AccessBank

ANNUAL REPORT 2009

'09

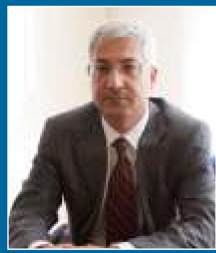
SUPERVISORY BOARD

Mr Michael JAINZIK
Chairman

Mr Thomas ENGELHARDT

Mr Syed Aftab AHMED

Ms Victoria MILES



Mr Orhan AYTEMIZ

MANAGEMENT BOARD

Dr Andrew POSPIELOVSKY
General Manager

Mr Rufat ISMAILOV
Deputy General Manager and Infrastructure Director

Mr Shakir RAGIMOV
Business Banking Director

Mr Anar GASANOV
Retail Banking and Operations Director

Mr Elshan HAJIEV
Finance Director

AUDIT COMMITTEE

Mr Christopher Falco (Chairman)

Ms Alexandra Weichesmiller

Mr Sohrab Farhadov

ACCESSBANK – AZERBAIJAN'S ACCESSIBLE EUROPEAN BANK

- Mission – to provide access to financial services for Azerbaijan's low and middle income households and micro and small businesses
- Founded in October 2002 as a green-field bank, the Micro Finance Bank of Azerbaijan. Renamed AccessBank in September 2008
- Operates with a full banking licence, delivering a complete range of banking services
- Shareholders: EBRD (20%), IFC (20%), BSTDB (20%), KfW (20%), Access Microfinance Holding (16.53%) and LFS Financial Systems (3.47%)
- Leading microfinance lender in Azerbaijan with over 30% market share, serving 78,000 business and 22,000 retail clients
- Twenty-three branches and 1,000 staff across the country
- USD 375 million in total assets and USD 297 million loan portfolio at year-end 2009
- Highest rated non state-owned bank in Azerbaijan by Fitch Ratings (BB+ Long-term IDR & D Individual Rating)

CONTENTS

KEY RESULTS

	2008	2009	Change
Balance Sheet Items	**USD ('000)**	**USD ('000)**	
Total Assets	242 091	374 514	55%
Liquid Assets	29 119	70 536	142%
Total Loan Portfolio (gross)	208 154	296 991	43%
Business Loan Portfolio	191 303	276 400	44%
Micro Loans (< $ 10,000)	87 883	141 988	62%
Trust and Small Loans ($ 10,001 - $ 100,000)	68 522	81 161	18%
Medium Loans (> $ 100,000)	34 898	53 251	53%
Consumer Loan Portfolio	12 219	14 377	18%
Other Loans	4 633	6 214	34%
Accrued Interest and Disbursement Fees	1 315	2 193	67%
Loan Loss Reserve	5 138	8 211	60%
Net Loan Portfolio	204 331	290 974	42%
Fixed and other Assets	8 644	13 004	50%
Customer Deposits	27 281	84 676	210%
Borrowings	170 090	220 821	30%
Equity	41 572	66 349	60%
Profit and Loss Account	**USD ('000)**	**USD ('000)**	
Operating Income	39 223	59 595	52%
Operating Expense	22 478	34 714	54%
Profit Before Tax	16 745	24 881	49%
Profit After Tax	13 052	24 886	91%
Ratios			
Return on Equity (year-end)	31.6%	37.5%	19%
Return on Average Assets	6.8%	8.2%	21%
Cost / Income	57.3%	58.2%	2%
Capital Adequacy	24.6%	25.8%	5%
Miscellaneous			
Number of Outstanding Loans	71 148	100 489	41%
Number of Business Loans	47 753	78 025	63%
Number of Micro Loans	45 017	74 284	65%
Average Micro Loan Size (disbursed USD)	2 712	2 737	1%
Number of Trust, Small and Medium Loans	2 736	3 741	37%
Average Trust, Small, and Medium Loan size (disbursed USD)	46 937	46 864	-0%
Number of Agro Loans	8 995	24 500	172%
Average Agro Loan Size (disbursed USD)	2 207	2 194	-1%
Number of Deposit Accounts	28 158	114 507	307%
Number of Branches	20	23	15%
Number of Staff	863	960	11%
Portfolio at Risk (>30 days)	0.56%	0.85%	52%

MISSION STATEMENT

AccessBank's mission is to provide access to financial services for Azerbaijan's low and middle income households and micro and small businesses.

AccessBank strives to provide a complete range of financial services, including loan products, current and savings accounts, money transfer and payment services, plastic cards and trade financing. AccessBank aims to achieve the highest banking standards, in particular with respect to efficiency, transparency, customer satisfaction, responsibility, prudence and human resource development. As a commercial bank with a full banking licence, AccessBank also offers financial services to other categories of clients, including larger enterprises and international organisations, especially where this delivers synergies with AccessBank's core mission.

AccessBank focuses on micro and small business because this sector is vital for the development and diversification of Azerbaijan's economy, the creation of jobs and the elimination of poverty. While most micro and small businesses operate profitably and their flexibility helps them absorb economic shocks, their growth is often limited by a lack of access to financial services. AccessBank has been created to close this gap: to provide access to European standards of financial 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. AccessBank's dedicated products and risk management technology, specifically developed to serve these sectors, allow the bank to do this efficiently and profitably. AccessBank's profitability facilitates the bank's long-term sustainability, rapid expansion and maximum impact.

AccessBank's shareholders are united in their commitment to development, enabling AccessBank to invest extensively in increasing outreach without focusing on maximising short-term returns. AccessBank invests intensively in the training of its young and highly motivated staff to ensure the best possible service for the bank's customers and the sustained growth of AccessBank.

LETTER FROM THE CHAIRMAN OF THE SUPERVISORY BOARD

Rising to the challenge

In 2009 Azerbaijan felt the impact of the global financial crisis. Although, in a global context, the Azerbaijan economy remained relatively strong, the economic cooling increased the risks faced by Azerbaijan's business and banking community. While many banks in Azerbaijan responded to the increased risk by restraining lending, AccessBank countered market trends by expanding its outreach in 2009. At the same time AccessBank maintained excellent portfolio quality and generated healthy profit – all three aspects forming a solid basis for continuing the bank's growth and activities in 2010 and beyond.

Financial services for micro and small enterprises remain the core of AccessBank's business. During 2009 the number of business credit customers increased by 57% to 76 000, proving AccessBank's reliability as a business partner in times of turmoil. This reliability is also reflected in AccessBank's increasing deposit business. The bank's depositor client base increased four-fold and AccessBank is now serving more than 65 000 households and enterprises by offering safe and customer-friendly current accounts, term deposits and savings plans.

During 2009, AccessBank amplified its vital role in providing financial services to Azerbaijan's micro and small businesses and low and middle income households. The staff and management of the bank successfully stepped up to the increasing risks in the local economy. More than ever before in its history, AccessBank has contributed to economic stability, the expansion of micro and small businesses, diversification of the economy, creation of employment and elimination of poverty.

The positive impact that AccessBank is having on its clients was documented by an independent impact assessment study published in 2009 by the Azerbaijan Microfinance Association. This study revealed that the household incomes and business revenues of long-term AccessBank credit clients were over 90% higher than for new clients who had yet to realise the benefits of partnering with AccessBank.

The shareholders are proud of AccessBank's continuing outstanding stability in the face of an increasingly challenging economic environment, of its role in mitigating the impact of the cooling of the economy in Azerbaijan and its contribution to the welfare of its customers.

Michael Jainzik
Chairman of the Supervisory Board

LETTER FROM THE MANAGEMENT

AccessBank 2009 – Managing growth and risk

As the economy cooled in 2009, AccessBank continued to expand its outreach and grow its portfolio, while successfully managing the increased risk. At the end of 2009, AccessBank had posted a 43% increase in its total loan portfolio and was providing financing to 76 000 businesses across the country – 65% more than a year earlier. This included 24 000 businesses involved in the agricultural sector, making AccessBank the leading investor in agriculture in Azerbaijan. At the same time the total value of all loans with any arrears over 30 days remained below one per-cent of the total portfolio, testifying to the strength of AccessBank's risk management.

Through careful planning and business development, the AccessBank management also succeeded in significant risk reductions in its portfolio by improving regional and sectoral diversification, reducing the proportion of the portfolio accounted for by larger loans, and increasing the bank's local currency resources and the proportion of the portfolio denominated in the local currency – thereby reducing currency risk for both the bank and its clients.

The strength of AccessBank's risk management was again formally recognised by Fitch Ratings, which, both in 2009 and at the start of 2010, reaffirmed the bank's 'BB+' Long-term Issuer Default Rating, matching the country ceiling. In addition, at the start of 2010, Fitch Ratings increased AccessBank's individual rating, making it Fitch's highest rated non state-owned institution in Azerbaijan (from 'D/E' to 'D').

The growing confidence in AccessBank among the population of Azerbaijan led to a threefold increase in total deposits in 2009, which doubled the proportion of the portfolio financed by deposits and financed over 60% of the year's portfolio growth. This also reduced the bank's need to attract new refinancing from international sources.

While the staff and management are proud of the bank's success, management is not complacent and understands that as the bank grows and the economic environment becomes increasingly complex, the risks faced by the bank also escalate. To meet this challenge, AccessBank never stops investing in the continual training and development of its staff and management and in constant review and upgrading of its risk management and control systems. Together, we are confident and ready to meet the challenges that face the bank and to continue to be Azerbaijan's reliable banking partner for low and middle income households and micro and small businesses.

Dr Andrew Pospielovsky

General Manager

SHAREHOLDERS

AccessBank, a closed-type joint stock bank, opened on 29 October 2002 as the Micro Finance Bank of Azerbaijan. In September 2008 the bank changed its name to AccessBank. AccessBank has six shareholders led by Triple-A rated international financial institutions that are committed to the development of Azerbaijan and microfinance. The nominal share capital at the end of 2009 was AZN 20 million consisting of 20 million shares with a nominal face value of AZN 1 each. In March 2010, the share capital was increased by AZN 21.8 million, through the capitalisation of retained earnings, to AZN 41.8 million. The nominal face value of shares was increased to AZN 2.09 while the distribution and number of shares remained the same.

Black Sea Trade and Development Bank (20% share of AccessBank equity)

The Black Sea Trade and Development Bank (BSTDB) is an international financial institution established by 11 countries from the Black Sea region. The mission of the bank is to accelerate development and promote co-operation among its shareholder countries. The bank has an authorised capital of SDR 3 billion (approximately USD 4.5 billion), and provides trade and project financing, guarantees and equity to both public and private enterprises in its member countries in order to encourage their economic development and regional co-operation, and to establish stronger economic linkages. (www.bstdb.org)

European Bank for Reconstruction and Development (20%)

The EBRD is an international financial institution that supports projects in 29 countries from central Europe to central Asia. Investing primarily in private sector clients whose needs cannot be fully met by the market, the bank promotes entrepreneurship and fosters transition toward open and democratic market economies. The EBRD is the largest single investor in the region and also mobilises significant foreign direct investment into its countries of operation. The bank invests mainly in private enterprises, usually together with commercial partners. It provides project financing for the financial sector and the real economy, both new ventures and investments in existing companies. It also works with publicly-owned companies to support privatisation, restructuring of state-owned firms and improvement of municipal services.

Owned by 61 countries and two intergovernmental institutions, the EBRD maintains a close political dialogue with governments, authorities and representatives of civil society to promote its goals. In all its operations the EBRD follows the highest standards of corporate governance and sustainable development. As a public institution, the EBRD is committed to a rigorous public information policy. (www.ebrd.org)

International Finance Corporation (20%)

IFC, a member of the World Bank Group, creates opportunity for people to escape poverty and improve their lives. IFC fosters sustainable economic growth in developing countries by supporting private sector development, mobilizing private capital and providing advisory and risk mitigation services to businesses and governments. The corporation's new investments totalled USD 14.5 billion in fiscal 2009, helping channel capital into developing countries during the financial crisis. (www.ifc.org)

KfW - Kreditanstalt für Wiederaufbau (20%)

KfW Development Bank is committed to improving the economic and social conditions of people in developing and transition countries. Through its Financial Co-operation (FC) on behalf of the German government, it contributes to reducing poverty, protecting natural resources and securing peace worldwide. KfW has been one of the key players in developing micro and SME finance in Eastern Europe and the CIS over the past 10 years.
KfW Development Bank is part of the government-owned KfW Banking Group, which has been stimulating the economy, society and ecology in Germany, Europe and worldwide for more than five decades. With a balance sheet total of more than EUR 400 billion in 2009, KfW Bankengruppe is among the 10 largest German banks. (www.kfw.de)

Access Microfinance Holding AG (16.53%)

AccessHolding is a strategic investor in the microfinance industry. It was established in 2006 by LFS Financial Systems (16.12%) and is owned by an international group of private and public investors including (16.12% each): CDC Group plc (a UK government-owned fund investing in developing and emerging economies); EIB – European Investment Bank (the European Union's financing institution); IFC; KfW Development Bank; Omidyar Tufts Microfinance Fund (created by the founder of EBay); and MicroAssets (3.26%), a staff investment programme of LFS. AccessHolding invests in microfinance institutions and develops these investments through a combination of equity finance, holding services and management assistance, building a global network of AccessBanks with a common brand identity. (www.accessholding.com)

LFS Financial Systems GmbH (3.47%)

LFS is a Berlin-based consultancy firm specialising in financial sector projects in developing countries and transition economies. Since its foundation in 1997, LFS has become one of the leading consultancies in the field of micro and small business financing. Its proven lending technology and hands-on approach, implemented by a growing team of permanent consultants, have made LFS one of the preferred partners of international donors and investors.
Going beyond the scope of traditional consultancy, LFS is investing in microfinance institutions, assuming a dual role as manager and investor. Building upon the success of its first investments of this kind, LFS has now created an international network of microfinance banks under the AccessBank brand.
(www.lfs-consulting.de)

ACCESSBANK – HISTORY

2002

- Founded on 29 October as the Micro Finance Bank of Azerbaijan by BSTDB, EBRD, IFC, KfW and LFS

2003

- First refinancing loan received from EBRD (USD 5 million)

2004

- Current accounts and money transfer systems launched

Year	Total Assets (USD million)	Loan Portfolio		Deposit Portfolio (USD million)	Number of Branches
		Amount (USD million)	Number of Clients		
2002	4.9	0.1	117	-	1
2003	5.7	3.3	2 000	-	4
2004	8.9	6.5	3 000	-	5
2005	21.8	17.5	5 500	0.6	6
2006	55.3	47	16 000	3.7	10
2007	133.3	114.5	46 000	14	14
2008	242.1	208	69 000	26.5	20
2009	375	297	98 000	82	23

2005

- Term deposit launched and AccessBank joins the international SWIFT, Western Union and PrivatMoney money transfer networks
- First non-shareholder refinancing loans received from Global Microfinance Facility, Blue Orchard, Deutsche Bank, Incofin, and Triodos
- First regional branch opened in Ganja

2006

- Retail business developed through the launch of additional deposit products, retail lending, debit cards, the installation of the first ATMs, and joining the Visa card network and several more money transfer networks

2007

- AccessHolding joins as a new shareholder
- Continuing launch of new retail and 'cross-sector' products, including international trade-finance, Visa-branded debit cards, Salary Projects, point-of-sale terminals and off-branch ATMs
- Dedicated Agro Loan product launched
- Alpha rating obtained from M-CRIL specialist microfinance rating agency
- New refinancing loans concluded in year exceed USD 50 million including: the first closing of AccessBank's debut bond – the first bond from an Azerbaijani issuer on international capital markets; the first AZN-denominated loan from an international private investor, SNS Institutional Microfinance Fund; and AccessBank's first subordinated loan, from Deutsche Bank (USD 10 million)

2008

- Micro Finance Bank of Azerbaijan renamed AccessBank to create a stronger and more distinct brand
- BB+ rating received from Fitch Ratings – the highest rating of any private bank in Azerbaijan and matching the country ceiling
- New refinancing loans concluded in year exceed USD 80 million, including the second closing of AccessBank's debut bond and the signing of the bank's first syndicated loan, arranged by EBRD
- AccessBank's Agroloan product named 'Best New Product' by Azerbaijan Microfinance Association
- AccessBank joins the UN Global Compact – the first bank in Azerbaijan to do so

2009

- BB+ rating confirmed by Fitch Ratings – again the highest rating of any private bank in Azerbaijan
- Three new branches open, two branches relocate to new premises and a further two branches double in size. The expanded branches and two of the new branches are located outside Baku
- Deposits triple during the year. Combined with retained earnings to finance 90% of the portfolio growth, they reduce the need for refinancing
- AccessBank named one of the three most sustainable banks of Eastern Europe in the 2009 Financial Times Sustainable Banking Awards, with the main criteria being Environmental, Social and Corporate Responsibility and Corporate Governance
- MIX ranks AccessBank one of the top 50 microfinance institutions in its 2008 Global Composite 100 ranking
- AccessBank joins the International Campaign for Client Protection hosted by the Center for Financial Inclusion – the first bank in Azerbaijan to do so
- AccessBank CEO named 'Banker of the Year' for 2009 in Azeri Business Awards

BUSINESS REVIEW

POLITICAL AND ECONOMIC ENVIRONMENT

'Stable' best describes the political and economic environment of Azerbaijan. While political stability did not face any challenges in 2009, economic stability was strained as oil prices fell and devaluations affected Azerbaijan's neighbours. The Central Bank did intervene to support the Manat (AZN) through H1, but by H2 rebounding oil prices and the continued energy export-driven trade and current account surplus had restored confidence in the AZN and economy. While government spending and economic growth did slow in 2009, in a global context, the Azerbaijan economy escaped relatively unscathed.

