

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

Statement of cash flows

For the year ended 31 December 2013

(Figures in tables are in thousands of Azerbaijani manats)

	Notes	2013	2012
Cash flows from operating activities			
Interest received		127,669	93,440
Interest paid		(29,949)	(25,616)
Fees and commissions received		8,254	5,513
Fees and commissions paid		(921)	(632)
Realized gains less losses from exchange transactions in foreign currencies		691	494
Other income received		837	1,187
Personnel expenses paid		(36,538)	(31,769)
Other operating expenses paid		(17,742)	(15,584)
Cash flows from operating activities before changes in operating assets and liabilities		**52,301**	**27,033**
Net (increase)/decrease in operating assets			
Amounts due from credit institutions		(5,301)	(2,059)
Loans to customers		(216,806)	(114,061)
Other assets		3,630	(313)
Net increase/(decrease) in operating liabilities			
Amounts due to credit institutions		27,123	-
Amounts due to customers		89,591	22,432
Other liabilities		(125)	53
Net cash used in operating activities before income tax		**(49,587)**	**(66,915)**
Income tax paid		(4,721)	(3,303)
Net cash used in operating activities		**(54,308)**	**(70,218)**
Cash flows from investing activities			
Proceeds from sale and redemption of investment securities available-for-sale		-	8,000
Proceeds from sale and redemption of investment securities held to maturity		-	5,004
Purchase of property and equipment		(15,178)	(10,142)
Acquisition of intangible assets		(6,434)	(6,098)
Net cash used in investing activities		**(21,612)**	**(3,236)**
Cash flows from financing activities			
Proceeds from bonds issued	15	10,000	-
Proceeds from borrowed funds from international lenders		168,676	141,055
Repayment of borrowed funds from international lenders		(52,276)	(49,121)
Dividends paid	18	(6,400)	-
Net cash from financing activities		**120,000**	**91,934**
Effect of exchange rates changes on cash and cash equivalents		(37)	(176)
Net increase in cash and cash equivalents		**44,043**	**18,304**
Cash and cash equivalents, beginning		**50,719**	**32,415**
Cash and cash equivalents, ending	6	**94,762**	**50,719**

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 as Closed Joint Stock Company (CJSC) Micro Finance Bank of Azerbaijan. The Bank is regulated by the Central Bank of the Republic of Azerbaijan (the "CBAR") and conducts its business under license number 245. On 6 September 2008 the Bank changed its legal name from CJSC Micro Finance Bank of Azerbaijan to AccessBank CJSC.

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

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

The Bank has forty one branches within the Republic of Azerbaijan as at 31 December 2013 (31 December 2012: thirty four branches).

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

As at 31 December 2013 and 2012, the following shareholders owned the outstanding ordinary shares of the Bank:

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

2. Basis of preparation

General

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

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

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

Reclassifications

The following reclassifications have been made to 2012 balances to conform to the 2013 presentation:

	As previously reported	*Reclassifications*	*As adjusted*	*Notes*
Statement of profit or loss and other comprehensive income				
Interest income	99,361	(4,564)	94,797	a) and b)
Net fee and commission income	1,299	3,582	4,881	a), c) and d)
Net gain/(losses) from foreign exchange transactions	371	123	494	c)
Other income	692	495	1,187	b)
Personnel Expenses	(32,385)	(443)	(32,828)	e)
General and administrative expenses	(16,332)	906	(15,426)	d), e) and f)
Other impairment	-	(99)	(99)	f)

(Figures in tables are in thousands of Azerbaijani manats)

2. Basis of preparation (continued)

Reclassifications (continued)

a) To reclassify cash disbursement fee (AZN 4,069 thousands) from interest income to net fee and commission income.
b) To reclassify overdue fines and penalty (AZN 495 thousands) from interest income to other income.
c) To reclassify commission fee for foreign currency transactions (AZN 123 thousands) from net fee and commission income to net gain/(losses) from foreign currency-exchange transactions.
d) To reclassify commission fee paid to Central Credit Registry (AZN 364 thousands) for information on credit history of potential borrowers from general and administrative expenses to Central Credit Registry fee within fee and commission expense (Note 20).
e) To reclassify medical insurance expenses of employees (AZN 443 thousands) from general and administrative expenses to personnel expenses
f) To reclassify impairment charge for repossessed collaterals (AZN 99 thousands) from general and administrative expenses to other impairment.

These reclassifications do not lead to any change in the Bank's financial result illustrated in the statement of profit or loss and other comprehensive income.

3. Summary of accounting policies

Changes in accounting policies

The Bank has adopted the following amended IFRS during the year:

IFRS 13 Fair Value Measurement
IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The application of IFRS 13 has not materially impacted the fair value measurements carried out by the Bank. IFRS 13 also requires specific disclosures on fair values, some of which replace existing disclosure requirements in other standards, including IFRS 7 *Financial Instruments: Disclosures*. Some of these disclosures are specifically required for financial instruments by IAS 34.16A(j). These amendments had no impact on the Bank's financial position or performance.

Amendments to IAS 19 Employee Benefits
The IASB has published amendments to IAS 19 *Employee Benefits*, effective for annual periods beginning on or after 1 January 2013, which involve major changes to the accounting for employee benefits, including the removal of the option for deferred recognition of changes in pension plan assets and liabilities (known as the "corridor approach"). In addition, these amendments will limit the changes in the net pension asset (liability) recognized in profit or loss to net interest income (expense) and service costs. These amendments had no impact on the Bank's financial position.

IFRS 12 Disclosure of Interests in Other Entities
IFRS 12 sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. The requirements in IFRS 12 are more comprehensive than the previously existing disclosure requirements for subsidiaries. For example, where a subsidiary is controlled with less than a majority of voting rights. The Bank has no subsidiaries with material non-controlling interests as well as unconsolidated structured entities.

Amendments to IAS 1 Changes to the Presentation of Other Comprehensive Income
The amendments to IAS 1 change the grouping of items presented in other comprehensive income. Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, net losses or gains on available-for-sale financial assets) would be presented separately from items that will never be reclassified (for example, revaluation of buildings). The amendment affects presentation only and has no impact on the Bank's financial position or performance.

