

For the banking sector in Azerbaijan and for AccessBank as well, 2016 was a very challenging year. Since its establishment in 2002, it was the first time that AccessBank was exposed to such negative economic conditions triggered by dramatic decrease of oil prices and high volatility of an USD/AZN exchange rate. The Bank has taken on the challenge of the sudden change in the environment switching to crisis management and timely implementing adequate measures to mitigate the adverse impact.

As can be seen from the performance of AccessBank during the financial year of 2016, the Bank has so far reacted to the crisis with massive deleveraging (61% reduction of loan portfolio, mainly USD-denominated) and cost cutting (60% reduction of operational expense), thus being able to avoid liquidity crisis and preserve a positive trading margin (pre-provisioning profit in 2016 was USD 19m).

Moreover, the Bank was able to successfully attract additional local currency funding even from international counterparties through derivative transactions and hedges. The Bank felt huge support from some long-term investors which were able to convert their exposures to AccessBank into the local currency. In this way, the Bank was among few institutions in the market to actively offer conversion of USD loans into AZN to its Micro clients and continue new lending in the local currency.

Starting from 2016, the Bank has been working on the branch processes optimization design as part of the Management's strategy of new branch concept development. The key focus areas here are move of clients and processes to self-service channels, centralization of back office processes in the Head Office, and automatization and system improvements. The project which is now on the implementation stage is an important step of the Bank's cost cutting efforts and allows to significantly increase the operational efficiency.

Moreover, major restructuring was conducted in the Bank's organizational structure adding to the streamlining of processes to better adapt the constantly changing business environment.

Further to the tightening of the provisioning requirements by Azerbaijani banking regulator and due to high share of FX denominated assets in the Bank's portfolio which had its negative impact on the Bank's capital adequacy under the local regulatory rules in March 2017, the shareholders of AccessBank have subscribed for 8.2 million new shares worth AZN 34.85 million, which increased the Bank's charter capital to AZN 119.85 million. The share issue has been subscribed by all existing shareholders on a pro rata basis, so that the individual shareholdings remain unchanged. The capital injection from our shareholders is a clear signal that the Bank enjoys a strong backing in current challenging times from its shareholders of which the majority are "triple A"-rated International Financial Institutions. Further capitalization of the Bank is planned by 2017-end. Based on IFRS accounts the Bank reported total capital adequacy at around 16% and at the same time was able to build up substantial reserves covering Non-Performing Loans by around 80%.

After the recapitalization, AccessBank is in a strong position to maintain its stand as market leader in small business lending. Micro and small business finance continue to be the core business of the Bank. The gradual move away from the cash-based economy creates new potential for non-credit services and will reduce the Bank's dependence on interest income allowing to switch from a product-centric to a client-centric approach.

In light of the current macroeconomic background overdue management continues to be a key focus of the management. The Bank aims to improve the portfolio quality by consolidating the recovery process

across the entire bank in a single dedicated structure involving external consultancy, recovery software and improving analytics and reporting processes.

The adaptation to the new banking environment remains on the top of the Bank's agenda for the time ahead, in particular the continued enhancement of operational efficiency by simultaneously pursuing further improvement and upgrading of client service.

Exchange rate	1.7244		1.7707		1,5594	
	Q1-2017		2016		2015	
	AZN	USD	AZN	USD	AZN	USD
Market Capitalization	119,85m	69,5m	85m	54,5m	85m	54,5m
Total revenues	30,4m	17,7m	138m	78m	190m	122m
Pre-tax profit	-19,5m	-11,3m	-103m	-58m	3,6m	2,3m
Net Income	-19,5m	-11,3m	-91m	-52m	2,6m	1,7m
Return on tangible common equity	-144,9%		-69,4%		1,1%	
Return on assets	-8,0%		-7,7%		0,2%	
Cost/income ratio	191,9%		66,5%		66,9%	
Basel 1 Total Capital Adequacy	21,8%		16,3%		19,6%	
Loans to deposit ratio	192%		217%		298%	
Non-performing loans ratio	29,7%		25,5%		5%	
Non-performing loans coverage ratio	80%		80%		97%	

The figures for 2015 are based on the audited accounts of the Bank.

The figures for 2016 and Q1-2017 are based on the management accounts.