The State Statistics Committee reported 9.3% GDP growth for 2009, but this is based on measuring the contribution of oil to GDP in terms of volume produced and not actual income derived from the sale of the oil. Thus in monetary terms, 2009 GDP was reported at AZN 34.6 billion (USD 43.3 billion), or 8.9% down on the 2008 reported total of AZN 38.0 billion (USD 47.4 billion). This resulted in a reduced state budget in 2009, with total budget revenues of AZN 10.3 billion (USD 12.9 million) or 4.1% down on 2008, and expenditures of AZN 10.6 billion (USD 13.2 billion) or 1.9% down. The reduction in monetary GDP and government spending helped dampen inflation with CPI in 2009 officially reported at 1.5% (7% according to unofficial estimates), compared with 21% in 2008.

Despite the reduction in oil prices, the trade surplus remained healthy at USD 8.6 billion on exports of USD 14.7 billion and imports of USD 6.1 billion. The AZN remained virtually unchanged versus the local reference currency, the USD, at AZN 0.8031 at 2009-end versus AZN 0.8010 at 2008-end. Energy exports should ensure continued economic stability in the medium-term, but the commodity price collapse in 2008 demonstrates that diversification of the economy remains the main challenge facing Azerbaijan, alongside controlling inflationary pressures, spreading the benefits of the oil income and reducing corruption.

A similar scenario occurred in the banking sector with growth slowing from the heady levels of over 50% year-on-year growth in 2006-2008, but still remaining positive. Growth slowed with many banks reducing lending when faced with liquidity pressures resulting from refinancing difficulties, as global capital markets dried up. However, the Central Bank did intervene to boost liquidity, reducing the deposit reserve to 0.5% in Q1 from 6% at the start of the year (and 12% at Q3-2008-end), abolishing a 5% reserve requirement on foreign borrowings and providing direct loans to many banks. In the end, total banking assets increased by 14% in 2009 (from AZN 10.3 to AZN 11.7 billion) and the total loan portfolio by 20% (from AZN 6.8 to AZN 8.2 billion). As a proportion of GDP, total banking assets increased to 33% and the total loan portfolio to 24%, compared with 27% and 18% respectively at 2008-end, but this still represents relatively low levels of penetration. Deposits increased by a much lower figure of 4% to AZN 5.7 billion and remain at only 17% of GDP.

In order to encourage the strengthening of the banking sector, the President of Azerbaijan also declared a three-year tax exemption for profit that is capitalised, beginning from 1st of January 2009 – this should also help improve liquidity in 2010 by reducing tax payments for the banking sector. While the Central Bank has been advocating consolidation in the banking sector for many years, no such consolidation occurred in 2009 and the number of banks remained at 46.

The reduction in lending activity by many banks augmented the importance of AccessBank as the lender to Azerbaijan's small business community. AccessBank significantly outperformed the sector on all key aspects and this was reflected in the improvement of AccessBank's market share and position. In terms of total banking assets, AccessBank's market share increased to 2.7% from 2.0% at 2008-end and out of 46 banks, AccessBank rose to ninth position from 11th at 2008-end. In terms of total loan portfolio, the improvement was even more dramatic as the bank moved from tenth to sixth position with an increase in market-share to 2.9% from 2.3%. In agricultural lending, AccessBank took first place among the reporting banks. While figures on the number of business clients are not published, AccessBank's leading position in micro and small business lending is undisputed.

Apart from the banks, some 96 non-bank financial institutions operate in Azerbaijan, of which approximately 18 are engaged in microfinance. The Azerbaijan Microfinance Association (AMFA) collects data for 31 institutions involved in microfinance (consisting of 18 non-bank financial institutions and 13 banks, including AccessBank). The micro loan portfolio of these institutions stood at USD 443 million at 2009-end, giving AccessBank 36% market share and making AccessBank by far the leading microfinance institution, followed by Finca with 16% market share.

ACCESSBANK'S POSITIVE IMPACT ON CLIENTS

In 2009, an independent study by the Azerbaijan Microfinance Association (AMFA) found that AccessBank has a significant positive impact on its microfinance clients. The study surveyed 2 000 microfinance customers in Azerbaijan, half of whom were new clients and half of whom were long-term clients. While AccessBank offered only slightly higher average loan sizes to new clients than the general study (AZN 1 500 vs. AZN 1 100), long-term clients received substantially larger loans (AZN 3 400 vs. AZN 2 000). Despite this, a higher percentage of AccessBank clients reported paying their loans with business income than those in the general study (80% vs. 71%).

The result of the financing is that the average household income of AccessBank's long-term clients was 90% higher than for new clients (AZN 3 800 compared to AZN 2 025) and business income was 120% higher (AZN 12 397 compared to AZN 5 629). The higher income levels also filtered through to higher spending on education, savings and other 'quality-of-life' areas. These figures were higher for AccessBank clients than for clients of the sector as a whole. The study concluded that these differences demonstrate the significant positive impact AccessBank's financing activity is having on the development of Azerbaijan's micro and small entrepreneurs. (Full report available on our website).

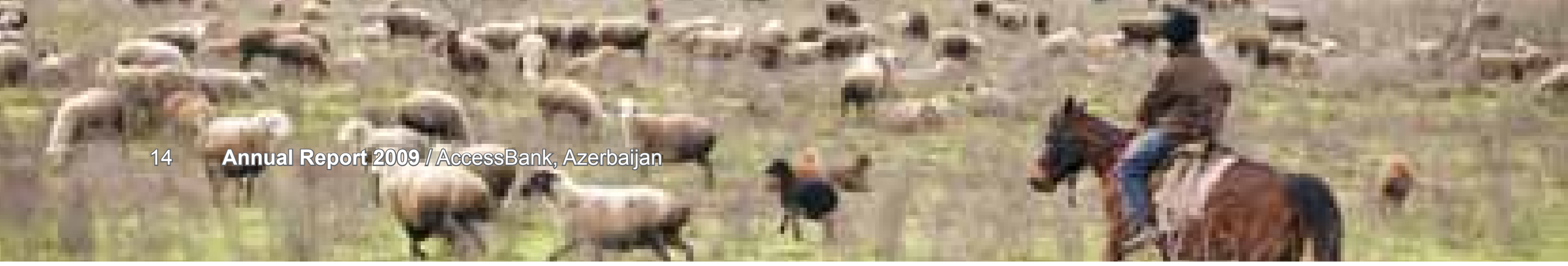
While competition in the banking and microfinance sector is intensifying, the effective provision of financial services to AccessBank's target client groups by other banks remains limited. At the same time, with respect to non-bank MFIs, AccessBank's advantage is that it is able to provide clients with a full range of

financial services, in addition to basic financing. AccessBank maintains its market leading position in micro and small business financing by delivering its services with maximum efficiency and transparency and saving clients' time and money. Competition is having minimal impact on AccessBank's growth and, over the last two years, AccessBank has seen demand for its services increase as many banks and institutions restrict their lending activities in the face of liquidity and risk management difficulties.

FINANCIAL RESULTS

AccessBank's total assets increased by 55% in 2009, ending the year at USD 375 million compared with USD 242 million at 2008-end. The growth was financed through a combination of increased customer deposits (up 210% to USD 82 million from USD 55 million at 2008-end), retained earnings (USD 25 million) and increased borrowing (up 30% to 219 million from USD 168 million at 2008-end). Capital adequacy remained extremely strong, ending the year at 26% for Total Capital Adequacy and 21% for Tier 1 – or more than twice the Central Bank regulatory norm of 12% and 6% respectively.

Post-tax profit for 2009 reached USD 25 million, compared to USD 13 million in 2008. The improved profitability was driven by continued growth in income streams, mainly through portfolio growth (up 43% to USD 297 million from USD 208 million at 2008-end) while costs were controlled. Profitability was also



boosted by the tax exemption on capitalised profit (see above) from which AccessBank benefited as all 2009 profit was capitalised. Good cost-control was reflected in the Expense / Income ratio, which ended the year at 58%, the same level as in 2008. A slight decrease in Financial Income to 33.1%, from 33.8% in 2008, was balanced by a reduction in the net Financial Expense to 8.5% from 9.1% in 2008, resulting in portfolio yield remaining nearly unchanged at 24.6%, compared with 24.7% in 2008.

CLIENTS BENEFIT FROM ACCESSBANK'S PROFITABILITY

As AccessBank scaled up and improved its efficiency, the business of the bank began to generate profit. To date, the shareholders have reinvested all profit into growing the business, facilitating the rapid expansion of the bank. As a result, 18 times as many businesses were receiving financing from AccessBank in January 2010 compared to four years earlier, in January 2006. Just as significantly, the profitability of the bank facilitated a dramatic increase in lending in AZN, the local currency, removing currency risk for tens of thousands of AccessBank's borrowers. As the equity of the bank is denominated in AZN, this forms one of AccessBank's main AZN resources. As retained earnings are fed into the equity of the bank, AccessBank's AZN resources also increase. At 2009-end, AccessBank was able to provide AZN denominated loans to 58,000 business borrowers (74% of the total), compared to 4 300 at 2006-end (33% of the total). AccessBank's AZN portfolio increased to the equivalent of USD 85 million at 2009-end (31% of the business portfolio), from USD 4.5 million at 2006-end (10% of the business portfolio).

LOAN PORTFOLIO DEVELOPMENT

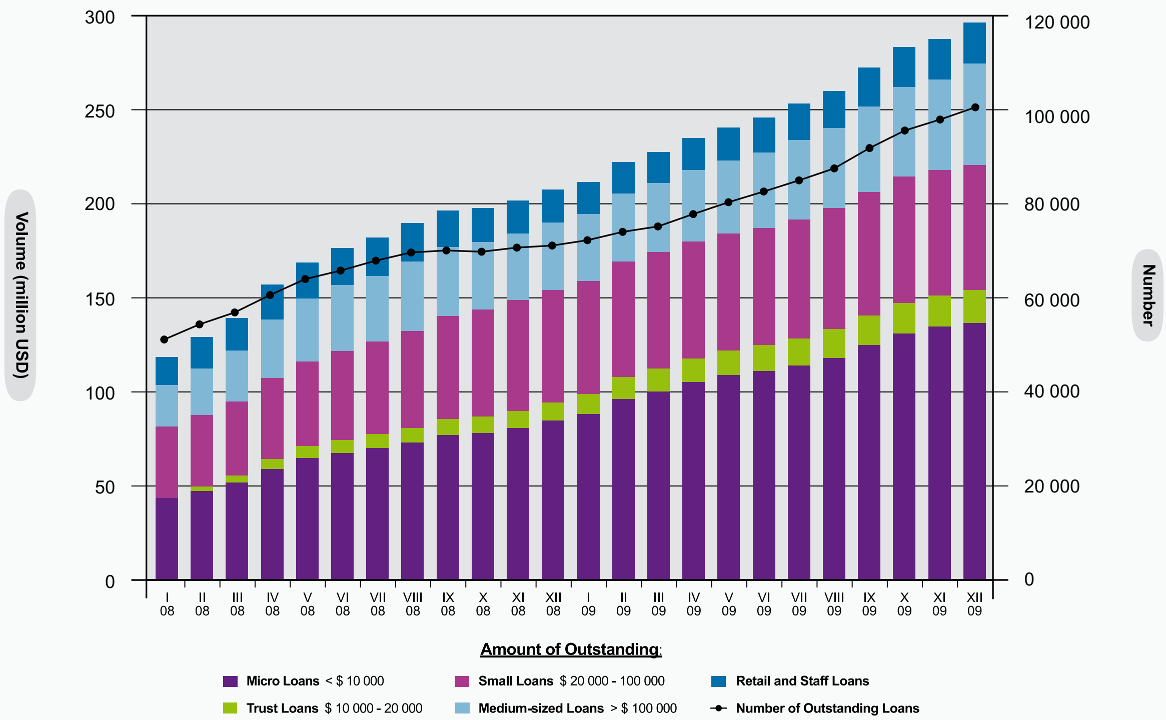
AccessBank's total outstanding loan portfolio increased 43% in 2009, well above the 17% portfolio growth posted by the banking sector as a whole, reaching USD 297 million, from USD 208 million at 2008-end. A total of 104 000 loans for USD 363 million were disbursed in 2009 (up from 76 000 loans for USD 269 million in 2008), with an average loan size of USD 3 494 (down slightly from USD 3 534 in 2008). By the end of the year, the total disbursals at AccessBank had exceeded USD 900 million and 275 000 loans. Portfolio quality remained excellent, with Portfolio at Risk > 30 days (measured as the full principal amount of all loans with any payments overdue for more than 30 days as a percentage of the total portfolio) at 0.85%, compared with 0.56% the previous year. This increase comes as a function of two factors: first, AccessBank writes off very few loans, with the write-off of USD 223 000 in Q1 of 2009 being the first since 2006 and including no write-offs of SME loans, meaning that many of the loans in arrears have been accumulating over several years; and second, as the economy cools, some businesses are experiencing difficulties. Portfolio growth was highest in the Micro Loan segment as management responded to the changes in the economic environment by adopting a more conservative approach in SME and Retail lending (see below).

OUR CLIENTS

A FLOCK OF HIS OWN

Adil Imanov started his working life as a shepherd on the local collective farm in Imishli. When the Soviet Union collapsed in 1991, he seized the opportunity to buy 120 sheep from the farm to start his own flock. Over the years, his flock grew, but without access to financing the growth was slow. In 2009 with a USD 20 000 Agro loan from AccessBank, Mr Imanov was able to increase his flock to 600, boosting both his income and that of the three shepherds he now employs.

Development of Total Loan Portfolio 2008-2009



BUSINESS BANKING

Portfolio Development - The outstanding business loan portfolio increased by 44% in 2009 to end the year at USD 276 million (78 000 loans to 76 000 clients), compared to USD 191 million at 2008-end. In total, 82 000 loans for USD 338 million were disbursed in 2009, increases of 56% and 38% respectively over 2008. The average size for all business loans was USD 4 130, with 50% of all business loans being disbursed to first-time AccessBank clients. For many of these clients, the loans constituted their first from a financial institution.

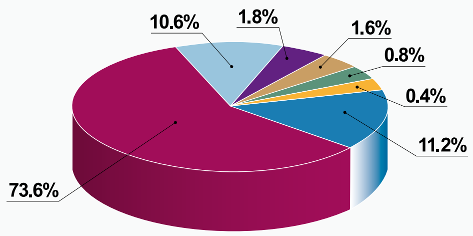
The most significant growth was posted in the Micro Loan segment, ranging in amount from USD 100 to USD 10 000, with the outstanding portfolio increasing by 62% during the year to USD 142 million (74 000 loans). The segment continued to dominate both in terms of numbers of loans – 95% of all business loans were below USD 10 000 and 85% were below USD 5 000 – and in terms of amount, accounting for over 51% of the total business portfolio. A total of 79 000 Micro Loans for USD 217 million were disbursed in 2009 (average loan size USD 2 737), exceeding the total disbursed to SME clients in 2009 two-fold (see below), demonstrating AccessBank's focus on the Micro segment. The strength of AccessBank's risk manage-

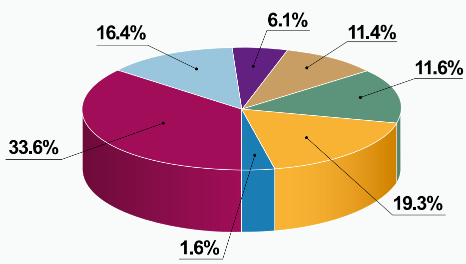
ment is reflected by the exceptionally low Portfolio at Risk > 30 days rate for the Micro Portfolio, which stood at 0.4%. Risk for both the bank and clients was also reduced by a continuing increase in the proportion of loans disbursed in local currency, with 62 586 of the 79 000 (76%) Micro Loans disbursed in 2009 disbursed in AZN, compared with 34 000 (64% of the total) in 2008 (see box text above). AccessBank's constant commitment to increasing efficiency is demonstrated by the continuing growth in the average portfolio per loan officer. At 2009-end, this stood at USD 556 000, or 53% higher than at 2008-end when the figure was USD 364 000.

As a further commitment to efficiency, and in order to meet client demand, AccessBank extended its Micro Loan methodology to the USD 10 001-USD 20 000 segment and differentiated this as a separate product in 2008. This simplified the lending process for these loans, making it quicker for both clients and staff. At the start of 2009 this product was given the name Trust Loans. In 2009, 853 Trust Loans for USD 14 million were disbursed and at year-end the outstanding portfolio was 1 084 loans for USD 13 million, 89% higher than at 2008-end.