IAS 1 Clarification of the Requirement for Comparative Information (amendment)
These amendments clarify the difference between voluntary additional comparative information and the minimum required comparative information. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The amendments clarify that the opening statement of financial position, presented as a result of retrospective restatement or reclassification of items in financial statements does not have to be accompanied by comparative information in the related notes. The amendments affect presentation only and have no impact on the Bank's financial position or performance.

(Figures in tables are in thousands of Azerbaijani manats)

3. Summary of accounting policies (continued)

Changes in accounting policies (continued)

Amendments to IFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities
These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognized financial instruments that are set off in accordance with IAS 32 *Financial Instruments: Presentation*. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreements, irrespective of whether they are set off in accordance with IAS 32. These amendments had no impact on the Bank's financial position or performance.

Fair value measurement

The Bank measures financial instruments, such as trading and available-for-sale securities, derivatives and non-financial assets such as investment property, at fair value at each balance sheet date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

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

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

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

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

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

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

Financial assets

Initial recognition

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

Date of recognition

All regular way purchases and sales of financial assets are recognized 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.

(Figures in tables are in thousands of Azerbaijani manats)

. Summary of accounting policies (continued)

Financial assets (continued)

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 recognized 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 amortized cost. Gains and losses are recognized in profit or loss when the investments are impaired, as well as through the amortization process.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as trading securities or designated as investment securities available-for-sale. Such assets are carried at amortized cost using the effective interest method. Gains and losses are recognized in profit or loss when the loans and receivables are derecognized or impaired, as well as through the amortization process.

Available-for-sale financial assets

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

Reclassification of financial assets

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

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

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

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

Cash and cash equivalents

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

(Figures in tables are in thousands of Azerbaijani manats)

3. Summary of accounting policies (continued)

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 the Central bank and Government, 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.

Leases

i. Operating – Bank as lessee

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

ii. Operating – Bank as lessor

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

Measurement of financial instruments at initial recognition

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

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

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

Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with 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.

(Figures in tables are in thousands of Azerbaijani manats)

3. Summary of accounting policies (continued)

Impairment of financial assets (continued)

Amounts due from credit institutions and loans to customers

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

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

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

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

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

Held-to-maturity financial investments

For held-to-maturity investments the Bank assesses individually whether there is objective evidence of impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced and the amount of the loss is recognized in the statements of profit or loss and other comprehensive income.

If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, any amounts formerly charged are credited to the statement of profit or loss and other comprehensive income.

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.

(Figures in tables are in thousands of Azerbaijani manats)

3. Summary of accounting policies (continued)

Impairment of financial assets (continued)

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's applies the following approach:

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

Derecognition of financial assets and liabilities

Financial assets

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

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

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

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

(Figures in tables are in thousands of Azerbaijani manats)

3. Summary of accounting policies (continued)

Derecognition of financial assets and liabilities (continued)

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 bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

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

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

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

Property and equipment

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

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

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

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

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

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

(Figures in tables are in thousands of Azerbaijani manats)

3. Summary of accounting policies (continued)

Intangible assets

Intangible assets include computer software and licenses.

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

Retirement and other employee benefit obligations

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

Share capital

Share capital

Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity. Any excess of the fair value of consideration received over the par value of shares issued is recognized as additional paid-in capital.

Dividends

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

Segment reporting

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

Contingencies

Contingent liabilities are not recognized in the statement of financial position but are disclosed unless the possibility of any outflow in settlement is remote. A contingent asset is not recognized in the statement of financial position but disclosed when an inflow of economic benefits is probable.

Recognition of income and expenses

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

Interest and similar income and expense

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

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognized using the original effective interest rate applied to the new carrying amount.

Fee and commission income

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

(Figures in tables are in thousands of Azerbaijani manats)

3. Summary of accounting policies (continued)

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 2013 and 31 December 2012 were as follows:

	31 December 2013	31 December 2012
USD/AZN	0.7845	0.7850
EUR/AZN	1.0780	1.0377

Standards and interpretations issued but not yet effective

IFRS 9 Financial Instruments
IFRS 9, as issued, reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard was initially effective for annual periods beginning on or after 1 January 2013, but Amendments to IFRS 9 *Mandatory Effective Date of IFRS 9 and Transition Disclosures*, issued in December 2011, moved the mandatory effective date to 1 January 2015. In subsequent phases, the IASB is addressing hedge accounting and impairment of financial assets. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Bank's financial assets, but will not have an impact on classification and measurements of the Bank's financial liabilities. The Bank will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued.

Investment Entities (amendments to IFRS 10, IFRS 12 and IAS 27)
These amendments are effective for annual periods beginning on or after 1 January 2014 provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. It is not expected that this amendment would be relevant to the Bank, since none of the entities in the Bank does not qualify to be an investment entity under IFRS 10.

IAS 32 Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32
These amendments clarify the meaning of "currently has a legally enforceable right to set-off" and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting. These are effective for annual periods beginning on or after 1 January 2014. These amendments are not expected to be relevant to the Bank.

IFRIC Interpretation 21 Levies (IFRIC 21)
IFRIC 21 clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. IFRIC 21 is effective for annual periods beginning on or after 1 January 2014. The Bank does not expect that IFRIC 21 will have a material impact on its financial statements.

IAS 39 Novation of Derivatives and Continuation of Hedge Accounting – Amendments to IAS 39
These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. These amendments are effective for annual periods beginning on or after 1 January 2014. The Bank has not novated its derivatives during the current period. However, these amendments would be considered for future novations.

(Figures in tables are in thousands of Azerbaijani manats)

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 experienced judgment to estimate the amount of any impairment loss in cases where a borrower is in financial difficulties and there are few available sources of historical data relating to similar borrowers. Similarly, the Bank estimates changes in future cash flows based on the observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans and receivables. The Bank uses its experienced judgment to adjust observable data for a group of loans or receivables to reflect current circumstances.

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.

Useful lives of property and equipment and intangible assets

Management determines the estimated useful lives and related depreciation and amortization charges for its property, plant and equipment and intangible assets. This estimate is based on projected period over which the Bank expects to consume economic benefits from the asset. The useful lives are reviewed at least at each reporting date. Changes in any of the above conditions or estimates may result in adjustments to future depreciation rates.

Initial recognition of related party transactions

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

Fair value of financial instruments

When the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques. These techniques are derived from observable market data where possible, but if this is not available, judgment is required to establish fair values. The judgments include considerations of liquidity risk, credit risk and volatility for longer–dated financial assets and liabilities. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies. If actual results differ from those estimates or if these estimates must be adjusted in future periods, the financial position, results of operations and cash flows may be negatively affected. In the event that an assessment of future utilization indicates that the carrying amount of deferred tax assets must be reduced, this reduction is recognised in the statement of profit or loss and other comprehensive income.

(Figures in tables are in thousands of Azerbaijani manats)

5. Segment information

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

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

For the purposes of these financial statements the Bank aggregated loans in the "Retail", "Mortgage" and "Staff" segment and illustrates the aggregated figure in the segment "Retail and Services". . The aggregations were done in accordance with the qualitative and quantitative aggregation requirements as set out in IFRS 8.

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.

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 2013 or 2012.

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

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

(Figures in tables are in thousands of Azerbaijani manats)

5. Segment information (continued)

2012	*Micro*	*SME*	*Retail and Services*	*Unallocated*	*Total*
Revenue					
Third party					
Interest income	54,422	26,621	13,585	169	**94,797**
Fee and commission income	2,340	1,145	2,027	-	**5,512**
Net gains from foreign exchange transactions	-	-	494	-	**494**
Other income	285	139	71	692	**1,187**
Total revenue	**57,047**	**27,905**	**16,177**	**861**	**101,990**
Interest expense	(11,649)	(10,242)	(2,887)	-	**(24,778)**
Fee and commission expense	(166)	(154)	(311)	-	**(631)**
Allowance for loan impairment	(1,162)	(1,666)	(296)	-	**(3,124)**
Net losses from foreign exchange transactions - translation differences	-	-	-	(176)	**(176)**
Personnel expenses	-	-	-	(32,828)	**(32,828)**
General and administrative expenses	-	-	-	(15,426)	**(15,426)**
Depreciation and amortization	-	-	-	(4,482)	**(4,482)**
Other impairment	-	-	-	(99)	**(99)**
Segment results	**44,070**	**15,843**	**12,683**	**(52,150)**	**20,446**
Segment assets	184,587	171,363	48,038	-	**403,988**

Geographic information

The Bank's revenues from third party customers for the years ended 31 December 2013 and 31 December 2012 are generated in the Republic of Azerbaijan.

6. Cash and cash equivalents

Cash and cash equivalents comprise:

	2013	*2012*
Cash on hand	27,099	20,322
Current accounts with the CBAR	20,507	1,959
Current accounts with other banks	47,156	28,438
Cash and cash equivalents	**94,762**	**50,719**

Current accounts with other banks consist of correspondent account balances with resident and non–resident banks in the amount of AZN 17,435 thousands (2012 - AZN 4,565 thousands) and AZN 29,721 thousands (2012 - AZN 23,873 thousands), respectively.

7. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	2013	*2012*
Obligatory reserve with the CBAR	15,619	9,376
Loans to banks	360	1,306
Amounts due from credit institutions	**15,979**	**10,682**

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

As at 31 December 2013, loans to banks include AZN 360 thousands (2012 – AZN 1,306 thousands) placed with one non-resident bank (2012 – two non-resident banks) maturing through 28 March 2014 (2012 – through 28 March 2013).

(Figures in tables are in thousands of Azerbaijani manats)

8. Loans to customers

Loans to customers comprise:

	2013	*2012*
Micro loans	280,515	189,173
SME loans	259,935	176,306
Retail loans	62,068	35,651
Mortgage loans	17,423	6,013
Staff loans	10,465	7,236
Gross loans to customers	**630,406**	**414,379**
Less: allowance for impairment	(13,215)	(10,391)
Loans to customers	**617,191**	**403,988**

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

	Micro loans	*SME loans*	*Retail loans*	*Mortgage loans*	*Staff loans*	*Total*
At 1 January 2012	**3,781**	**3,442**	**387**	**78**	**128**	**7,816**
Charge for the year	1,162	1,666	235	48	13	3,124
Recoveries	118	224	11	2	0	355
Amounts written off	(475)	(389)	(32)	(8)	-	(904)
At 31 December 2012	**4,586**	**4,943**	**601**	**120**	**141**	**10,391**
Individual impairment	-	-	-	-	-	-
Collective impairment	4,586	4,943	601	120	141	**10,391**
	4,586	**4,943**	**601**	**120**	**141**	**10,391**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**-**	**-**	**-**	**-**	**-**	**-**

Individually impaired loans

Interest income accrued on loans, for which individual impairment allowances have been recognized, for the year ended 31 December 2013, comprised AZN 133 thousands (2012 – nil).

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

(Figures in tables are in thousands of Azerbaijani manats)

8. Loans to customers (continued)

Collateral and other credit enhancements

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

The main types of collateral obtained are as follows:

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

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

Concentration of loans to customers

As at 31 December 2013, the Bank had a concentration of loans represented by AZN 48,577 thousands due from the twenty (2012 - twenty) largest third party borrowers (8% of gross loan portfolio) (2012 - AZN 32,307 thousands or 8% of gross loan portfolio). An allowance of AZN 967 thousands (2012 - AZN 630 thousands) was recognized against these loans.