The SME portfolio (loans over USD 20 000) grew by 26% in 2009 to USD 122 million with a total of 1 733 loans for USD 107 million disbursed during the year (average loan size of USD 61 761). The SME Portfolio at Risk > 30 days increased during the year from 0.8% to 1.4%, in part because the bank has yet to write off any SME loans and overdues have accumulated over time, as well as because of the general economic slowdown. Despite the increase, this rate remains excellent and maintaining portfolio quality remains management's priority.

Breakdown of Outstanding Business Portfolio by Loan Amount at Disbursement as of 31 Dec 2009





Number of outstanding loans by loan amount	Outstanding portfolio by loan amount
< $ 1 000 **11.2%**	< $ 1 000 **1.6%**
$ 1 001 - 5 000 **73.6%**	$ 1 001 - 5 000 **33.6%**
$ 5 001 - 10 000 **10.6%**	$ 5 001 - 10 000 **16.4%**
$ 10 001 - 20 000 **1.8%**	$ 10 001 - 20 000 **6.1%**
$ 20 001 - 50 000 **1.6%**	$ 20 001 - 50 000 **11.4%**
$ 50 001 - 100 000 **0.8%**	$ 50 001 - 100 000 **11.6%**
> $ 100 000 **0.4%**	> $ 100 000 **19.3%**

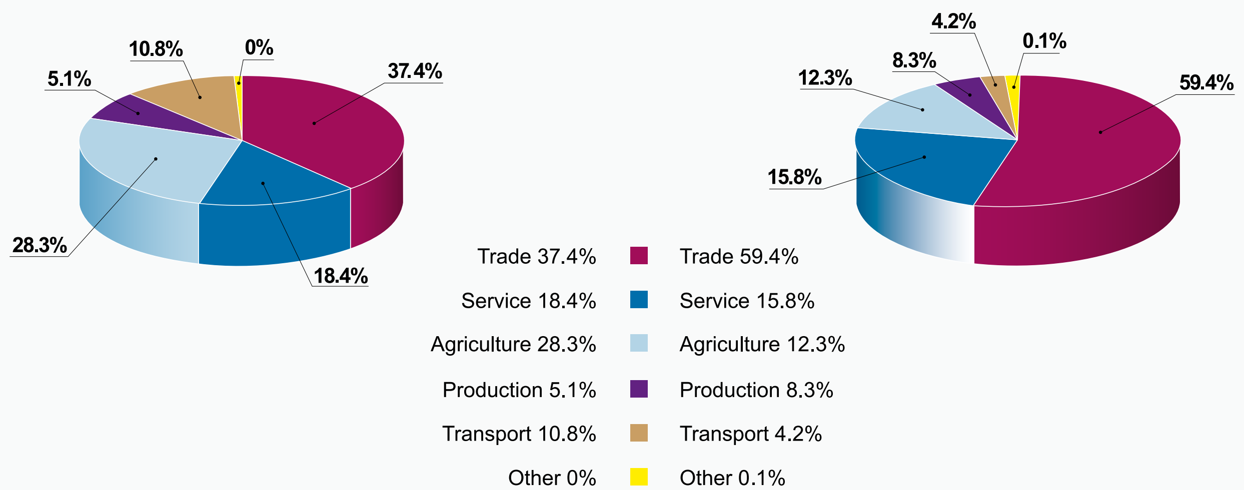
Number of outstanding loans by loan amount

Outstanding portfolio by loan amount

The diversification of AccessBank's loan portfolio across economic sectors continued to improve in 2009. Reflecting the structure of the private sector economy and microfinance, wholesale and retail trade continued to claim the largest share, with 59.4% of the outstanding business loan portfolio at year-end, followed by services (15.8%) and agriculture (12.3%). Despite the high figure for trade, this was down from 66% at 2008-end and 73% at 2006-end. The portfolio in this sector is also highly diversified across a wide range of both wholesale and retail trade activities. The decrease in the proportion of the portfolio accounted for by trade was absorbed by the agriculture sector, which recorded the largest increase in 2009, growing from 6.5% at 2008-end and from 1.2% at 2006-end. The statistics are even more impressive in terms of numbers of loans, with 28% of the portfolio accounted for by agriculture (up from 17% at 2008-end and 5% at 2006-end) reflecting the smaller average loan size in this sector.

The growth of the agricultural sector in AccessBank's portfolio is a direct result of the success of the Agro Loan product introduced in 2007. In AccessBank's regional branches, up to half of all business loans are now disbursed under this product. By year-end the outstanding Agro Loan portfolio (included in the Micro Loan portfolio) reached USD 38 million from USD 14 million at the end of 2008 (with an average loan disbursal of only USD 2 194). Quality remains excellent with Portfolio At Risk > 30 days of 0.28%. The total portfolio for the Agro Loan product is higher than that reported specifically for the primary agricultural sector above, as the Agro Loan product is also used for financing agriculture-related services and businesses that have seasonal income flows (e.g. clients selling seed and fertilizers or veterinary services, which are classified under the trade and services sectors respectively).

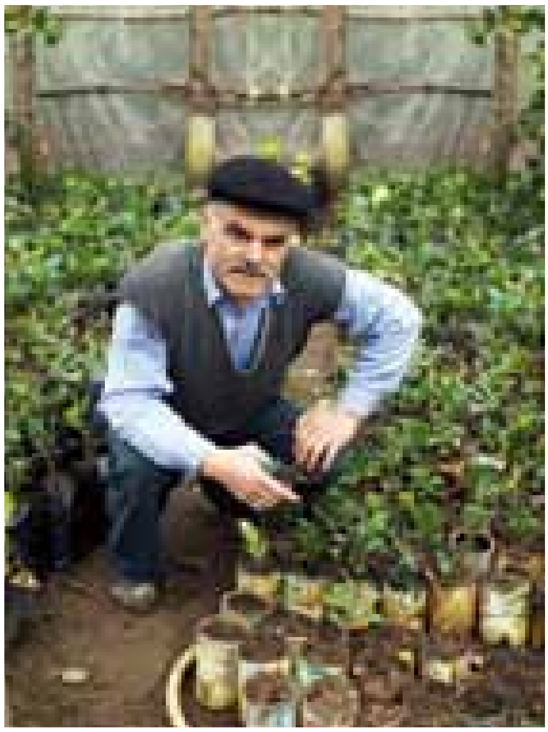
Breakdown of Outstanding Business Portfolio by Sector as of 31 Dec 2009



Number of outstanding loans by economic sector

Outstanding portfolio by economic sector

OUR CLIENTS



FROM HOBBY TO THRIVING BUSINESS

Ashraf Habibov has cultivated decorative plants for over 20 years in the southern town of Astara. This began as a hobby to supplement his income as a mathematics teacher at a local school. But after 30 years in the classroom Mr Habibov retired and devoted himself to his plants.

However, his low income meant he had little spare cash to repair damage caused by the region's powerful thunderstorms or to invest in expanding the business. Over the last three years, Mr Habibov has taken three AccessBank loans of AZN 2 000 – 4 000 which have allowed him to purchase more seedlings, expand his flower beds, improve his irrigation system and promptly repair his greenhouse. He has earned a good reputation and today Mr Habibov takes orders from across the country.

Corporate Services - As AccessBank's clients develop, their financial services needs are also becoming more sophisticated. The Corporate Services Department was created to meet this demand and the Head Office unit supports branch staff in delivering specialised products to clients, such as managing company payrolls through AccessBank under Salary Projects (see below) and Trade Finance Operations. The department also endeavours to attract and serve larger Azerbaijani and foreign companies and organisations that require banking services but are not necessarily seeking financing. The current account and deposit balances of such organisations, and their employees, help the bank meet its strategic objective of expanding and diversifying AccessBank's funding base for core, micro and small business lending activities.

RETAIL BANKING AND OPERATIONS

Having developed a range of core products in 2006 and 2007, AccessBank is now focused on deepening its client base and growing business volumes. This includes extensive staff training and increased marketing and client outreach programs within the community.

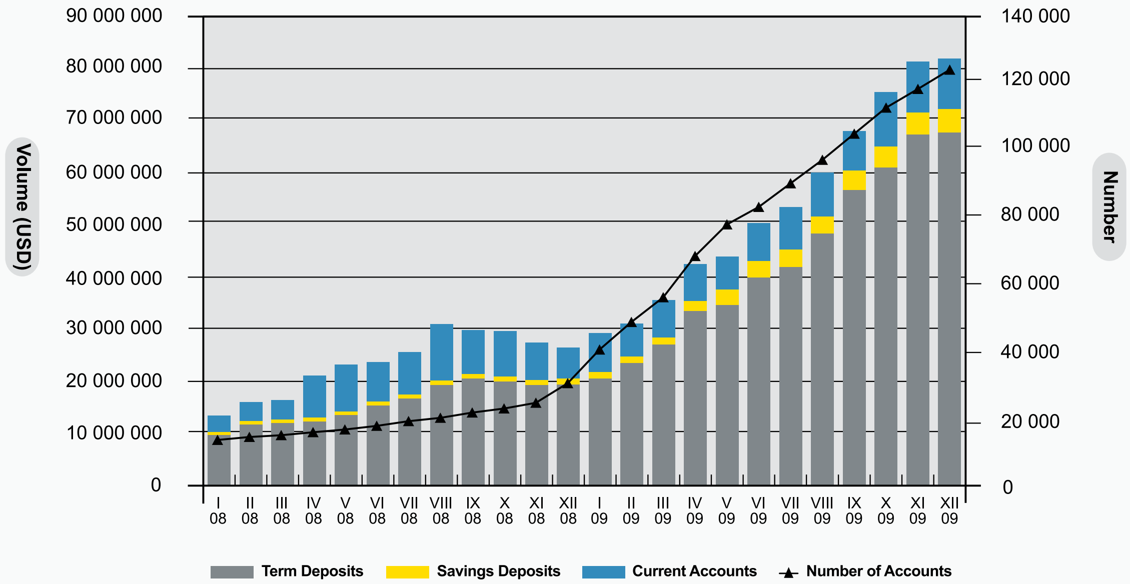
Deposits and Current Accounts – The growth of deposit and current account volume in 2009 was exceptional, increasing 210% compared to sector-wide growth of only 4% during the year, which attests to the strengthening of AccessBank's reputation in Azerbaijan. Total current accounts and deposits closed the year at USD 82 million (115 000 accounts), compared with USD 26 million at 2008-end (28 000 accounts).

The USD 56 million growth in deposits financed over 60% of the portfolio growth, and the proportion of deposits to Total Assets and to Loan Portfolio doubled to 23% and 28% respectively in 2009 (from 11% and 13% at 2008-end).

Account Turnover – Account turnover increased 85% in 2009 despite businesses' continued preference for informal transfer systems that bypass both tax authorities and legal restrictions on international payment transfers. Non-cash turnover increased by 84% to USD 175 million in 2009, from USD 95 million in 2008, while cash turnover increased by 63% to USD 497 million in 2009, from USD 306 million in 2008. In developing this business, AccessBank focuses on providing excellent customer service and offering clients transfers through the HOEKS Azerbaijani inter-bank clearing system, SWIFT for international transfers, and access to the bank's network of correspondent accounts.

Money Transfer Systems – International remittances from family members working abroad are a vital source of revenue for many low-income Azerbaijani families. To serve this market, AccessBank offers clients a range of leading international money transfer systems for account and non-account holders, including Western Union, CoinStar (formerly Travelex), Bistraya Pochta, PrivatMoney, Migom and Contact – the last four being oriented to the CIS where the majority of Azerbaijani migrant workers seek employment. The total number of transactions via these systems grew by 38% to 30 225 in 2009, while the total amount transferred contracted by 3% to USD 18 million. The decrease occurred as devaluations in Russia and Ukraine, where the majority of Azerbaijani migrant workers are employed, reduced their dollar incomes and the amounts they had available to remit. Indeed, money transfers dropped 20% in volume during the year for Azerbaijan as a whole, showing that AccessBank again expanded its market share.

Development of Deposit Accounts in 2008-2009



Visa Cards – In 2009, AccessBank focused on increasing its client base for the bank's Visa-branded plastic cards, especially under Salary Projects, after developing a wide range of products and features in 2007 and 2008. Features of the AccessBank Visa Cards include a 'multi-currency' option, meaning that the cards can be linked to AZN, USD and EUR accounts allowing the user to make purchases in any of the three currencies, both in Azerbaijan or abroad, without incurring any currency conversion fees or commissions – a first for Azerbaijan. Other features include card-to-card transfers and payment for mobile-phone services and utilities through ATMs. One of the strategic aims in introducing the Visa debit cards was to encourage clients to use their current accounts and keep excess cash on deposit in AccessBank. With the launch of Salary Projects with the bank's SME clients in 2007, and the growth of this service since, AccessBank has further encouraged the use of current accounts by SME, corporate clients and their employees. Under the project, employers pay their employees' salaries through AccessBank and AccessBank issues the employees plastic debit cards with which the employees can access their salary accounts at either AccessBank branches or its ATMs. In addition to increasing current account balances and turnover, Salary Projects also helps strengthen the relationship with SME and corporate clients. In 2009 AccessBank also attracted several educational institutions which now pay their monthly student scholarships through Salary Projects. This helped to increase the total number of individuals enrolled in Salary Projects from 1 500 at 2008-end to 7 500 by 2009-end (through 96 Salary Projects). The total number of debit cards increased by 157% in 2009 to 15 070 from 5 854 a year earlier. The total value of transactions in 2009 increased more slowly – 59% to USD 26 million – primarily due to the low values of transactions on student scholarship cards. While growth in 2009 was strong, AccessBank still considers this aspect of the business to be in the early stages of development.

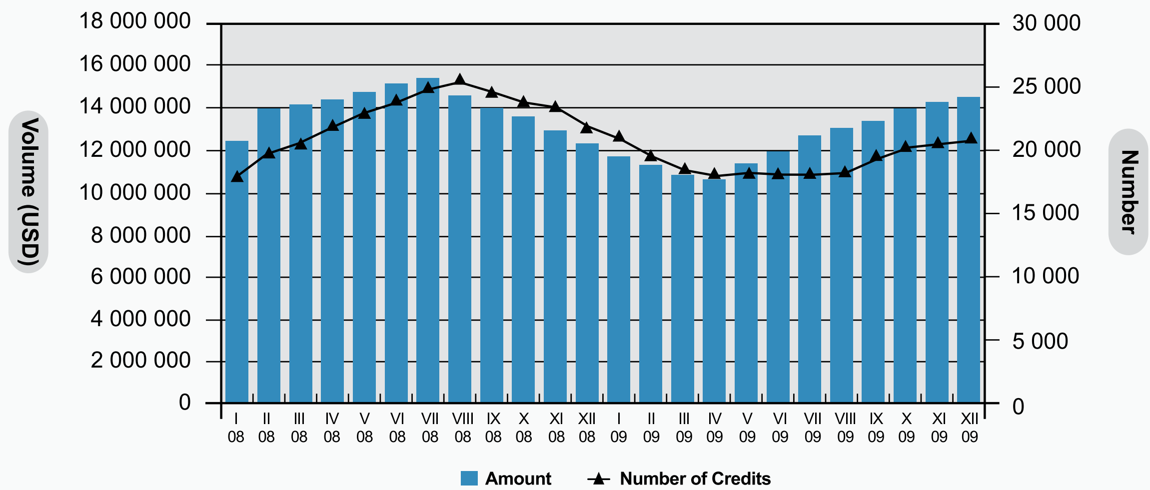
Retail Lending – AccessBank is developing retail lending in pursuit of three strategic objectives: first, to extend access to financing to low and middle income households; second, to help AccessBank develop a retail client base – a market where AccessBank was relatively unknown and which is essential for attrac-

ting deposits; and third, to strengthen links with SME and corporate clients through expanding the range of services provided by AccessBank. The first retail loan product – Partner Loans – was introduced in 2006 to help families finance the acquisition of core household goods as well as to provide a service to the bank's SME clients. Under the Partner Loan product, AccessBank teamed up with some of AccessBank's SME clients who are retailers of electrical goods, household appliances and furniture. The retailers direct their customers to AccessBank to finance purchases from the retailers and, in some cases, the retailers also provide an additional guarantee for the loans. The programme also provides loans to the retailers' staff, similarly guaranteed by the retailers. This was followed in 2007 by Auto Loans to finance the purchase of vehicles and in 2009 by Cash Loans to individuals in specific, selected, stable professions (initially only doctors and teachers) and Deposit Loans – or loans secured by deposits – that allow clients to obtain short-term financing without having to break their long-term deposits.

Because of the economic cooling in 2009, management exerted extreme caution in Retail lending and the Retail portfolio finished the year at USD 14.4 million (22 000 loans). While this was 18% higher than at 2008-end when it finished at USD 12.2 million (23 000 loans), this was still down from the peak of USD 15.3 million (26 000 loans) reached in July 2008. As a percentage of the total portfolio, Retail loans accounted for only 4.8% at 2009-end, compared with 10% at 2007-end. Partner Loans continue to account for the largest proportion of the Retail Portfolio at 53%, followed by Cash Loans – 38%, Auto Loans – 6.4% and Deposit Loans – 2.4%.

AccessBank is committed to developing retail lending responsibly to ensure that clients are not over-burdened with debt. Management has actively restrained the growth of this business by strictly limiting the number of retail partners with which it works, developing restrictive retail loan products and observing stringent limits on debt-to-income ratios of loan applicants. The clearest proof of AccessBank's responsible lending is the very low arrears rate with the PAR > 30 days rate standing at 1.4% at year-end.

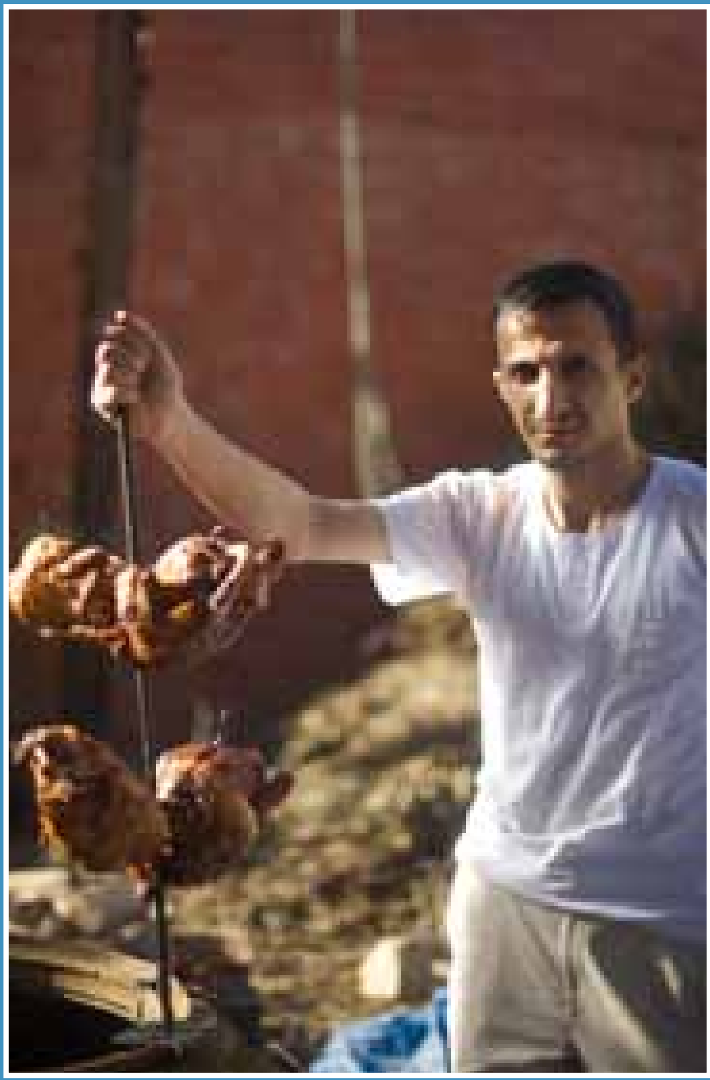
Retail Credit Development (Outstanding Portfolio) in 2008-2009



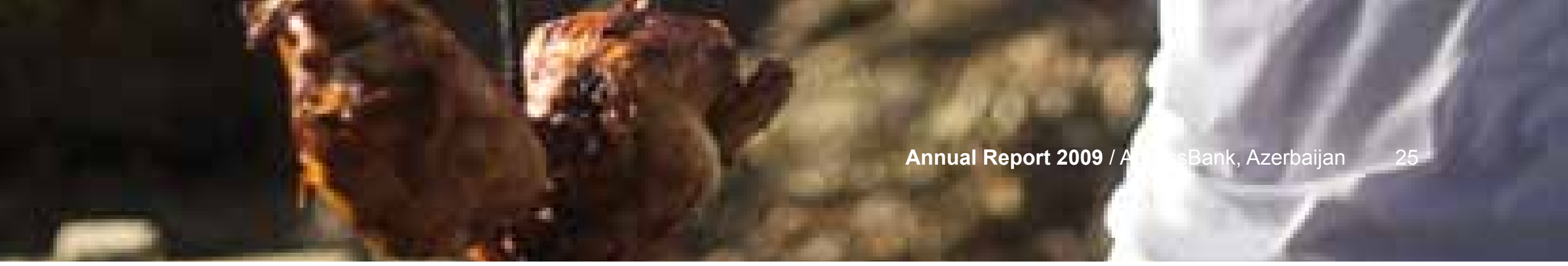
OUR CLIENTS

BAKING FOR MASALLI

Ramin Mammadaliyev's home region of Masalli has a strong tradition of baking bread in 'tandir', or clay-ovens. He soon realized, however, that baking was confined to single-oven cottage bakeries which were inefficient and could not meet demand. Mr Mammadaliyev brought in his mother's knowledge of baking to start a larger-scale bakery with several ovens and employees, making bread and a local speciality, 'levengi' roast chicken or chicken stuffed with walnuts. Over the years, his business expanded to eight ovens and nine employees, but productivity was still limited by the weather as five of the ovens were outdoors and there was no drainage. With a USD 20 000 loan from AccessBank in 2009, Mr Mammadaliyev improved drainage and enclosed the outdoor ovens, weather-proofing his operation. This has also allowed him to increase employee salaries by 30% and to start saving for the further expansion of the business.



Marketing – In 2009, AccessBank's multi-media marketing campaigns focused on promoting the continued availability of business loans, despite the crisis, to reinforce AccessBank's reputation of reliability. While this was the first time AccessBank had focused a marketing campaign on loans, it also proved to be the most successful 'deposit' campaign – helping to instil confidence in the bank among the public and attract deposits. Other marketing activities extended from localised promotions for new branch openings and community outreach events to a cross-over marketing and Corporate Social Responsibility project – sponsoring a series of three classical concerts at the Baku Philharmonic: one for mothers and babies, one for institutionalised youth and one as a showcase for young musicians. The marketing department is also heavily involved in AccessBank's Call Centre, which by year-end was fielding 1 000 calls per day about bank services.



REFINANCING

In 2009, AccessBank funded the majority of the USD 89 million portfolio growth through growth in deposits and retained earnings, which totalled USD 81 million and reduced AccessBank's need for external refinancing. The bank received a total of USD 65 million in new refinancing in 2009 and rolled-over a further USD 5 million in funding, or significantly less than the USD 81 million the bank received in 2008. Total borrowings increased by USD 49 million to USD 219 million from USD 170 million at the end of 2008. Notable transactions during the year included: the drawing down of AccessBank's first syndicated loan (USD 28 million, arranged by EBRD); a new USD 15 million loan from IFC; the roll-over of a USD 5 million loan with an increase of an additional USD 2 million, both denominated in AZN, from DWM / SNS Microfinance Fund; and the signing of an AZN denominated loan from EBRD for USD 10 million (with disbursal scheduled for 2010). Other funding was provided by KfW (USD 10 million under a loan concluded in 2008), DWM / SNS Microfinance Fund (USD 5 million) and Triodos (USD 5 million).

AccessBank's easy access to refinancing was further strengthened by the reconfirmation of the BB+ Long-Term Issuer Default Rating by Fitch Ratings, the highest rating for any private Azerbaijani bank and matching the country ceiling.

INFRASTRUCTURE

In 2009, AccessBank opened three new branches: one in Baku and two in the regions, in Jalilabad and Salyan. AccessBank now serves 12 main cities and towns of Azerbaijan with a total of 23 branches. This brings AccessBank close to its goal of providing nationwide coverage. Two existing branches were relocated to new premises: Ganja to larger premises as the business had outgrown the previous location and the Airport branch to a new location in Badamdar in line with the relocation of the wholesale markets. Two branches, Sheki and Lenkoran, were doubled in size to accommodate the growth of the business and additional office space was obtained for the Head Office.

During the year, AccessBank also invested significant resources into upgrading communication links to all branches, laying a fibre-optic cable to the Head Office server and creating an off-site back-up Disaster Recovery Computing Centre. To reduce IT-risk, the bank uses only fully-licensed software in all its operations.

RISK MANAGEMENT

The strength of AccessBank's risk management is demonstrated by the excellent portfolio quality. Nevertheless, management is not complacent, recognising that as economic growth slows and the bank increases in scale, risks are also increasing. Strengthening risk management and controls remains a continual and constant process. Credit risk management, the major risk for AccessBank, was strengthened significantly in 2005 with the creation of a Head Office credit management unit to oversee business lending (now including a Director of Business Banking and separate heads for Micro, SME, Corporate Services, Back Office and Training) and relieving Senior Loan Officers of direct lending duties, allowing them to concentrate fully on the management, control, training and supervision of loan officers in the branch.

OUR CLIENTS

A PASSION FOR WOOD-CARVING

Vusal Khaligov, who works as an air traffic controller at the local airport in Lenkoran, has a passion for wood carving. He supplements his income by carving traditional accessories for weddings and souvenirs and takes orders from individuals and shops in Lenkoran and Baku. However, high quality products with fine detail require high quality materials – without spare cash Mr Khaligov often had to purchase materials for each individual order, which meant he took longer to complete orders and lost customers. With the help of AccessBank, Mr Khaligov took loans of AZN 2 000 and USD 3 000 in 2007 and 2009 respectively to purchase materials in bulk and expand his stock. This has helped him to meet orders quickly and to increase his margins. Now he is saving to open his own shop so that he can sell his craftwork directly.

This structure was consolidated in 2006 and 2007 with branch level Heads of SME and as the staff became more experienced in their new positions. Similar to Credit, Head Office functions were also created in 2006 to manage the risk of the Retail and Operations business. This now includes Departmental Heads for Banking Services, Retail Lending, Methodology and Development and Payment Cards.

This matrix control structure of hierarchical subordination to the branch manager, with technical supervision by Head Office business 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.

In 2008, Risk Management was strengthened by the creation of Risk, ALCO and IT committees, reporting quarterly to the Supervisory Board, and the formation of a Risk Management Department – initially responsible for reviewing all new loans for exposures over USD 100 000, adding another layer of independent review, and for strategic monitoring and analysis of risk. In 2009, the Risk Management Department was further strengthened with the addition of four staff to increase monitoring of both sectoral risks and risk across the bank, to review Micro and SME analyses and to investigate customer complaints.

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 centred on a strict KYC (Know Your Client) 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.

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 desk-top PCs, contributing to management's control capacities and risk management.

The efficacy of the control mechanisms and Risk Management in AccessBank is subject to constant review by the Internal Audit Function. By 2009-end, the Audit Department numbered ten full-time staff who audited each branch and Head Office department twice per year. 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.

The technical development of Risk Management in the bank is also supported by business specialists in Berlin, from LFS, at the AccessHolding level.

OUTLOOK

The cooling of the economy in 2009 impacted the Azerbaijan Banking Sector as a whole and increased risk. However, AccessBank and its staff rose to the challenge and the bank continued its rapid growth, increasing outreach and improving efficiency, while successfully managing risk and remaining true to its core mission of serving micro and small businesses and low and middle income households. It is anticipated that the economic environment in 2010 will be more stable but will also mark the beginning of more tempered growth for the country.

Although competition in the sector has intensified in recent years, AccessBank remains the only bank focused on serving the needs of Azerbaijan's low and middle income households and micro and small businesses. As such, it remains the only bank with both the dedicated products to serve these market segments and the proven technology and staff expertise to manage the risk associated with this market. AccessBank's advantage over other microfinance institutions is that, as a bank operating with a full banking licence, AccessBank is able to offer a complete range of financial services to clients.

As the economy matures during 2010, management expects AccessBank to do the same. This maturation will result in lower growth rates in the loan portfolio and branch network, as focus will be on deepening penetration rather than broadening it. AccessBank will also continue to increase resources allocated to the control and management of risk, as decreased money supply growth (lower GDP growth and lower inflation) will challenge many businesses.

AccessBank enters 2010 in a robust position with high capital adequacy and liquidity, excellent portfolio quality and strong deposit growth and refinancing partners. AccessBank's reputation in the Azerbaijani market has also risen dramatically as it demonstrated the true strength and stability of the bank through the challenges of 2009. The management team and staff have proven their expertise and ability to deal with new challenges and management is confident that, together with the shareholders, AccessBank will successfully face the challenges that 2010 will bring and continue to be Azerbaijan's reliable banking partner.

ORGANISATION AND STAFF

AccessBank's professionally trained and highly motivated team is the foundation for the success of AccessBank. The bank takes 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 now been filled by local candidates from within the institution, with only the General Manager position still filled by an expatriate. As a result, AccessBank can rely on a team of experienced, tested, confident and loyal employees who are willing to work and think independently.

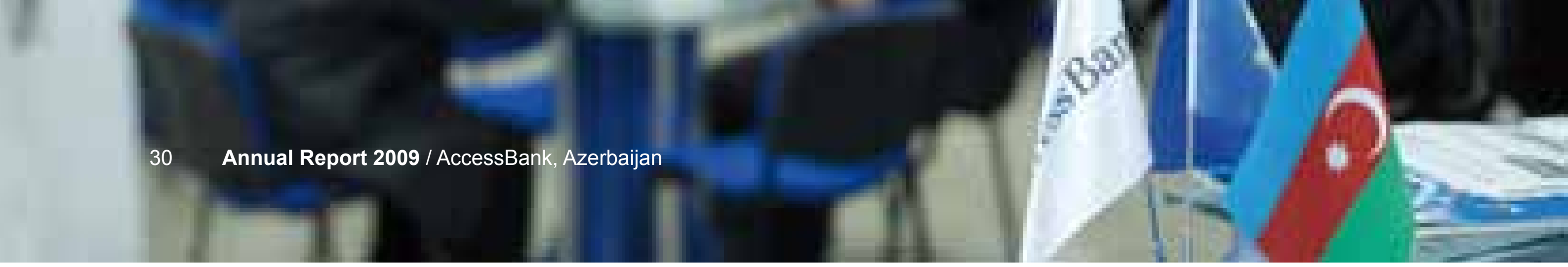
The highest decision-making body in AccessBank is the General Assembly of Shareholders, which met three times in 2009. The General Assembly appoints the five members of the Supervisory Board, which meets quarterly to oversee the work of the bank and its management. In 2009, the Supervisory Board consisted of Mr Michael Jainzik, Chairman; Mr Syed Aftab Ahmed; Mr Orhan Aytemiz; Mr Thomas Engelhardt and Ms Oksana Pak, who was replaced by Ms Victoria Miles at the beginning of 2010. While the membership of the Supervisory Board has changed over the years, four of the five board members have been involved with AccessBank since its inception in their respective institutions in different capacities. AccessBank thus benefits from having a strong Supervisory Board that has a deep understanding of the bank, the region and microfinance.

Day-to-day business is directed by the five-member Management Board, chaired by Dr Andrew Pospielovsky who has overall responsibility for the management of the bank. The branch managers and compliance officer, as well as the Legal and Human Resources departments, report directly to him. Shakir Ragimov, Business Banking Director since 2008, is responsible for the Micro Loans, SME Loans, Credit Back Office, Risk Management and Corporate Services departments. Mr Anar Gasanov, Retail and Operations Director since 2007, is responsible for Banking Services, Retail Lending, Plastic Cards, Cashiers, Marketing, Methodology and Development and the Call Centre. Mr Rufat Ismailov, Infrastructure Director since 2006, is responsible for the Branch Network, Procurement and Facilities, the Secretariat, Security, IT and the Archive Department. And Elshan Hajiyev, the Finance Director since the opening of the bank, is in charge of Accounting, Financial Control and the Treasury Department.

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.