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

	2013	*2012*
Trade	242,097	185,764
Services	143,900	84,580
Agriculture	105,716	62,712
Household	89,984	48,900
Manufacturing	34,283	24,636
Transportation	14,426	7,787
	630 406	**414 379**

9. Property and equipment

The movements in property and equipment were as follows:

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

(Figures in tables are in thousands of Azerbaijani manats)

9. Property and equipment (continued)

	Premises and leasehold improvements	*Furniture and office equipment*	*Computer equipment*	*Motor vehicles*	*Total*
Cost					
31 December 2011	**29,794**	**5,734**	**2,779**	**550**	**38,857**
Additions	6,089	1,623	2,316	114	10,142
Disposals	(186)	(15)	(78)	-	(279)
31 December 2012	**35,697**	**7,342**	**5,017**	**664**	**48,720**
Accumulated depreciation					
31 December 2011	**(2,500)**	**(3,434)**	**(1,433)**	**(363)**	**(7,730)**
Depreciation charge	(2,035)	(1,191)	(616)	(100)	(3,942)
Disposals	166	14	78	-	258
31 December 2012	**(4,369)**	**(4,611)**	**(1,971)**	**(463)**	**(11,414)**
Net book value					
31 December 2011	**27,294**	**2,300**	**1,346**	**187**	**31,127**
31 December 2012	**31,328**	**2,731**	**3,046**	**201**	**37,306**

10. Intangible assets

The movements in intangible assets were as follows:

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

	Licenses	*Computer software*	*Total*
Cost			
31 December 2011	**1,597**	**4,020**	**5,617**
Additions	1,751	2,559	4,310
31 December 2012	**3,348**	**6,579**	**9,927**
Accumulated amortization			
31 December 2011	**(327)**	**(1,175)**	**(1,502)**
Amortization charge	(161)	(379)	(540)
31 December 2012	**(488)**	**(1,554)**	**(2,042)**
Net book value			
31 December 2011	**1,270**	**2,845**	**4,115**
31 December 2012	**2,860**	**5,025**	**7,885**

As at 31 December 2013, the Bank is working on the implementation of new banking software based on the Temenos system, which will replace the existing banking software.

(Figures in tables are in thousands of Azerbaijani manats)

11. Taxation

The corporate income tax expense comprises:

	2013	2012
Current tax charge	(7,780)	(4,486)
Deferred tax credit/(charge)	623	(120)
Income tax expense	**(7,157)**	**(4,606)**

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:

	2013	2012
Profit before tax	**34,379**	**20,446**
Statutory tax rate	20%	20%
Theoretical income tax expense at the statutory rate	**(6,876)**	**(4,089)**
Tax effect of non-deductible expenses	(281)	(343)
Other	-	(174)
Income tax expense	**(7,157)**	**(4,606)**

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

	2011	Origination and reversal of temporary differences in statement of profit or loss and other comprehensive income	2012	Origination and reversal of temporary differences in statement of profit or loss and other comprehensive income	2013
Tax effect of deductible temporary differences					
Other liabilities	(86)	127	41	590	631
Deferred tax asset	**(86)**	**127**	**41**	**590**	**631**
Tax effect of taxable temporary differences					
Loans to customers	190	(146)	44	(147)	(103)
Property and equipment	(502)	(17)	(519)	180	(339)
Other assets	84	(84)	-	-	-
Deferred tax liability	**(228)**	**(247)**	**(475)**	**33**	**(442)**
Net deferred tax asset	**(314)**	**(120)**	**(434)**	**623**	**189**

12. Other assets and liabilities

Other assets comprise:

	2013	2012
Other financial assets		
Settlements on money transfers and plastic cards	277	531
Cash blocked by Visa Card	199	192
Other	12	3
	488	**726**
Other non–financial assets		
Prepayments for acquisition of property, equipment and intangible assets	873	2,925
Deferred expenses	405	268
Prepayments for operating lease agreements	257	265
Other prepayments	52	83
Other	437	382
	2,024	**3,923**
Other assets	**2,512**	**4,649**

(Figures in tables are in thousands of Azerbaijani manats)

12. Other assets and liabilities (continued)

Other liabilities comprise:

	2013	*2012*
Other financial liabilities		
Dividends payable (Note 18)	7,850	6,400
Payables for professional services	598	288
Settlements on money transfer	331	420
Other	85	70
	8,864	**7,178**
Other non–financial liabilities		
Payable to employees	7,200	4,178
Taxes, other than income tax	138	76
Other	32	33
	7,370	**4,287**
Other liabilities	**16,234**	**11,465**

13. Amounts due to credit institutions

Amounts due to credit institutions comprise:

	2013	*2012*
Time deposit	2,001	-
Short term loans from banks	25,184	-
Amounts due to credit institutions	**27,185**	**-**

As at 31 December 2013, time deposit represents a deposit placed by one resident bank maturing on 25 January 2014.

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

14. Amounts due to customers

The amounts due to customers include the following:

	2013	*2012*
Current accounts	59,922	42,748
Time deposits	201,239	125,946
Amounts due to customers	**261,161**	**168,694**
Held as security against guarantees (Note 19)	**117**	**100**

As at 31 December 2013, customer deposits included balances with one hundred (2012 – one hundred thirty) largest customers comprised AZN 102,672 thousands or 39% of the total customer deposits portfolio (2012 – AZN 79,914 thousands or 47% of the total customer deposits portfolio).

An analysis of customer accounts by economic sector follows:

	2013	*2012*
Individuals	195,939	120,836
Insurance companies and other financial services	52,768	42,048
Other	12,454	5,810
Amounts due to customers	**261,161**	**168,694**

15. Debt securities issued

As at 31 December 2013, the Bank had issued corporate bonds that are quoted on the Baku Stock Exchange having an aggregate nominal value of AZN 10,000 thousands maturing on 26 December 2014. As at 31 December 2013, the balance of debt securities issued was AZN 10,013 thousands.

(Figures in tables are in thousands of Azerbaijani manats)

16. Borrowed funds from international lenders

Borrowed funds from international lenders consisted of the following:

	2013	*2012*
ADB (Asian Development Bank)	39,541	-
EFSE (European Fund for Southeast Europe)	32,584	23,458
responsAbility SICAV	25,800	10,229
EBRD	24,119	23,121
KFW	20,465	29,251
FMO (Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V.)	19,681	7,836
Micro, Small and Medium Enterprises Bonds SA	18,440	7,834
OeEB (Oesterreichische Entwicklungsbank AG)	15,744	-
Pettelaar Effectenbewaarbedrijf N.V	14,115	16,243
Microfinance Enhancement Facility SA, SICAV-SIF, Cyrano Pool, Luxemburg	13,999	13,810
Proparco (Societe de Promotion et de Participation pour la Cooperation Economique S.A)	11,808	-
BSTDB	11,690	353
IFC	11,372	17,732
Demir-Halk Bank (Nederland) N.V.	10,275	8,026
Rosevrobank	8,080	-
Global Microfinance Facility	7,978	7,981
Bank im Bistum Essen	7,973	7,980
Oikocredit EDCS, U.A, the Netherlands	7,956	-
OPEC Fund for International Development	6,950	9,126
Dexia Micro-Credit Fund (Sub-Fund Blue Orchard Debt Luxemburg)	6,283	6,267
Microfinance Enhancement Facility - Cyrano	5,951	5,988
responsAbility SICAV (Lux) Financial Inclusion Fund	5,922	5,925
Triodos Custody B.V (custodian of Triodos Fair Share Fund)	4,366	4,318
Microvest GMG Local Credit Master Fund, LTD	4,115	4,113
Other	13,033	20,786
	348,240	**230,377**

On 7 March 2013, the Bank signed a loan agreement with the EBRD in the amount of USD 4,172 thousands. Principal amount is to be repaid in 9 equal semi-annual instalments starting from 20 March 2014. Interest is paid in semi-annual instalments starting from 20 September 2013.

On 18 March 2013, the Bank signed a loan agreement with Oikocredit, Ecumenical Development Co-operative Society U.A. in the amount of USD 10,000 thousands. Principal amount is to be repaid in 4 equal semi-annual instalments starting from 28 September 2014. Interest is paid in semi-annual instalments starting from 28 September 2013.

On 16 May 2013, the Bank signed a loan agreement with Demir-Halk Bank (Nederland) N.V. in the amount of USD 9,000 thousands. Principal amount is to be repaid in one instalment on 31 May 2014. Interest is paid in semi-annual instalments starting from 30 November 2013.

On 11 June 2013, the Bank signed a loan agreement for a syndicated term loan facility arranged by FMO in the amount of USD 60,000 thousands. Participants in the syndicated loan are the OeEB and Proparco. The principal amount is to be repaid in 7 equal semi-annual instalments starting from 11 September 2014. Interest is paid in semi-annual instalments starting from 11 September 2013.

On 20 June 2013, the Bank signed a loan agreement with RosEvroBank OJSC in the amount of USD 10,000 thousands. The principal and interest are to be repaid in one instalment on 20 June 2014.

(Figures in tables are in thousands of Azerbaijani manats)

16. Borrowed funds from international lenders (continued)

On 23 June 2013, the Bank signed a loan agreement with the BSTDB in the amount of USD 15,000 thousands. The principal amount is to be repaid in five equal semi-annual instalments starting from 23 June 2014. Interest is paid in semi-annual instalments starting from 23 December 2013.

On 10 July 2013, the Bank signed a loan agreement with responsAbility SICAV (Lux) Mikrofinanz-Fonds in the amount of USD 3,000 thousands. The principal amount is to be repaid in one instalment on 19 August 2016. Interest is paid in semi-annual instalments starting from 20 January 2014.

On 11 July 2013, the Bank signed a promissory note with Credit Suisse Microfinance Fund Management Company (acting in its own name for responsAbility Global Microfinance Funds) in the amount of USD 7,000 thousands. The principal amount is to be repaid in one instalment on 31 August 2016. Interest is paid in semi-annual instalments starting from 01 September 2014.

On 24 July 2013, the Bank signed a loan agreement with the ADB in the amount of USD 50,000 thousands. The principal amount is to be repaid in 7 equal semi-annual instalments starting from 24 July 2015. Interest is paid in semi-annual instalments starting from 24 January 2014.

On 13 September 2013, the Bank signed a loan agreement with Micro, Small & Medium Enterprises Bonds SA in the amount of USD 13,450 thousand. The principal amount is to be repaid in one instalment on 07 December 2016. Interest is paid in semi-annual instalments starting from 07 June 2014.

On 23 September 2013, the Bank signed a loan agreement with Demir-Halk Bank (Nederland) N.V. in the amount of USD 4,000 thousands. The principal amount is to be repaid in one instalment on 01 October 2014. Interest is paid in semi-annual instalments starting from 01 April 2014.

On 17 October 2013, the Bank signed a promissory note with Credit Suisse Microfinance Fund Management Company (acting in its own name for responsAbility Global Microfinance Fund) and a loan agreement with responsAbility SICAV (Lux) Mikrofinanz-Fonds in the amount of USD 7,000 thousands and USD 2,500 thousands, respectively. The principal and interest are to be repaid in one instalment on 28 April 2014.

On 01 November 2013, the Bank signed a promissory note with Banka Kombëtare Tregtare Sh. A. in the amount of USD 5,000 thousands. The principal amount is to be repaid in one installment on 15 May 2014. Interest is to be repaid in one installment on 15 May 2014.

On 29 November 2013, the Bank signed a loan agreement with EFSE, SICAV-SIF in the amount of USD 15,000 thousands. The principal amount is to be repaid in 7 equal semi-annual installments starting from 22 March 2015. Interest is paid in semi-annual installments starting from 22 March 2014.

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

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

17. Subordinated loan

On 2 July 2007, the Bank signed a subordinated loan agreement with Deutsche Bank AG (registered in Germany) in the amount of USD 10,211 thousands. The loan bears a market interest rate. The principal is to be repaid on maturity, which is 31 December 2014. Interest is paid quarterly, starting from 31 August 2007. The debt ranks after all other creditors in case of liquidation. The Bank is obliged to comply with certain financial covenants stipulated by the aforementioned loan agreement. As at 31 December 2013, management believes that the Bank was in compliance with these covenants. As at 31 December 2013, the balance of the borrowing under this facility was AZN 8,076 thousands (2012: AZN 8,070 thousands).

(Figures in tables are in thousands of Azerbaijani manats)

18. Equity

As of 31 December 2013 and 2012 the number of authorized, issued and fully paid ordinary shares was 20,000 with a nominal value per share of AZN 4.25 thousands.

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 15 December 2011, the shareholders decided to increase the share capital by AZN 17,200 thousands through capitalization of the profit earned for the year ended 31 December 2011. As a result the share capital was increased from AZN 67,800 thousands to AZN 85,000 thousands.

On 18 December 2012, the General Assembly of Shareholders of the Bank declared dividends totalling AZN 6,400 thousands from the Bank's profit for the first half of 2012. The dividends were paid to the shareholders of the Bank on 31 January 2013.