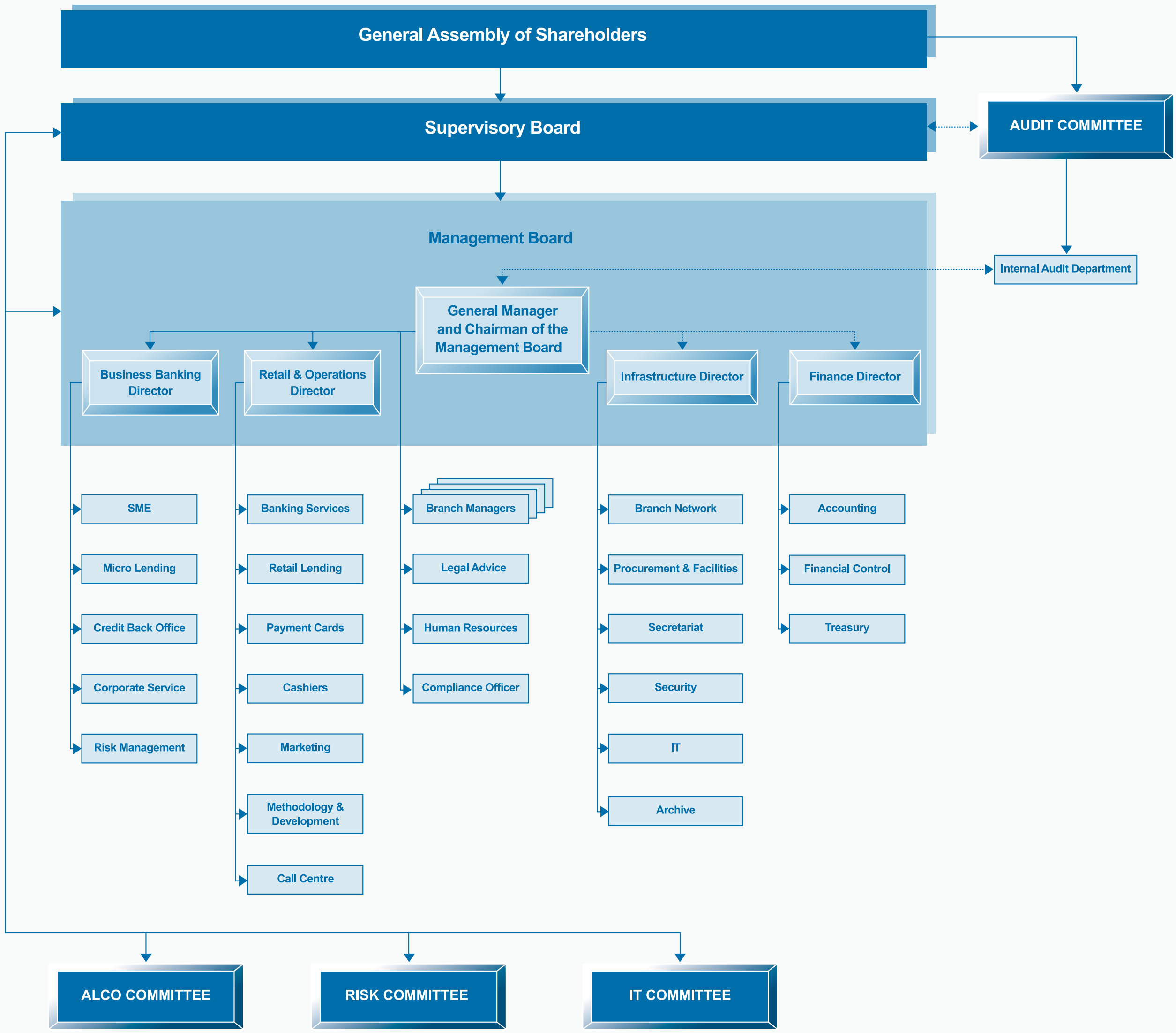
The Audit Committee is appointed by the General Assembly of Shareholders and controls the work of the Internal Audit Department. It consists of three members: Christopher Falco, Chairman, Ms Alexandra Weichesmiller and Mr Sohrab Farhadov. The internal auditors conduct frequent and independent checks


AccessBank



of all business throughout the branch network. Moreover, internal auditors and the Audit Committee advise the management on policies, procedures and the general control environment.
In 2008, ALCO, IT and Risk Committees were created to strengthen risk management. These committees are appointed by, and report directly to, the Supervisory Board.

Organisation Chart as of December 2009



SOCIAL, ENVIRONMENTAL AND ETHICAL CORPORATE RESPONSIBILITY

Adherence to high ethical standards and responsible banking has been at the core of AccessBank's corporate culture since its inception and social corporate 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.

In 2008, AccessBank formalised its commitment by joining the UN Global Compact. The Compact specifies adherence to principles within four core areas: human rights, environmental protection, labour rights and anti-corruption – basic principles pursued by AccessBank since its inception. This was further strengthened in 2009 when AccessBank joined the International Campaign for Client Protection hosted by the Center for Financial Inclusion, which advocates avoidance of over-indebtedness, transparent pricing, appropriate collection practices, ethical staff behaviour, mechanisms to redress grievances and privacy of client data. AccessBank was the first bank in Azerbaijan to join the Global Compact and the Campaign for Client Protection.

AccessBank, sharing the Global Compact's commitment to labour protection, is committed to fair and equal opportunity recruitment, treatment, and promotion of staff, irrespective of gender, race, nationality or religion. This is set out within the staff and gender policies and within the Global Compact and includes a code of conduct providing guidance to staff on professional behaviour. AccessBank leads the sector with the provision of staff training and provides additional private health insurance as well as highly competitive remuneration. Further to the goals of the Global Compact, AccessBank has been taking proactive measures to encourage women to pursue careers in what are generally perceived in Azerbaijan as 'male' positions within the bank.

The transparent, clean and un-bureaucratic financial services provided to AccessBank's clients meet the anti-corruption standards of the Global Compact and Campaign for Client Protection while also serving as a trademark of AccessBank. Further to the commitment to transparency, AccessBank was the lead bank in Azerbaijan in the Price Transparency Initiative organised by Micro Finance Transparency. The initiative collects and verifies actual loan cost information from microfinance organizations and publishes comparable effective interest rates of these institutions.

The Global Compact calls for a commitment to human rights, which AccessBank implements both through its treatment of staff and clients and through its responsible pursuit of its business activities. The bank devotes great care to ensure that the loans provided make a positive contribution to both the client and the community. There are many business activities that AccessBank will not finance, as management considers them to be detrimental to the community. Responsible lending, both in retail and business, also means ensuring clients are not burdened with debt they may not be able to afford. The commitment to this principle is

Charitable concert in State Philharmonic Hall for institutionalised children

Blood-donor day for thalassemic children

Gardening day

Training for disabled

demonstrated by the bank's exceptionally low arrears rates. Additionally, AccessBank helps people in Azerbaijan with one of the most universal human rights – freedom from poverty (see page 12, AccessBank's Positive Impact on clients) – providing opportunities for business and professional development.

Expanding on the responsibilities to local communities and authorities, AccessBank has become one of the leading agencies for the creation of professional employment opportunities, especially in the regions. The bank is also committed to meeting all its tax and social insurance obligations and is now one of the leading tax contributors in the Azerbaijani financial sector, contributing AZN 6.9 million (USD 8.6 million) in taxes and social insurance payments in 2009 (including employee income taxes).

Additionally, AccessBank endeavours to go beyond standard duties to local communities by helping in more innovative ways, sponsoring and supporting charitable and community projects that involve staff and benefit and encourage the evolution of inclusive local communities (see below, AccessBank – Building Inclusive Communities).

AccessBank strives to live up to the environmental standards laid out in the Global Compact, particularly in the belief that the best way to protect the environment is to prevent damage in the first place. By adhering to an exclusion list that prohibits loans to businesses engaged in ecologically hazardous activities, AccessBank not only protects the eco-system of Azerbaijan, but also sets an example as a leader in the local banking industry. This list has been prepared in accordance with the strict requirements of the bank's shareholders and appraisal of environmental risk is part of standard lending procedures. A summary of AccessBank's activities in this area is compiled in an annual Environmental Report. As a commitment to these ideals, this report is the first from a financial institution in Azerbaijan to be printed on recycled paper.

ACCESSBANK – BUILDING INCLUSIVE COMMUNITIES

AccessBank plays an important role not only in the economic development of local communities across Azerbaijan. AccessBank 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 2009 include: sponsoring the Girls Leading Our World (GLOW) summer camp for schoolgirls from the regions of Azerbaijan, which involved one of AccessBank's female managers; hosting an environmental summer school and making presentations there, including discussions on the impact of the economy on the environment; supporting a photography competition and exhibition promoting environmental awareness organised by Green Bikers, a local youth environmental NGO; planting of trees and shrubs to revitalize urban areas; providing concerts at the Baku Philharmonic with proceeds going to the education and life-skills training of local, institutionalised young people; organisation of work-skills training for physically disabled people, culminating in employment of suitable candidates within the bank; entrepreneurial training for people in the regions of Azerbaijan; and the organisation of parties at homes for institutionalised children and the disabled to bring staff and the disadvantaged closer together and encourage the development of a more inclusive society. Staff also collected clothing and funds to support the homes.

AccessBank Closed Joint Stock Company

International Financial Reporting Standards Financial Statements and Independent Auditor's Report

31 December 2009

CONTENTS

PRICEWATERHOUSECOOPERS

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the AccessBank CJSC (the "Bank") which comprise the statement of financial position as at 31 December 2009 and the related statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility
Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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, 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 accompanying financial statements present fairly, in all material respects, the financial position of the Bank as of 31 December 2009, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers Audit Azerbaijan LLC

Baku, the Republic of Azerbaijan
31 May 2010

In thousands of Azerbaijani Manats	Note	31 December 2009	31 December 2008
ASSETS			
Cash and cash equivalents	7	46,567	16,360
Mandatory cash balances with the Central Bank of Azerbaijan Republic ("CBAR")		253	995
Investments available for sale	10	40	5,863
Due from other banks	8	9,828	20
Loans and advances to customers	9	233,681	163,669
Investment securities held to maturity		-	125
Property, plant and equipment	11	7,123	5,127
Intangible assets	11	1,994	977
Other financial assets	12	289	163
Other assets	13	997	616
TOTAL ASSETS		**300,772**	**193,915**
LIABILITIES			
Due to other banks	14	3,005	2
Customer accounts	15	64,999	21,852
Other borrowed funds	16	169,120	128,051
Current income tax liability	23	-	1,754
Deferred income tax liability	23	-	12
Other financial liabilities	17	2,107	756
Other liabilities		34	-
Subordinated debt	18	8,222	8,189
TOTAL LIABILITIES		**247,487**	**160,616**
EQUITY			
Share capital	19	20,000	20,000
Retained earnings		33,285	13,299
TOTAL EQUITY		**53,285**	**33,299**
TOTAL LIABILITIES AND EQUITY		**300,772**	**193,915**

Approved for issue and signed on behalf of the Management Board on 31 May 2010.

Mr. Andrew Pospielovsky
Acting Chairman of the Management Board

Mr. Elshan Hajiev
Finance Director, member of the Management Board

At 31 December 2009, the prevailing exchange rates were USD 1 = AZN 0.8031 and EUR 1 = AZN 1.1499 (31 December 2008: USD 1 = AZN 0.8010 and EUR 1 = AZN 1.1292), refer to Note 3.

AccessBank CJSC
Statement of Comprehensive Income

In thousands of Azerbaijani Manats	Note	2009	2008
Interest income	20	68,198	45,471
Interest expense	20	(18,733)	(12,545)
Net interest income		**49,465**	**32,926**
Provision for loan impairment	9	(2,599)	(2,116)
Net interest income after provision for loan impairment		**46,866**	**30,810**
Fee and commission income	21	767	523
Fee and commission expense	21	(171)	(200)
Gains less losses from trading in foreign currencies		893	395
Foreign exchange (loss)/ gain		(528)	2
Other operating income		34	8
Provision recovery / (charge) for other financial assets	12	-	(54)
Administrative and other operating expenses	22	(27,879)	(18,071)
Profit before tax		**19,982**	**13,413**
Income tax credit / (expense)	23	4	(2,958)
Profit for the year		**19,986**	**10,455**
Other comprehensive income for the year		-	-
Total comprehensive income for the year		**19,986**	**10,455**
Earnings per share for profit attributable to the equity holders of the Bank, basic and diluted (expressed in AZN per share)	24	**0.99**	**0.66**

The notes set out on pages 5 to 56 form an integral part of these financial statements.

In thousands of Azerbaijani Manats	Share capital	Retained earnings	Total
Balance at 31 December 2007	**11,000**	**2,844**	**13,844**
Profit for the year attributable to ordinary shareholders	-	10,455	10,455
Share issue	9,000	-	9,000
Balance at 31 December 2008	**20,000**	**13,299**	**33,299**
Profit for the year attributable to ordinary shareholders	-	19,986	19,986
Total recognised profit for the year attributable to ordinary shareholders	-	19,986	19,986
Balance at 31 December 2009	**20,000**	**33,285**	**53,285**

In thousands of Azerbaijani Manats	Note	2009	2008
Cash flows from operating activities			
Interest received		67,157	40,920
Interest paid		(16,741)	(10,460)
Fees and commissions received		767	2,784
Fees and commissions paid		(171)	(200)
Income received from trading in foreign currencies		-	287
Other operating income received		32	678
Staff costs paid		(15,494)	(10,233)
Administrative and other operating expenses paid		(10,062)	(6,567)
Income tax paid		(1,755)	(1,601)
Cash flows from operating activities before changes in operating assets and liabilities		**23,743**	**15,608**
Net increase in mandatory cash balances with the CBAR		742	87
Net (increase) / decrease in due from other banks		(9,637)	665
Net (increase) / decrease in loans and advances to customers		(71,739)	(71,073)
Net (increase) / decrease in other financial assets		(126)	259
Net increase / (decrease) in due to other banks		3,003	-
Net increase / (decrease) in customer accounts		41,534	9,432
Net increase / (decrease) in other financial liabilities		90	508
Net increase / (decrease) in other liabilities		34	-
Net cash from operating activities		**(12,356)**	**(44,514)**
Cash flows from investing activities			
Acquisition of investments available for sale	10	-	(28,428)
Proceeds on sale of investments available for sale		5,945	27,337
Acquisition of property and equipment	11	(2,906)	(2,540)
Acquisition of intangible assets	11	(1,566)	(935)
Net cash generated from / (used) in investing activities		**1,473**	**(4,566)**
Cash flows from financing activities			
Proceeds from other borrowed funds	16	52,330	55,815
Repayment of other borrowed funds		(11,606)	(6,725)
Issue of ordinary shares	19	-	9,000
Net cash from financing activities		**40,724**	**58,090**
Effect of exchange rate changes on cash and cash equivalents		**366**	**397**
Net increase in cash and cash equivalents		**30,207**	**9,407**
Cash and cash equivalents at the beginning of the year		16,360	6,953
Cash and cash equivalents at the end of the year	7	**46,567**	**16,360**

1 Introduction

These financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2009 for AccessBank Closed Joint Stock Company (the "Bank").

The Bank was incorporated in the Republic of Azerbaijan on 5 September 2002 as Closed Joint Stock Company 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.

Principal activity. The Bank's principal business activity is commercial and retail banking operations within the Republic of Azerbaijan.

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 30,000.

The Bank has twenty three branches within the Republic of Azerbaijan. (31 December 2008: twenty branches within the Republic of Azerbaijan)

Registered address and place of business. The Bank's registered address is:

176 B.Safaroglu Street,
Baku AZ1000,
Republic of Azerbaijan

Presentation currency. These financial statements are presented in thousands of Azerbaijani Manats ("AZN").

2 Operating Environment of the Bank

The Republic of Azerbaijan. The Republic of Azerbaijan displays certain characteristics of an emerging market, including existence of a currency that is not freely convertible in most countries outside the Republic of Azerbaijan, restrictive currency controls and relatively high inflation. The banking sector in the Republic of Azerbaijan is sensitive to adverse fluctuations in confidence and economic conditions. The Azerbaijani economy occasionally experiences falls in investors' confidence in the banking sector accompanied by reductions in liquidity. Management is unable to predict economic trends and developments in the banking sector and what effect, if any, deterioration in the liquidity or confidence in the Azerbaijani banking system could have on the financial position of the Bank. However, management notes that the Bank has strong relations with refinancing partners and has not experienced any liquidity difficulties to date.

The tax, currency and customs legislation within the Republic of Azerbaijan is subject to varying interpretations, and changes, which can occur frequently. Furthermore, the need for further developments in the bankruptcy laws, the absence of formalised procedures for the registration and enforcement of collateral, and other legal and fiscal impediments contribute to the difficulties experienced by banks currently operating in the Republic of Azerbaijan. The future economic direction of the Republic of Azerbaijan is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory and political developments.

2 Operating Environment of the Bank (continued)

Impact of the ongoing global financial and economic crisis. The ongoing global liquidity crisis which commenced in the middle of 2007 has resulted in, among other things, a lower level of capital market funding, at times much higher than normal interbank lending rates and lower liquidity levels across the Azerbaijani banking sector resulting in a significant reduction in the number of new loans and advances made to customers and higher funding costs where it remains possible to obtain debt finance from International Institutions or other local banks. The uncertainties in the global financial market have also led to bank failures and bank rescues in the United States of America, Western Europe and in Russia. Such circumstances could affect the ability of the Bank to obtain new borrowings and re-finance its existing borrowings at terms and conditions similar to those applied to earlier transactions. The borrowers of the Bank may also be affected by the lower liquidity situation which could in turn impact their ability to repay their outstanding loans. Deteriorating operating conditions for borrowers may also have an impact on management's cash flow forecasts and assessment of the impairment of financial and non-financial assets. To the extent that information is available, management has reflected revised estimates of expected future cash flows in their impairment assessments.

Management is unable to reliably estimate the effects on the Bank's financial position of any further deterioration in the liquidity of the financial markets and the increased volatility in the currency and equity markets. Management believes that they are taking all the necessary measures to support the development of the Bank's business in the current circumstances and notes that Bank has strong relations with refinancing partners and has not experience any liquidity difficulties to date.

3 Summary of Significant Accounting Policies

Basis of preparation. These financial statements have been prepared in accordance with International Financial Reporting Standards under the historical cost convention, as modified by initial recognition of financial instruments at fair value and the revaluation of certain financial instruments. The principal accounting policies applied in the preparation of these financial statements are set out below. Management, being the Management Board who approved these financial statements for issue, have the power to amend these financial statements. Any such change requires the approval of the Management Board.

Going concern. Management prepared these financial statements on a going concern basis.

Financial instruments - key measurement terms. Depending on their classification financial instruments are carried at fair value, or amortised cost as described below.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Fair value is the current bid price for financial assets and current asking price for financial liabilities which are quoted in an active market. For assets and liabilities with offsetting market risks, the Bank may use mid-market prices as a basis for establishing fair values for the offsetting risk positions and apply the bid or asking price to the net open position as appropriate. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange or other institution and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Valuation techniques such as discounted cash flow models or models based on recent arms length transactions or consideration of financial data of the investees are used to determine the fair value of certain financial instruments for which external market pricing information is not available. Valuation techniques may require assumptions not supported by observable market data. Disclosures are made in these financial statements if changing any such assumptions to a reasonably possible alternative would result in significantly different profit, income, total assets or total liabilities.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition and includes transaction costs. Measurement at cost is only applicable to investments in equity instruments that do not have a quoted market price and whose fair value cannot be reliably measured.

3 Summary of Significant Accounting Policies (continued)

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related balance sheet items.

The effective interest method is a method of allocating interest income or interest expense over the relevant period so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest re-pricing date except for the premium or discount, which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

Initial recognition of financial instruments. Trading securities, derivatives and other "financial instruments at fair value through profit or loss" are initially recorded at fair value. All other financial instruments are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price, which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date that the Bank commits to deliver a financial asset. All other purchases are recognised when the entity becomes a party to the contractual provisions of the instrument.

Derecognition of financial assets. The Bank derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Bank has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose restrictions on the sale.

Cash and cash equivalents. Cash and cash equivalents are cash at hand and in bank accounts and items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents include all interbank placements with original maturities of less than three months. Restricted funds are excluded from cash and cash equivalents. Cash and cash equivalents are carried at amortised cost.

Mandatory cash balances with the CBAR. Mandatory cash balances in AZN and foreign currency held with the CBAR are carried at amortised cost and represent non-interest bearing mandatory reserve deposits, which are not available to finance the Bank's day-to-day operations, and hence are not considered as part of cash and cash equivalents for the purposes of the statement of cash flows.

3 Summary of Significant Accounting Policies (continued)

Due from other banks. Amounts due from other banks are recorded when the Bank advances money to counterparty banks with no intention of trading the resulting unquoted non-derivative receivable due on fixed or determinable dates. Amounts due from other banks are carried at amortised cost.

Loans and advances to customers. Loans and advances to customers are recorded when the Bank advances money to purchase or originate an unquoted non-derivative receivable from a customer due on fixed or determinable dates and has no intention of trading the receivable. Loans and advances to customers are carried at amortised cost.

Impairment of financial assets carried at amortised cost. Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Bank determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. The primary factors that the Bank considers whether a financial asset is impaired is its overdue status and realisability of related collateral, if any. The following other principal criteria are also used to determine that there is objective evidence that an impairment loss has occurred:

- any instalment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- the borrower experiences a significant financial difficulty as evidenced by borrower's financial information that the bank obtains;
- the borrower considers bankruptcy or a financial reorganisation;
- there is adverse change in the payment status of the borrower as a result of changes in the national or local economic conditions that impact the borrower; or
- the value of collateral significantly decreases as a result of deteriorating market conditions.

For the purposes of a collective evaluation of impairment, financial assets are grouped based on similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets and the experience of management in respect of the extent to which amounts will become overdue as a result of past loss events and the success of recovery of overdue amounts. Past experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods and to remove the effects of past conditions that do not exist currently.

If the terms of a financial asset held at amortised cost are renegotiated or otherwise modified because of financial difficulties of the borrower or issuer, impairment is measured using the original effective interest rate before the modification of terms.

Impairment losses are always recognised through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset. The calculation of the present value of the estimated future cash flows of a collateralised 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.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss.

Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined.

3 Summary of Significant Accounting Policies (Continued)

Subsequent recoveries of amounts previously written off are credited to impairment loss account in profit or loss for the year.

Repossessed collateral. Repossessed collateral represents financial and non-financial assets acquired by the Bank in settlement of overdue loans. The assets are initially recognised at fair value when acquired and included in premises and equipment, other financial assets or inventories within other assets depending on their nature and the Bank's intention in respect of recovery of these assets and are subsequently remeasured and accounted for in accordance with the accounting policies for these categories of assets.

Where repossessed collateral results in acquiring control over a business, the business combination is accounted for using the purchase method of accounting with fair value of the settled loan representing the cost of acquisition. Accounting policy for associates is applied to repossessed shares where the Bank obtains significant influence but not control. Cost of the associate is the fair value of the loan settled by repossessing the pledged shares.

Credit related commitments. The Bank enters into credit related commitments, including letters of credit and financial guarantees. Financial guarantees represent irrevocable assurances to make payments in the event that a customer cannot meet his/her obligations to third parties and carry the same credit risk as loans. Financial guarantees and commitments to provide a loan are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the commitment, except for commitments to originate loans if it is probable that the Bank will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination; such loan commitment fees are deferred and included in the carrying value of the loan on initial recognition. At each balance sheet date, the commitments are measured at the higher of (i) the unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the commitment at the balance sheet date.

Investment securities held to maturity. This classification includes quoted non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank has both the intention and ability to hold to maturity. Management determines the classification of investment securities held to maturity at their initial recognition and reassesses the appropriateness of that classification at each balance sheet date. Investment securities held to maturity are carried at amortised cost.

Investment securities available for sale. This classification includes investment securities which the Bank intends to hold for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Investment securities available for sale are carried at fair value. Interest income on available-for-sale debt securities is calculated using the effective interest method and recognised in profit or loss for the year. Dividends on available-for-sale equity instruments are recognised in profit or loss for the year when the Bank's right to receive payment is established and it is probable that the dividends will be collected. All other elements of changes in the fair value are recognised in other comprehensive income until the investment is derecognised or impaired, at which time the cumulative gain or loss is reclassified from other comprehensive income to profit or loss for the year.

Impairment losses are recognised in profit or loss for the year when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of investment securities available for sale. A significant or prolonged decline in the fair value of an equity security below its cost is an indicator that it is impaired. The cumulative impairment loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in profit or loss – is reclassified from other comprehensive income to profit or loss for the year. Impairment losses on equity instruments are not reversed and any subsequent gains are recognised in other comprehensive income. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss for the year.

Property, Plant and Equipment. Property, plant and equipment are stated at cost less accumulated depreciation and provision for impairment, where required.

3 Summary of Significant Accounting Policies (continued)

Costs of minor repairs and maintenance are expensed when incurred. Cost of replacing major parts or components of property and equipment are capitalised and the replaced part is retired.

At the end of each reporting period management assesses whether there is any indication of impairment of premises and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in profit or loss for the year. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in profit or loss for the year (within other operating income or expenses).

Depreciation. Land and construction in progress are not depreciated. Depreciation on items of property and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives as follows:

Computers and communication equipment	4 years;
Furniture, fixtures and other	4 to 5 years;
Vehicles	4 years;
Leasehold improvements	5 years;
Own buildings	10 years

The residual value of an asset is the estimated amount that the Bank would currently obtain from disposal of the asset less the estimated costs of disposal if the asset were already of the age and in the condition expected at the end of its useful life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Intangible assets. The Bank's intangible assets other than goodwill have definite useful life and primarily include capitalised computer software

Acquired computer software licences, patents and trademarks are capitalised on the basis of the costs incurred to acquire and bring them to use.

Development costs that are directly associated with identifiable and unique software controlled by the Bank are recorded as intangible assets if the inflow of incremental economic benefits exceeding costs is probable. Capitalised costs include staff costs of the software development team and an appropriate portion of relevant overheads. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred. Capitalised computer software is amortised on a straight-line basis over expected useful life of 5 years.

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Development costs that are directly associated with identifiable and unique software controlled by the Bank are recorded as intangible assets if the inflow of incremental economic benefits exceeding costs is probable. Capitalised costs include staff costs of the software development team and an appropriate portion of relevant overhead. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred. Capitalised computer software is amortised on a straight line basis over expected useful life of 3.5 to 5 years.

Operating leases. Where the Bank is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Bank, the total lease payments are charged to profit or loss for the year (rental expense) on a straight-line basis over the period of the lease.

Leases embedded in other agreements are separated if (a) fulfilment of the arrangement is dependent on the use of a specific asset or assets and (b) the arrangement conveys a right to use the asset.

3 Summary of Significant Accounting Policies (continued)

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

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

Other borrowed funds. Other borrowed funds include loans from non-resident financial institution with fixed maturity and fixed and floating interest rates. Other borrowed funds are carried at amortised cost.

Shareholder loans are carried at amortised cost. Obligations to return securities borrowed and sold to third parties are carried at fair value through profit or loss.

Subordinated debt. Subordinated debt includes long-term non-derivative liabilities to international financial institutions and is carried at amortised cost. Debt is classified as subordinated debt when its repayment ranks after all other creditors in case of liquidation. Subordinated debt is included in "tier 2 capital" of the Bank, for the capital adequacy calculation purposes.

Income taxes. Income taxes have been provided for in the financial statements in accordance with Azerbaijani legislation enacted or substantively enacted by the balance sheet date. The income tax charge comprises current tax and deferred tax and is recognised in the statement of comprehensive income, except if it is recognised directly in equity because it relates to transactions that are also recognised, in the same or a different period, directly in equity.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits for the current and prior periods. Taxable profits are based on estimates if financial statements are authorised prior to filing relevant tax returns. Taxes, other than on income, are recorded within administrative and operating expenses.

Deferred income tax is provided, using the balance sheet liability method, for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax balances are measured at tax rates enacted or substantively enacted at the balance sheet date, which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available, against which the deductions can be utilised.

On 14 November 2008, a new Law on "Stimulation of Increasing the Capitalization of Banks, Insurance and Reinsurance Companies" ("the Law") was enacted. According to the Law the profit tax rate for banks, insurance and reinsurance companies is reduced to 0% for three fiscal years starting from 1 January 2009, for the portion of the profit which is transferred to share capital. Management of the Bank considered the impact of the enactment of the Law on the Bank's deferred tax calculation. As the Management is anticipating to transfer current year profit to share capital in the next 3 years period covered by the Law, the Bank will be able to utilise the benefits of this Law. Therefore, as at 31 December 2009, the Bank did not recognise deferred taxes for those temporary taxable and deductible differences, which will be reversed between 31 December 2009 and 31 December 2011.

3 Summary of Significant Accounting Policies (continued)

Provisions for liabilities and charges. Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. They are accrued when the Bank has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Trade and other payables. Trade payables are accrued when the counterparty has performed its obligations under the contract and are carried at amortised cost.

Share capital. Ordinary shares and non-redeemable preference shares with discretionary dividends are both classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium in equity.

Preference shares which carry a mandatory coupon or are redeemable on a specific date or at the option of the shareholder are classified as financial liabilities and are presented in other borrowed funds. The dividends on these preference shares are recognised as interest expense on an amortised cost basis using the effective interest method.

Dividends. Dividends are recorded in equity in the period in which they are declared. Any dividends declared after the end of the reporting period and before the financial statements are authorised for issue are disclosed in the subsequent events note. The statutory accounting reports of the Bank are the basis for profit distribution and other appropriations.

Income and expense recognition. Interest income and expense are recorded in the statement of comprehensive income for all debt instruments on an accrual basis using the effective interest method. This method defers, as part of interest income or expense, all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Fees integral to the effective interest rate include origination fees received or paid by the entity relating to the creation or acquisition of a financial asset or issuance of a financial liability, for example fees for evaluating creditworthiness, evaluating and recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents. Commitment fees received by the Bank to originate loans at market interest rates are integral to the effective interest rate if it is probable that the Bank will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination. The Bank does not designate loan commitments as financial liabilities at fair value through profit or loss.

When loans and other debt instruments become doubtful of collection, they are written down to present value of expected cash inflows and interest income is thereafter recorded for the unwinding of the present value discount based on the asset's effective interest rate which was used to measure the impairment loss.

All other fees, commissions and other income and expense items are generally recorded on an accrual basis by reference to completion of the specific transaction assessed based on the actual service provided as a proportion of the total services to be provided. Loan syndication fees are recognised as income when the syndication has been completed and the Bank retained no part of the loan package for itself or retained a part at the same effective interest rate for the other participants.

Commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, and which are earned on execution of the underlying transaction, are recorded on its completion. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-proportion basis. Asset management fees related to investment funds are recorded rateably over the period the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continually provided over an extended period of time.

3 Summary of Significant Accounting Policies (continued)

Foreign currency translation. The Bank's functional and presentation currency is the national currency of the Republic of Azerbaijan, Azerbaijani Manats ("AZN").

Monetary assets and liabilities are translated into entity's functional currency at the official exchange rate of the CBAR at the respective balance sheet dates. Foreign exchange gains and losses resulting from the settlement of transactions and from the translation of monetary assets and liabilities into the Bank's functional currency at year-end official exchange rates of the CBAR are recognised in profit or loss. Translation at year-end rates does not apply to non-monetary items, including equity investments. Effects of exchange rate changes on the fair value of equity securities are recorded as part of the fair value gain or loss.

At 31 December 2009, the principal exchange rates were USD 1 = AZN 0.8031 and EUR 1 = AZN 1.1499 (31 December 2008: USD 1 = AZN 0.8010 and EUR 1 = AZN 1.1292).

Offsetting. Financial assets and liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

Earnings per share. Preference shares are not redeemable and are considered to be participating shares. Earnings per share are determined by dividing the profit or loss attributable to owners of the Bank by the weighted average number of participating shares outstanding during the reporting year.

Staff costs and related contributions. Wages, salaries, contributions to the Republic of Azerbaijan state pension and social insurance funds, paid annual leave and sick leave, bonuses and non-monetary benefits are accrued in the year in which the associated services are rendered by the employees of the Bank.

The Bank has no legal or constructive obligation to make pension or similar benefit payments beyond the payments to the statutory defined contribution scheme.

Segment reporting. Operating segments are reported in a manner consistent with the internal reporting provided to the Bank's chief operating decision maker. Segments whose revenue, result or assets are ten percent or more of all the segments are reported separately.

Changes in presentation. Where necessary, corresponding figures have been adjusted to conform to the presentation of the current year amounts.

The revised IAS 1, Presentation of Financial Statements, which became effective from 1 January 2009 requires an entity to present a statement of financial position as at the beginning of the earliest comparative period ('opening statement of financial position'), when the entity applies an accounting policy retrospectively or makes a retrospective restatement or when it reclassifies items in its financial statements.

3 Summary of Significant Accounting Policies (continued)

Management considered this requirement in the context of applying the revised IAS 1 and in the context of the reclassification presented in this note. Management concluded that it is not essential for the Bank to present the opening balance sheet as of 1 January 2008 or additional disclosures in the notes in the financial statements since the reclassification does not have a material impact on these financial statements. The omission of those disclosures is therefore, in management's view, not material.

The following table presents changes in classification performed for the reporting purposes:

Balances as per IFRS at 31.12.2008	Comparatives as per IFRS at 31.12.2009	Reason for reclassification
Cash and cash equivalents AZN 9,046	Cash and cash equivalents - AZN 16,360	Nostro accounts with other correspondent banks were reclassified from "due from banks".
Due from banks – AZN 7,334	Due from banks – AZN 20	Nostro accounts with other correspondent banks were reclassified to "cash and cash equivalents".

4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies

The Bank makes estimates and assumptions that affect the amounts recognised in the financial statements and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Impairment losses on loans and advances. The Bank regularly reviews its loan portfolios to assess impairment. In determining whether an impairment loss should be recorded in profit or loss for the year, the Bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include 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 portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. A 10% increase or decrease in actual loss experience compared to the loss estimates used would result in an increase or decrease in loan impairment losses of AZN 1,316 thousand (2008: AZN 583 thousand), respectively. Impairment losses for individually significant loans are based on estimates of discounted future cash flows of the individual loans, taking into account repayments and realisation of any assets held as collateral against the loans. A 10% increase or decrease in the actual loss experience compared to the estimated future discounted cash flows from individually significant loans, which could arise from differences in amounts and timing of the cash flows, would not result in any increase or decrease in loan impairment losses (2008: no increase or decrease in loan impairment losses).

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. Judgement 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 judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis. Terms and conditions of related party balances are disclosed in Note 31.

5 Adoption of New or Revised Standards and Interpretations

Certain new standards and interpretations became effective for the Bank from 1 January 2009:

IFRS 8, Operating Segments. The standard applies to entities whose debt or equity instruments are traded in a public market or that file, or are in the process of filing, their financial statements with a regulatory organisation for the purpose of issuing any class of instruments in a public market. IFRS 8 requires an entity to report financial and descriptive information about its operating segments, with segment information presented on a similar basis to that used for internal reporting purposes. The adoption of IFRS 8 has resulted in assessment of the Bank performance on the basis of operating segments. The operating segments were defined by the Bank as Micro, SME, Trust, Staff Loans and Retail as detailed in Note 25.