On 11 September 2013, the General Assembly of Shareholders of the Bank declared dividends totalling AZN 7,850 thousands from the Bank's profit for the rest of 2012. The dividends were paid to the shareholders of the Bank on 31 January 2014 (Note 27).

19. Commitment and contingencies

Legal

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

Taxation

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

Management believes that as at 31 December 2013 its interpretation of the relevant legislation is appropriate and that the Bank's tax and social contribution position will be sustained.

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

	2013	*2012*
Credit related commitments		
Undrawn loan commitments	8,348	2,567
Guarantees	1,813	367
Commitments and contingencies (before deducting collateral)	**10,161**	**2,934**
Less: deposits held as security against guarantees (Note 14)	(117)	(100)
Commitments and contingencies	**10,044**	**2,834**

(Figures in tables are in thousands of Azerbaijani manats)

20. Net fee and commission income

Net fee and commission income comprises:

	2013	*2012*
Cash operations	5,847	4,413
Plastic cards	1,102	576
Settlements operations	716	364
Insurance agency activities	489	-
Documentary operations	89	13
Other	11	147
Fee and commission income	**8,254**	**5,513**
Plastic cards	(381)	(173)
Central Credit Registry fees (Note 2)	(380)	(364)
Settlements operations	(87)	(83)
Cash operations	(50)	(11)
Other	(23)	(1)
Fee and commission expense	**(921)**	**(632)**
Net fee and commission income	**7,333**	**4,881**

21. Personnel, general and administrative expenses

Personnel expenses comprise:

	2013	*2012*
Salaries	(25,872)	(23,199)
Social security costs	(5,713)	(5,202)
Other employee related expenses	(7,975)	(4,427)
Personnel expenses	**(39,560)**	**(32,828)**

General and administrative expenses comprise:

	2013	*2012*
Advertising and marketing services	(4,013)	(2,303)
Stationery and office supplies	(2,524)	(2,189)
Consultancy, other professional fees	(2,200)	(1,895)
Repair and maintenance	(1,799)	(1,697)
Occupancy and Rent	(1,760)	(1,494)
Data processing	(1,503)	(1,285)
Communications	(1,203)	(1,083)
Security services	(977)	(1,357)
Business travel expense	(718)	(384)
Utilities	(419)	(341)
Taxes, other than income tax	(365)	(296)
Entertainment	(155)	(287)
Other	(804)	(815)
Total general and administrative expenses	**(18,440)**	**(15,426)**

(Figures in tables are in thousands of Azerbaijani manats)

22. Financial risk management

Introduction

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

The Bank's risk management methodology, policies and assessment procedures are designed to identify, 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 ongoing basis. The risk management policies and procedures are reviewed regularly to reflect changes in market conditions, and new products and services offered. This is to ensure that "best practices" are implemented in the Bank.

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

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

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

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

Credit risk

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

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

(Figures in tables are in thousands of Azerbaijani manats)

22. Financial risk management (continued)

Credit risk (continued)

Credit-related commitments risks

The Bank makes available to its customers guarantees 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 similar risks 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.

Where financial instruments are recorded at fair value, the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

For more detail on the maximum exposure to credit risk for each class of financial instrument, references shall be made to the specific notes.

Credit quality per class of financial assets

The credit quality of financial assets is managed 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 2013	*Notes*	*Neither past due nor impaired*	*Past due but not impaired*	*Individually impaired*	*Total*
Amounts due from credit institutions	7	15,979	-	-	**15,979**
Loans to customers	8				
Micro loans		279,437	1,078	-	**280,515**
SME loans		258,354	586	995	**259,935**
Retail loans		61,839	229	-	**62,068**
Mortgage loans		17,321	-	102	**17,423**
Staff loans		10,449	16	-	**10,465**
Total		**643,379**	**1,909**	**1,097**	**646,385**

As at 31 December 2012	*Notes*	*Neither past due nor impaired*	*Past due but not impaired*	*Individually impaired*	*Total*
Amounts due from credit institutions	7	10,682	-	-	**10,682**
Loans to customers	8				
Micro loans		188,184	989	-	**189,173**
SME loans		174,472	1,834	-	**176,306**
Retail loans		35,585	66	-	**35,651**
Mortgage loans		5,993	20	-	**6,013**
Staff loans		7,234	2	-	**7,236**
Total		**422,150**	**2,911**	**-**	**425,061**

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

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

(Figures in tables are in thousands of Azerbaijani manats)

22. Financial risk management (continued)

Credit risk (continued)

Credit quality per class of financial assets (continued)

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

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

As at 31 December 2012	***Less than 30 Days***	***31 to 90 days***	***More than 90 days***	***Total***
Loans to customers				
Micro loans	75	120	794	989
SME loans	182	187	1,465	1,834
Retail loans	16	16	34	66
Mortgage loans	5	5	10	20
Staff loans	2	-	-	2
Total	**280**	**328**	**2,303**	**2,911**

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

Impairment assessment

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

Individually assessed allowances

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

Collectively assessed allowances

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

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is no yet objective evidence of the impairment in an individual assessment. Impairment losses are estimated by taking into consideration of 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 provision made in a similar manner as for loans.

(Figures in tables are in thousands of Azerbaijani manats)

22. Financial risk management (continued)

Credit risk (continued)

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

	2013				*2012*			
	Azerbaijan	*OECD*	*CIS and other foreign banks*	*Total*	*Azerbaijan*	*OECD*	*CIS and other foreign banks*	*Total*
Assets								
Cash and cash equivalents	65,041	27,349	2,372	94,762	26,846	22,610	1,263	50,719
Amounts due from credit institutions	15,619	-	360	15,979	9,376	-	1,306	10,682
Investment securities available-for-sale	40	-	-	40	40	-	-	40
Loans to customers	617,191	-	-	617,191	403,988	-	-	403,988
Other assets	207	220	61	488	140	385	201	726
	698,098	**27,569**	**2,793**	**728,460**	**440,390**	**22,995**	**2,770**	**466,155**
Liabilities								
Amounts due to credit institutions	22,705	-	4,480	27,185	-	-	-	-
Amounts due to customers	261,161	-	-	261,161	168,694	-	-	168,694
Debt securities issued	10,013	-	-	10,013	-	-	-	-
Borrowed funds from international lenders	-	288,780	59,460	348,240	-	218,283	12,094	230,377
Subordinated loan	-	8,076	-	8,076	-	8,070	-	8,070
Other liabilities	388	8,457	19	8,864	335	6,746	97	7,178
	294,267	**305,313**	**63,959**	**663,539**	**169,029**	**233,099**	**12,191**	**414,319**
Net assets/(liabilities)	**403,831**	**(277,744)**	**(61,166)**	**64,921**	**271,361**	**(210,104)**	**(9,421)**	**51,836**

Liquidity risk and Asset-Liability management

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has established a broad base of diversified funding sources in addition to its core deposit base. As part of the Asset-Liability management the Bank monitors and steers its liquidity position based on the expected future cash in- and outflows on a daily basis.

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

The liquidity position is assessed and managed by the Bank primarily on a standalone basis and is monitored against regulatory requirements. A key ratio set up by the CBAR for assessing the liquidity position is the Instant Liquidity Ratio which is defined as the relation of highly liquid assets to liabilities payable on demand. The ratio was 171.4 as at 31 December 2013 (81.8 as at 31 December 2012), whereas the minimum percentage required by the CBAR is 30%.

(Figures in tables are in thousands of Azerbaijani manats)

22. Financial risk management (continued)

Liquidity risk and Asset-Liability management (continued)

Analysis of financial liabilities by remaining contractual maturities

The tables below summarize the maturity profile of the Bank's financial liabilities at 31 December based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

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

As at 31 December 2012	*Less than 1 month*	*1 to 6 months*	*6 to 12 months*	*1 to 5 years*	*Total*
Financial liabilities					
Amounts due to credit institutions	-	-	-	-	**-**
Amounts due to customers	49,434	38,188	65,823	19,177	**172,622**
Debt securities issued	-	-	-	-	**-**
Borrowed funds from international lenders	-	18,917	36,326	195,711	**250,954**
Subordinated loan	-	447	447	8,976	**9,870**
Other liabilities	7,178	-	-	-	**7,178**
Total undiscounted financial liabilities	**56,612**	**57,552**	**102,596**	**223,864**	**440,624**

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

	Less than 1 month	*1 to 6 months*	*6 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
2013	8,513	730	804	-	114	**10,161**
2012	2,571	118	245	-	-	**2,934**

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

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

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

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

(Figures in tables are in thousands of Azerbaijani manats)

22. Financial risk management (continued)

Market risk

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

Interest rate risk

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

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

Currency	*Increase in basis points in % 2013*	*Sensitivity of net interest income 2013*	*Increase in basis points in % 2012*	*Sensitivity of net interest income 2012*
USD	0.03	(28)	0.05	(30)

Currency	*Decrease in basis points in % 2013*	*Sensitivity of net interest income 2013*	*Decrease in basis points in % 2012*	*Sensitivity of net interest income 2012*
USD	(0.03)	28	(0.05)	30

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 2013 and 2012 on its non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the manat, with all other variables held constant on the statement of profit or loss and other comprehensive income (due to the fair value of currency sensitive non-trading monetary assets and liabilities). The effect on equity does not differ from the effect on the statement of profit or loss and other comprehensive income. A negative amount in the table reflects a potential net reduction in statement of profit or loss and other comprehensive income or equity, while a positive amount reflects a net potential increase.

Currency	*Increase in currency rate in % 2013*	*Effect on profit before tax 2013*	*Increase in currency rate in % 2012*	*Effect on profit before tax 2012*
USD	1.37	(114)	3.82	(135)
EUR	10.16	(184)	11.49	(124)

Currency	*Decrease in currency rate in % 2013*	*Effect on profit before tax 2013*	*Decrease in currency rate in % 2012*	*Effect on profit before tax 2012*
USD	(1.37)	114	(3.82)	135
EUR	(10.16)	184	(11.49)	124

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 a control framework and monitoring and responding to potential risks could be effective tools to manage the risks. Controls should include effective segregation of duties, access, authorization and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

(Figures in tables are in thousands of Azerbaijani manats)

22. Financial risk management (continued)

Operational risk (continued)

Operating environment

As an emerging market, Azerbaijan does not possess a well-developed business and regulatory infrastructure that would generally exist in a more mature market economy. However, there have been a number of developments that positively affect the overall investment climate of the country.

While operations in Azerbaijan may involve risks that are not typically associated with those in developed markets (including the risk that the AZN is not freely convertible outside of the country and undeveloped debt and equity markets), over the last few years progress has been achieved in implementing the reforms necessary for further development of the banking, judicial, taxation and regulatory systems.

The existing tendency aimed at the overall improvement of the business environment is expected to persist. The future stability of the Azerbaijani economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government. However, the Azerbaijan economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. The global financial crisis resulted in capital markets instability, deterioration of liquidity in the banking sector, and tighter credit conditions within Azerbaijan. The Azerbaijan Government has introduced a range of stabilization measures aimed at ensuring solvency and providing liquidity and supporting refinancing of foreign debt for Azerbaijan banks and companies.

While management believes it is taking appropriate measures to support the sustainability of the Bank's business in the current circumstances, unexpected further deterioration in the areas described above could negatively affect the Bank's results and statement of financial position in a manner not currently determinable.

23. Fair value measurement

Fair value hierarchy

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

		Fair value measurement using			
	Date of valuation	*Quoted prices in active markets (Level 1)*	*Significant observable inputs (Level 2)*	*Significant unobservable inputs (Level 3)*	*Total*
Assets measured at fair value					
Investment securities available-for-sale	31 December 2013	-	-	40	**40**
Assets for which fair values are disclosed					
Cash and cash equivalents	31 December 2013	94,762	-	-	**94,762**
Amounts due from credit institutions	31 December 2013	-	-	15,979	**15,979**
Loans to customers	31 December 2013	-	-	617,191	**617,191**
Liabilities for which fair values are disclosed					
Amounts due to credit institutions	31 December 2013	-	-	27,185	**27,185**
Amounts due to customers	31 December 2013	-	-	261,161	**261,161**
Debt securities issued	31 December 2013	10,013	-	-	**10,013**
Borrowed funds from international lenders	31 December 2013	-	-	348,240	**348,240**
Subordinated loans	31 December 2013	-	-	8,076	**8,076**

Fair value hierarchy for financial instruments measured at fair value as at 31 December 2012

At 31 December 2012	*Level 1*	*Level 2*	*Level 3*	*Total*
Financial assets				
Investment securities available-for-sale	-	-	40	40

(Figures in tables are in thousands of Azerbaijani manats)

23. Fair value measurement (continued)

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 2013 and 2012, 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 2013 and 2012, the carrying value of amounts due to credit institutions, amounts due to customers, debt securities issued, borrowed funds from international lenders and the subordinated loan 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 to their fair value. This assumption is also applied to demand deposits and savings accounts without a specific maturity.