IAS 23, Borrowing Costs, revised in March 2007. The main change is the removal of the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily take a substantial period of time to get ready for its intended use or sale (a qualifying asset) form part of the cost of that asset, if the commencement date for capitalisation is on or after 1 January 2009. Other borrowing costs are recognised as an expense using the effective interest method.

IAS 1, Presentation of Financial Statements, revised in September 2007. The main change in IAS 1 is the replacement of the income statement by a statement of comprehensive income which includes all non-owner changes in equity, such as the revaluation of available-for-sale financial assets. Alternatively, entities are allowed to present two statements: a separate income statement and a statement of comprehensive income. The Bank has elected to present a single statement of comprehensive income. The revised IAS 1 also introduces a requirement to present a statement of financial position (balance sheet) at the beginning of the earliest comparative period whenever the entity restates comparatives due to reclassifications, changes in accounting policies or corrections of errors. The revised IAS 1 had an impact on the presentation of the Bank's financial statements but had no impact on the recognition or measurement of specific transactions and balances.

Improvements to International Financial Reporting Standards (issued in May 2008). In 2008, the International Accounting Standards Board decided to initiate an annual improvements project as a method of making necessary, but non-urgent, amendments to IFRS. The amendments consist of a mixture of substantive changes, clarifications and changes in terminology in various standards. The substantive changes relate to the following areas: classification as held for sale under IFRS 5 in case of a loss of control over a subsidiary; possibility of presentation of financial instruments held for trading as non-current under IAS 1; accounting for sale of IAS 16 assets which were previously held for rental and classification of the related cash flows under IAS 7 as cash flows from operating activities; clarification of definition of a curtailment under IAS 19; accounting for below market interest rate government loans in accordance with IAS 20; making the definition of borrowing costs in IAS 23 consistent with the effective interest method; clarification of accounting for subsidiaries held for sale under IAS 27 and IFRS 5; reduction in the disclosure requirements relating to associates and joint ventures under IAS 28 and IAS 31; enhancement of disclosures required by IAS 36; clarification of accounting for advertising costs under IAS 38; amending the definition of the fair value through profit or loss category to be consistent with hedge accounting under IAS 39; introduction of accounting for investment properties under construction in accordance with IAS 40; and reduction in restrictions over manner of determining fair value of biological assets under IAS 41. Further amendments made to IAS 8, 10, 18, 20, 29, 34, 40, 41 and to IFRS 7 represent terminology or editorial changes only which the IASB believes have no or minimal effect on accounting. The amendments did not have an impact on the Bank except

- ***IAS 16, Property, Plant and Equipment (and consequential amendments to IAS 7).*** Under the amended standard, entities that routinely sell assets previously held for rental are required to classify such assets as inventories from the point that the assets cease to be leased and become held for sale, while the proceeds from sale are recognised as revenue. The rent and proceeds from sale have to be classified as cash flows from operating activities. The Bank amended its accounting policies accordingly.

5 Adoption of New or Revised Standards and Interpretations (continued)

- ***IAS 20, Accounting for Government Grants and Disclosure of Government Assistance.*** The amendment requires benefits arising from government loans at below-market interest rates to be accounted for as government grants, with the benefit calculated as the difference between the proceeds and the initial fair value of the loan, net of transaction costs. The amendment applies prospectively to government loans received in periods beginning on or after 1 January 2009.
- ***IAS 40, Investment Property (and consequential amendments to IAS 16).*** Property that is under construction or development for future use as investment property is brought within the scope of the revised IAS 40. Where the fair value model is applied, such property is measured at fair value. Where the fair value of investment property under construction is not reliably measurable, the property is measured at cost until the earlier of the date construction is completed or the date at which the fair value becomes reliably measurable. The Bank applies the amendment prospectively from 1 January 2009.

Puttable Financial Instruments and Obligations Arising on Liquidation—IAS 32 and IAS 1 Amendment. The amendment requires classification as equity of some financial instruments that meet the definition of financial liabilities. The amendment did not have an impact on these financial statements.

Vesting Conditions and Cancellations—Amendment to IFRS 2, Share-based Payment. The amendment clarified that only service conditions and performance conditions are vesting conditions. Other features of a share-based payment are not vesting conditions. The amendment specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The amendment did not have an impact on these financial statements.

IFRIC 13, Customer Loyalty Programmes. IFRIC 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. The interpretation did not have an impact on these financial statements.

IFRIC 15, Agreements for the Construction of Real Estate. The interpretation applies to the accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors, and provides guidance for determining whether agreements for the construction of real estate are within the scope of IAS 11 or IAS 18. It also provides criteria for determining when entities should recognise revenue on such transactions. The interpretation did not have any material impact on these financial statements.

Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate—IFRS 1 and IAS 27 Amendment, Issued in May 2008. The amendment allows first-time adopters of IFRS to measure investments in subsidiaries, jointly controlled entities or associates at fair value or at previous GAAP carrying value as deemed cost in the separate financial statements. The amendment also requires distributions from pre-acquisition net assets of investees to be recognised in profit or loss for the year rather than as a recovery of the investment. The amendment did not have an impact on these financial statements.

Improving Disclosures about Financial Instruments - Amendment to IFRS 7, Financial Instruments: Disclosures, Issued in March 2009. The amendment requires enhanced disclosures about fair value measurements and liquidity risk. The entity is required to disclose an analysis of financial instruments using a three-level fair value measurement hierarchy. The amendment (a) clarifies that the maturity analysis of liabilities should include issued financial guarantee contracts at the maximum amount of the guarantee in the earliest period in which the guarantee could be called; and (b) requires disclosure of remaining contractual maturities of financial derivatives if the contractual maturities are essential for an understanding of the timing of the cash flows. An entity will further have to disclose a maturity analysis of financial assets it holds for managing liquidity risk if that information is necessary to enable users of its financial statements to evaluate the nature and extent of liquidity risk. The enhanced disclosures are included in these financial statements.

5 Adoption of New or Revised Standards and Interpretations (continued)

Embedded Derivatives - Amendments to IFRIC 9 and IAS 39, issued in March 2009. The amendments clarify that on reclassification of a financial asset out of the 'at fair value through profit or loss' category, all embedded derivatives have to be assessed and, if necessary, separately accounted for. The amendment did not have an impact on these financial statements.

IFRIC 16, Hedges of a Net Investment in a Foreign Operation. The interpretation explains which currency risk exposures are eligible for hedge accounting and states that translation from the functional currency to the presentation currency does not create an exposure to which hedge accounting could be applied. The IFRIC allows the hedging instrument to be held by any entity or entities within a group except the foreign operation that itself is being hedged. The interpretation also clarifies how the currency translation gain or loss reclassified from other comprehensive income to profit or loss is calculated on disposal of the hedged foreign operation. Reporting entities apply IAS 39 to discontinue hedge accounting prospectively when their hedges do not meet the criteria for hedge accounting in IFRIC 16. IFRIC 16 did not have an impact on these financial statements.

The International Financial Reporting Standard for Small and Medium-sized Entities (issued in July 2009) is a self-contained standard, tailored to the needs and capabilities of smaller businesses. Many of the principles of full IFRS for recognising and measuring assets, liabilities, income and expense have been simplified, and the number of required disclosures have been simplified and significantly reduced. The IFRS for SMEs may be applied by entities which publish general purpose financial statements for external users and do not have public accountability. The Bank is not eligible to apply the IFRS for SMEs due to the public accountability of its banking business.

Unless otherwise stated above, the amendments and interpretations did not have any significant effect on the Bank's financial statements.

6 New Accounting Pronouncements

Certain new standards and interpretations have been published that are mandatory for the Bank's accounting periods beginning on or after 1 January 2010 or later periods and which the Bank has not early adopted:

IFRIC 17, Distributions of Non-Cash Assets to Owners (effective for annual periods beginning on or after 1 July 2009). The interpretation clarifies when and how distribution of non-cash assets as dividends to the owners should be recognised. An entity should measure a liability to distribute non-cash assets as a dividend to its owners at the fair value of the assets to be distributed. A gain or loss on disposal of the distributed non-cash assets will be recognised in profit or loss for the year when the entity settles the dividend payable. IFRIC 17 is not expected to have an impact on the Bank's financial statements.

IFRIC 18, Transfers of Assets from Customers (effective for annual periods beginning on or after 1 July 2009). The interpretation clarifies the accounting for transfers of assets from customers, namely, the circumstances in which the definition of an asset is met; the recognition of the asset and the measurement of its cost on initial recognition; the identification of the separately identifiable services (one or more services in exchange for the transferred asset); the recognition of revenue, and the accounting for transfers of cash from customers. IFRIC 18 is not expected to have any impact on the Bank's financial statements.

Classification of Rights Issues - Amendment to IAS 32 (issued 8 October 2009; effective for annual periods beginning on or after 1 February 2010). The amendment exempts certain rights issues of shares with proceeds denominated in foreign currencies from classification as financial derivatives. This amendment is not expected to have any impact on the Bank's financial statements.

6 New Accounting Pronouncements (continued)

IAS 27, Consolidated and Separate Financial Statements (revised January 2008, effective for annual periods beginning on or after 1 July 2009). The revised IAS 27 will require an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interests (previously "minority interests") even if this results in the non-controlling interests having a deficit balance (the current standard requires the excess losses to be allocated to the owners of the parent in most cases). The revised standard specifies that changes in a parent's ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. It also specifies how an entity should measure any gain or loss arising on the loss of control of a subsidiary. At the date when control is lost, any investment retained in the former subsidiary will have to be measured at its fair value. This amendment is not expected to have any impact on the Bank's financial statements.

IFRS 3, Business Combinations (revised January 2008; effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009). The revised IFRS 3 will allow entities to choose to measure non-controlling interests using the existing IFRS 3 method (proportionate share of the acquire's identifiable net assets) or at fair value. The revised IFRS 3 is more detailed in providing guidance on the application of the purchase method to business combinations. The requirement to measure at fair value every asset and liability at each step in a step acquisition for the purposes of calculating a portion of goodwill has been removed. Instead, in a business combination achieved in stages, the acquirer will have to remeasure its previously held equity interest in the acquire at its acquisition-date fair value and recognise the resulting gain or loss, if any, in profit or loss for the year. Acquisition-related costs will be accounted for separately from the business combination and therefore recognised as expenses rather than included in goodwill. An acquirer will have to recognise at the acquisition date a liability for any contingent purchase consideration. Changes in the value of that liability after the acquisition date will be recognised in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill. The revised IFRS 3 brings into its scope business combinations involving only mutual entities and business combinations achieved by contract alone. This amendment is not expected to have any impact on the Bank's financial statements.

Eligible Hedged Items—Amendment to IAS 39, Financial Instruments: Recognition and Measurement (effective with retrospective application for annual periods beginning on or after 1 July 2009). The amendment clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations. The amendment is not expected to have any impact on the Bank's financial statements as the Bank does not apply hedge accounting.

IFRS 1, First-time Adoption of International Financial Reporting Standards (following an amendment in December 2008, effective for the first IFRS financial statements for a period beginning on or after 1 July 2009). The revised IFRS 1 retains the substance of its previous version but within a changed structure in order to make it easier for the reader to understand and to better accommodate future changes. The Bank concluded that the revised standard does not have any effect on its financial statements.

Group Cash-settled Share-based Payment Transactions - Amendments to IFRS 2, Share-based Payment (effective for annual periods beginning on or after 1 January 2010). The amendments provide a clear basis to determine the classification of share-based payment awards in both consolidated and separate financial statements. The amendments incorporate into the standard the guidance in IFRIC 8 and IFRIC 11, which are withdrawn. The amendments expand on the guidance given in IFRIC 11 to address plans that were previously not considered in the interpretation. The amendments also clarify the defined terms in the Appendix to the standard. The Bank does not expect the amendments to have any material effect on its financial statements.

Additional Exemptions for First-time Adopters - Amendments to IFRS 1, First-time Adoption of IFRS (effective for annual periods beginning on or after 1 January 2010). The amendments exempt entities using the full cost method from retrospective application of IFRSs for oil and gas assets and also exempt entities with existing leasing contracts from reassessing the classification of those contracts in accordance with IFRIC 4, 'Determining Whether an Arrangement Contains a Lease' when the application of their national accounting requirements produced the same result. The amendments will not have any impact on the Bank's financial statements.

6 New Accounting Pronouncements (continued)

Improvements to International Financial Reporting Standards (issued in April 2009; amendments to IFRS 2, IAS 38, IFRIC 9 and IFRIC 16 are effective for annual periods beginning on or after 1 July 2009; amendments to IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 36 and IAS 39 are effective for annual periods beginning on or after 1 January 2010). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: clarification that contributions of businesses in common control transactions and formation of joint ventures are not within the scope of IFRS 2; clarification of disclosure requirements set by IFRS 5 and other standards for non-current assets (or disposal groups) classified as held for sale or discontinued operations; requiring to report a measure of total assets and liabilities for each reportable segment under IFRS 8 only if such amounts are regularly provided to the chief operating decision maker; amending IAS 1 to allow classification of certain liabilities settled by entity's own equity instruments as non-current; changing IAS 7 such that only expenditures that result in a recognised asset are eligible for classification as investing activities; allowing classification of certain long-term land leases as finance leases under IAS 17 even without transfer of ownership of the land at the end of the lease; providing additional guidance in IAS 18 for determining whether an entity acts as a principal or an agent; clarification in IAS 36 that a cash generating unit shall not be larger than an operating segment before aggregation; supplementing IAS 38 regarding measurement of fair value of intangible assets acquired in a business combination; amending IAS 39 (i) to include in its scope option contracts that could result in business combinations, (ii) to clarify the period of reclassifying gains or losses on cash flow hedging instruments from equity to profit or loss for the year and (iii) to state that a prepayment option is closely related to the host contract if upon exercise the borrower reimburses economic loss of the lender; amending IFRIC 9 to state that embedded derivatives in contracts acquired in common control transactions and formation of joint ventures are not within its scope; and removing the restriction in IFRIC 16 that hedging instruments may not be held by the foreign operation that itself is being hedged. The Bank does not expect the amendments to have any material effect on its financial statements.

Amendment to IAS 24, Related Party Disclosures (issued in November 2009 and effective for annual periods beginning on or after 1 January 2011). IAS 24 was revised in 2009 by: (a) simplifying the definition of a related party, clarifying its intended meaning and eliminating inconsistencies; and by (b) providing a partial exemption from the disclosure requirements for government-related entities.

IFRS 9, Financial Instruments Part 1: Classification and Measurement. IFRS 9 was issued in November 2009 and replaces those parts of IAS 39 relating to the classification and measurement of financial assets. Key features are as follows:

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.

- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent only payments of principal and interest (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.

- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.

- While adoption of IFRS 9 is mandatory from 1 January 2013, earlier adoption is permitted.

The Bank is considering the implications of the standard, the impact on the Bank and the timing of its adoption by the Bank.

6 New Accounting Pronouncements (continued)

IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments (effective for annual periods beginning on or after 1 July 2010). This IFRIC clarifies the accounting when an entity renegotiates the terms of its debt with the result that the liability is extinguished through the debtor issuing its own equity instruments to the creditor. A gain or loss is recognised in the profit and loss account based on the fair value of the equity instruments compared to the carrying amount of the debt. The Interpretation will not have any impact on the Bank's financial statements as the Bank does not extinguish its financial liabilities with equity instruments.

Prepayments of a Minimum Funding Requirement – Amendment to IFRIC 14 (effective for annual periods beginning on or after 1 January 2011). This amendment will have a limited impact as it applies only to companies that are required to make minimum funding contributions to a defined benefit pension plan. It removes an unintended consequence of IFRIC 14 related to voluntary pension prepayments when there is a minimum funding requirement. The amendment will not have any impact on the Bank's financial statements.

Limited exemption from comparative IFRS 7 disclosures for first-time adopters - Amendment to IFRS 1 (effective for annual periods beginning on or after 1 July 2010). Existing IFRS preparers were granted relief from presenting comparative information for the new disclosures required by the March 2009 amendments to IFRS 7 'Financial Instruments: Disclosures'. This amendment to IFRS 1 provides first-time adopters with the same transition provisions as included in the amendment to IFRS 7. The amendment will not have any impact on the Bank's financial statements.

Unless otherwise described above, the new standards and interpretations are not expected to significantly affect the Banks financial statements.