Financial assets and financial liabilities carried at amortized cost

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

24. Maturity analysis of assets and liabilities

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

	2013			*2012*		
	Within one year	*More than one year*	*Total*	*Within one year*	*More than one year*	*Total*
Cash and cash equivalents	94,762	-	94,762	50,719	-	50,719
Amounts due from credit institutions	15,979	-	15,979	10,682	-	10,682
Loans to customers	361,819	255,372	617,191	257,396	146,592	403,988
Investment securities available-for-sale	40	-	40	40	-	40
Property and equipment	-	45,465	45,465	-	37,306	37,306
Intangible assets	-	13,431	13,431	-	7,885	7,885
Deferred income tax assets	189	-	189	-	-	-
Other assets	2,512	-	2,512	4,649	-	4,649
Total	**475,301**	**314,268**	**789,569**	**323,486**	**191,783**	**515,269**
Amounts due to credit institutions	27,185	-	27,185	-	-	-
Amounts due to customers	202,049	59,112	261,161	149,555	19,139	168,694
Debt securities issued	10,013	-	10,013	-	-	-
Borrowed funds from international lenders	109,340	238,900	348,240	61,187	169,190	230,377
Current income tax liabilities	4,525	-	4,525	1,466	-	1,466
Deferred income tax liabilities	-	-	-	434	-	434
Subordinated loan	8,076	-	8,076	55	8,015	8,070
Other liabilities	16,234	-	16,234	11,465	-	11,465
Total	**377,422**	**298,012**	**675,434**	**224,162**	**196,344**	**420,506**
Net	**97,879**	**16,256**	**114,135**	**99,324**	**(4,561)**	**94,763**

(Figures in tables are in thousands of Azerbaijani manats)

25. Related party disclosures

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

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

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

	2013			*2012*		
	Parent	*Entities under common control*	*Key management personnel*	*Parent*	*Entities under common control*	*Key management personnel*
Loans outstanding at 1 January, gross	-	1,306	185	-	2,364	336
Loans issued during the year	-	353	104	-	1,295	32
Loan repayments during the year	-	(1,306)	(76)	-	(2,364)	(184)
Other movements	-	7	1	-	11	1
Loans outstanding at 31 December, gross	**-**	**360**	**214**	**-**	**1,306**	**185**
Less: allowance for impairment at 31 December	-	-	(3)	-	-	(3)
Loans outstanding at 31 December, net	**-**	**360**	**211**	**-**	**1,306**	**182**

	2013			*2012*		
	Parent	*Entities under common control*	*Key management personnel*	*Parent*	*Entities under common control*	*Key management personnel*
Deposits at 1 January	-	-	80	-	-	757
Deposits received during the year	-	-	222	-	-	74
Deposits repaid during the year	-	-	(80)	-	-	(751)
Deposits at 31 December	**-**	**-**	**222**	**-**	**-**	80
Borrowings at 1 January	78,325	23,458	-	28,789	5,901	-
Borrowings received during the year	15,040	11,768	-	62,800	17,663	-
Borrowings repaid during the year	(25,545)	(2,800)	-	(12,734)	-	-
Other movements	(175)	158	-	(530)	(106)	-
Borrowings at 31 December	**67,645**	**32,584**	**-**	**78,325**	**23,458**	**-**
Current accounts at 31 December	**-**	**-**	3	**-**	**-**	**126**

(Figures in tables are in thousands of Azerbaijani manats)

25. Related party disclosures (continued)

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

	2013			2012		
	Parent	*Entities under common control*	*Key management personnel*	*Parent*	*Entities under common control*	*Key management personnel*
Interest income on loans	-	31	26	-	67	18
Interest expense on deposits	-	-	8	-	-	6
Interest expense on borrowings	3,852	1,330	-	2,841	705	-
Other operating expenses	2,150	-	-	1,470	-	-

As at 31 December 2013, compensation of key management personnel was AZN 1,788 thousands (2012 – 1,172 thousands) which comprises salaries, bonuses and other short-term benefits.

26. Capital adequacy

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

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

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

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

CBAR capital adequacy ratio

The CBAR requires banks to maintain a minimum Tier 1 and total capital adequacy ratio of 6% and 12%, respectively, of risk-weighted assets for regulatory capital. As at 31 December 2013 and 2012 the Bank's Tier 1 and total capital adequacy ratios on this basis were as follows:

	2013	*2012*
Tier 1 capital	83,165	77,438
Tier 2 capital	37,568	24,685
Total capital	**120,733**	**102,123**
Risk weighted assets	**703,187**	**454,301**
Tier 1 capital ratio	11.8%	17.1%
Total capital ratio	17.2%	22.5%

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 2013 and 2012, comprised:

	2013	*2012*
Tier 1 capital	114,135	94,763
Tier 2 capital	8,331	8,935
Total capital	**122,466**	**103,698**
Risk weighted assets	**537,274**	**461,548**
Tier 1 capital ratio	21.2%	25.8%
Total capital ratio	22.8%	28.2%

(Figures in tables are in thousands of Azerbaijani manats)

27. Events after the reporting period

On 31 January 2014 the Bank paid to its shareholders dividends of AZN 7,850 thousands from the Bank's profit for the rest of 2012 (Note 18).

On 14 March 2014 the Bank signed a syndicated loan agreement with Raiffeisen Bank International AG in the amount of USD 60,000 thousands. The loan was disbursed to the Bank on 28 March 2014. The principal amount of the loan is to be repaid in one installment on 13 March 2015. Interest is to be paid in semi-annual installments starting from 29 September 2014.

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

*0151
CALL CENTER

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

www.accessbank.az