7 Cash and Cash Equivalents

In thousands of Azerbaijani Manats	31 December 2009	31 December 2008
Cash on hand	12,081	8,291
Cash balances with the CBAR (other than mandatory reserve deposits)	11,239	755
Correspondent accounts and overnight placements with other banks:		
- Republic of Azerbaijan	17,332	4,142
- Other countries	5,915	3,172
Total cash and cash equivalents	**46,567**	**16,360**

7 Cash and Cash Equivalents (continued)

The credit quality of cash and cash equivalents balances may be summarised as follows at 31 December 2009:

In thousands of Azerbaijani Manats	Cash balances with the CBAR	Correspondent accounts and overnight placements	Total
Neither past due nor impaired			
- Government of the Republic of Azerbaijan	11,239	-	11,239
- Rated Azerbaijani banks:			
Moody's/B2 with a stable outlook	-	4,716	4,716
Fitch/B with a stable outlook	-	72	72
Moody's/Ba2 with a negative outlook	-	37	37
Fitch/B with a negative outlook	-	27	27
Moody's/B2 with a stable outlook	-	1	1
- Other unrated Azerbaijani banks	-	12,480	12,480
- OECD banks	-	5,478	5,478
- Non-OECD banks	-	436	436
Total cash and cash equivalents, excluding cash on hand	**11,239**	**23,247**	**34,486**

The published international rating for the Republic of Azerbaijan is BB+/Stable (Fitch Ratings - affirmed on 2 June 2009).

Interest rate analysis of cash and cash equivalents is disclosed in Note 26. Information on related party balances is disclosed in Note 31.

The credit quality of cash and cash equivalents balances may be summarised as follows at 31 December 2008:

In thousands of Azerbaijani Manats	Cash balances with the CBAR	Correspondent accounts and overnight placements	Total
Neither past due nor impaired			
- Government of the Republic of Azerbaijan	755	-	755
- Rated Azerbaijani banks:			
B - with a stable outlook / (Fitch)	-	134	-
B2 with a negative outlook / (Moody)	-	3	-
Ba2 with a stable outlook / (Moody)	-	3	-
- Other unrated Azerbaijani banks	-	4,003	-
- OECD banks	-	2,744	-
- Non-OECD banks	-	427	-
Total cash and cash equivalents, excluding cash on hand	**755**	**7,314**	**8,069**

8 Due from Other Banks

In thousands of Azerbaijani Manats	31 December 2009	31 December 2008
Short-term placements with other banks	9,828	20
Total due from other banks	**9,828**	**20**

On 10 November 2009 the Bank signed a deposit agreement with AG Bank in the amount of USD 5,000 thousand with maturity date of 7 May 2010. The deposit bears market interest rate. The outstanding amount of this deposit as at 31 December 2009 is USD 5,090 thousand or AZN 4,088 thousand.

On 15 October 2009 the Bank signed a deposit agreement with YapiKredi Bank Joint Stock Company in the amount of USD 5,000 thousand with maturity date of 15 April 2010. The deposit bears market interest rate. The outstanding amount of this deposit as at 31 December 2009 is USD 5,086 thousand or AZN 4,085 thousand.

On 8 July 2009 the Bank signed a deposit agreement with Kapital Bank in the amount of USD 2,000 thousand with maturity date of 8 January 2010. The deposit bears market interest rate. The outstanding amount of this deposit as at 31 December 2009 is USD 2,036 thousand or AZN 1,635 thousand.

An analysis by credit quality of amounts due from other banks outstanding at 31 December 2009 is as follows:

In thousands of Azerbaijani Manats	Short-term placements with other banks
Neither past due nor impaired	
- Rated Azerbaijani banks:	
Fitch/B- with a negative outlook	4,088
Fitch/B+ with a stable outlook	1,635
Fitch/B- with a stable outlook	20
Other unrated Azerbaijani banks	4,085
Total due from other banks	**9,828**

Management of the Bank did not determine any objective evidence of impairment of the balances due from other banks and therefore, no provision for impairment was recorded at 31 December 2009 or 31 December 2008.

Amounts due from other banks are not collateralised. An analysis by credit quality of amounts due from other banks outstanding at 31 December 2008 is as follows:

In thousands of Azerbaijani Manats	Short-term placements with other banks
Neither past due nor impaired	
- Rated Azerbaijani banks:	
Fitch/B- with a stable outlook	20
Total due from other banks	**20**

Interest rate analysis of due from other banks is disclosed in Note 26. Refer to Note 29 for the estimated fair value of each class of amounts due from other banks. Information on related party balances is disclosed in Note 31.

9 Loans and Advances to Customers

In thousands of Azerbaijani Manats	31 December 2009	31 December 2008
Micro loans (up to AZN 16,000)	125,182	76,285
Small and medium enterprises loans ("SME loans" – over AZN 16,000)	98,426	77,943
Retail loans to individuals	11,651	9,835
Staff loans	5,016	3,722
Less: Provision for loan impairment	(6,594)	(4,116)
Total loans and advances to customers	**233,681**	**163,669**

The movements in the provision for loan impairment during 2009 are as follows:

In thousands of Azerbaijani Manats	Micro loans	SME loans	Retail loans to individuals	Staff loans	Total
Provision for loan impairment at 1 January 2009	**1,713**	**1,966**	**352**	**85**	**4,116**
Provision for impairment during the year	1,250	1,284	54	11	2,599
Amounts written off during the year as uncollectible	(68)	-	(76)	-	(144)
Recovery of previously written off loans	23	-	-	-	23
Provision for loan impairment at 31 December 2009	**2,918**	**3,250**	**330**	**96**	**6,594**

The movements in the provision for loan impairment during 2008 are as follows:

In thousands of Azerbaijani Manats	Micro loans	SME loans	Retail loans to individuals	Staff loans	Total
Provision for loan impairment at 1 January 2008	**774**	**978**	**204**	**31**	**1,987**
Provision for impairment during the year	926	988	148	54	2,116
Recovery of previously written off loans	13	-	-	-	13
Provision for loan impairment at 31 December 2008	**1,713**	**1,966**	**352**	**85**	**4,116**

The provision for impairment during 2009 differs from the amount presented in the statement of comprehensive income for the year due to AZN 23 thousand recovery of amounts previously written off as uncollectible. The amount of the recovery was credited directly to the provisions line in the statement of comprehensive income for the year (2008: AZN 13 thousand).

Economic sector risk concentrations within the customer loan portfolio are as follows:

	31 December 2009		31 December 2008	
In thousands of Azerbaijani Manats	Amount	%	Amount	%
Trade	132,936	55.3	102,652	61.2
Service	35,288	14.7	20,218	12.0
Agriculture	27,411	11.4	9,990	6.0
Manufacturing	18,692	7.8	13,989	8.3
Household	16,659	6.9	13,413	8.0
Transportation	9,289	3.9	7,523	4.5
Total loans and advances to customers (before impairment)	**240,275**	**100.0**	**167,785**	**100.0**

9 Loans and Advances to Customers (continued)

At 31 December 2009, the Bank had 11 borrowers (31 December 2008: 19 borrowers) with aggregated loan amounts above AZN 300 thousand. The total aggregate amount of these loans was AZN 8,631 thousand (31 December 2008: AZN 9,624 thousand) or 3.6% (31 December 2008: 5.7%) of the gross loan portfolio. The Bank is concentrated in micro lending and has a leading position in the retail banking segment in the country. The largest loan exposure to a single customer as at 31 December 2009 was the outstanding amount of loan to a local company in the amount of AZN 1,526 thousand (31 December 2008: AZN 953 thousand).

Information about collateral at 31 December 2009 is as follows:

In thousands of Azerbaijani Manats	Micro loans	SME loans	Retail loans to individuals	Staff loans	Total
Unsecured loans	-	-	-	543	**543**
Loans collateralised by:					
- real estate	7,920	81,864	49	4,459	**94,292**
- vehicle	1,815	466	720	14	**3,015**
- inventory and equipment	115,414	14,405	10,632	-	**140,451**
- other assets	33	1,691	250	-	**1,974**
Total loans and advances to customers	**125,182**	**98,426**	**11,651**	**5,016**	**240,275**

Information about collateral at 31 December 2008 is as follows:

In thousands of Azerbaijani Manats	Micro loans	SME Loans	Retail loans to individuals	Staff loans	Total
Unsecured loans	-	-	-	431	**431**
Loans collateralised by:					
- real estate	4,410	68,499	31	3,268	**76,208**
- vehicle	1,385	511	281	23	**2,200**
- inventory and equipment	70,489	7,691	9,521	-	**87,701**
- other assets	1	1,242	2	-	**1,245**
Total loans and advances to customers	**76,285**	**77,943**	**9,835**	**3,722**	**167,785**

Other assets pledged as collateral mainly include furniture, fixture and gold. The disclosure above represents the lower of the carrying value of the loan or collateral taken; the remaining part is disclosed within the unsecured exposures. The carrying value of loans was allocated based on the liquidity of the assets taken as collateral.

9 Loans and Advances to Customers (continued)

An analysis by credit quality of loans outstanding at 31 December 2009 is as follows:

In thousands of Azerbaijani Manats	Micro loans	SME loans	Retail loans to individuals	Staff loans	Total
Total current and not impaired	**124,377**	**96,122**	**11,510**	**5,016**	**237,025**
Past due but not impaired					
- less than 7 days overdue and/or restructured loans	173	793	13	-	979
Total past due but not impaired	**173**	**793**	**13**		**979**
Loans individually determined to be impaired (gross)					
- 8 to 90 days overdue and/or restructured loans	276	154	97	-	527
- over 90 days overdue and/or restructured loans	356	1,357	31	-	1,744
Total individually impaired loans (gross)	**632**	**1,511**	**128**	**-**	**2,271**
Gross carrying value of loans	**125,182**	**98,426**	**11,651**	**5,016**	**240,275**
Less impairment provisions	**(2,918)**	**(3,250)**	**(330)**	**(96)**	**(6,594)**
Total loans and advances to customers	**122,264**	**95,176**	**11,321**	**4,920**	**233,681**

9 Loans and Advances to Customers (continued)

An analysis by credit quality of loans outstanding at 31 December 2008 is as follows:

In thousands of Azerbaijani Manats	Micro loans	SME loans	Retail loans to individuals	Staff loans	Total
Total current and not impaired	**75,959**	**77,256**	**9,637**	**3,702**	**166,554**
Past due but not impaired					
- less than 7 days overdue and/or restructured loans	118	43	19	-	180
Total past due but not impaired	**118**	**43**	**19**	**-**	**180**
Loans individually determined to be impaired (gross)					
- 8 to 90 days overdue and/or restructured loans	82	-	93	-	175
- over 90 days overdue and/or restructured loans	126	644	86	20	876
Total individually impaired loans (gross)	**208**	**644**	**179**	**20**	**1,051**
Gross carrying value of loans	**76,285**	**77,943**	**9,835**	**3,722**	**167,785**
Less impairment provisions	**(1,713)**	**(1,966)**	**(352)**	**(85)**	**(4,116)**
Total loans and advances to customers	**74,572**	**75,977**	**9,483**	**3,637**	**163,669**

Past due but not impaired loans primarily include collateralised loans where the fair value of collateral covers the overdue interest and principal repayments. The amount reported as past due but not impaired is the whole balance of such loans, not only the individual instalments that are past due.

The Bank applied the portfolio provisioning methodology prescribed by IAS 39, Financial Instruments: Recognition and Measurement, and created portfolio provisions for impairment losses that were incurred but have not been specifically identified with any individual loan by the balance sheet date. The Bank's policy is to classify each loan as 'current and not impaired' until a specific objective evidence of impairment of the loan is identified. The impairment provisions may exceed the total gross amount of individually impaired loans as a result of this policy and the portfolio impairment methodology.

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

9 Loans and Advances to Customers (continued)

The fair value of collateral in respect of loans past due but not impaired and in respect of loans individually determined to be impaired at 31 December 2009 was as follows:

In thousands of Azerbaijani Manats	Micro loans	SME loans	Retail loans to individuals	Staff loans	Total
Fair value of collateral - loan past due but not impaired					
- real estate	'	1,845	-	-	1,882
- vehicle	19	-	-	-	19
- inventory and equipment	582	748	27	-	1,357
Fair value of collateral - individually impaired loans					
- real estate	84	3,215	-	-	3,299
- vehicle	103	62	-	-	165
- inventory and equipment	1,800	733	280	-	2,813
Total	**2,625**	**6,603**	**307**	**-**	**9,535**

The fair value of collateral in respect of loans past due but not impaired and in respect of loans individually determined to be impaired at 31 December 2008 was as follows:

In thousands of Azerbaijani Manats	Micro loans	SME loans	Retail loans to individuals	Staff loans	Total
Fair value of collateral - loan past due but not impaired					
- real estate	37	85		-	122
- vehicle	11	-	-	-	11
- inventory and equipment	316	-	49	-	365
Fair value of collateral - individually impaired loans					
- real estate	-	1,820	-	28	1,848
- vehicle	48	-	-	-	48
- inventory and equipment	556	-	297	-	853
Total	**968**	**1,905**	**346**	**28**	**3,247**

Refer to Note 29 for the estimated fair value of each class of loans and advances to customers. Interest rate analysis of loans and advances to customers is disclosed in Note 26. Information on related party balances is disclosed in Note 31.

10 Investment Securities Available for Sale

In thousands of Azerbaijani Manats	31 December 2009	31 December 2008
Debt securities issued by the CBAR	-	5,823
Equity securities	40	40
Total investment securities available for sale	**40**	**5,863**

At 31 December 2009 the principal equity investment securities available for sale were:

Name	Nature of business	Country of registration	Fair Value 2009	Fair Value 2008
MilliKart	Service	Azerbaijan	40	40
Total			**40**	**40**

At 31 December 2009, balance of the equity securities represented AZN 40 thousand paid in 2006 for equity shares of "MilliKart" representing 1% of ownership. Currently the main activity of "MilliKart" is payment processing system that deals with plastic cards used for cash withdrawal from fourteen thousand POS-terminals within the Republic of Azerbaijan. The Bank purchased and maintains these equity securities as a prerequisite to obtain access to the services provided by "MilliKart" for processing transactions made with plastic cards issued by the Bank.

The Bank fully redeemed the debt securities issued by the CBAR at maturity in January 2009.

Investment securities available for sale as at 31 December 2009 are not publicly traded. Due to the nature of the local financial markets, it is not possible to obtain current market value for these investments. For these investments, fair value is estimated by reference to the discounted operating cash flows of the investee.

Management could not reliably estimate the fair value of the Bank's investment in shares of "MilliKart". The investment is carried at cost of AZN 40 thousand (31 December 2008: AZN 40 thousand). The investee has not published recent financial information about its operations, its shares are not quoted and recent trade prices are not publicly accessible.

11 Property, Equipment and Intangible Assets

In thousands of Azerbaijani Manats	Computer	Furniture and Office equipment	Motor vehicles	Premises and Leasehold improvement	Total property and equipment	Computer software licences	Total
Cost at 1 January 2008	713	1,446	115	2,982	5,256	124	5,380
Accumulated depreciation	(317)	(617)	(56)	(762)	(1,752)	(52)	(1,804)
Carrying amount at 1 January 2008	**396**	**829**	**59**	**2,220**	**3,504**	**72**	**3,576**
Additions	383	880	123	1,154	2,540	935	3,475
Depreciation charge	(191)	(403)	(47)	(276)	(917)	(30)	(947)
Carrying amount at 31 December 2008	**588**	**1,306**	**135**	**3,098**	**5,127**	**977**	**6,104**
Cost at 31 December 2008	1,088	2,326	238	4,136	7,788	1,059	8,847
Accumulated depreciation	(500)	(1,020)	(103)	(1,038)	(2,661)	(82)	(2,743)
Carrying amount at 31 December 2008	**588**	**1,306**	**135**	**3,098**	**5,127**	**977**	**6,104**
Additions	352	1,504	93	1,338	3,287	1,489	4,776
Depreciation charge	(255)	(612)	(65)	(359)	(1,291)	(472)	(1,763)
Carrying amount at 31 December 2009	**685**	**2,198**	**163**	**4,077**	**7,123**	**1,994**	**9,117**
Cost at 31 December 2009	1,440	3,779	322	4,838	10,379	2,548	12,927
Accumulated depreciation	(755)	(1,581)	(159)	(761)	(3,256)	(554)	(3,810)
Carrying amount at 31 December 2009	**685**	**2,198**	**163**	**4,077**	**7,123**	**1,994**	**9,117**

12 Other Financial Assets

In thousands of Azerbaijani Manats	31 December 2009	31 December 2008
Settlements with money transfer systems	180	122
Settlements with plastic cards	69	95
Other	40	-
Less allowance for impairment losses	-	(54)
Total other financial assets	**289**	**163**

Movements in the provision for impairment of other financial assets during 2009 are as follows:

In thousands of Azerbaijani Manats	Settlements with plastic cards	Total
Provision for impairment at 1 January 2009	**54**	**54**
Amounts written off during the year as uncollectible	(54)	(54)
Provision for impairment at 31 December 2009	**-**	**-**

Movements in the provision for impairment of other financial assets during 2008 were as follows:

In thousands of Azerbaijani Manats	Settlements with plastic cards	Total
Provision for impairment at 1 January 2008	-	-
Provision for impairment during the year	54	54
Provision for impairment at 31 December 2008	**54**	**54**

Analysis by credit quality of other financial assets outstanding at 31 December 2009 is as follows:

In thousands of Azerbaijani Manats	Settlements with money transfer systems	Settlements with plastic cards	Other	Total
Neither past due nor impaired				
- Collected or settled after the end of the reporting period	180	69	40	289
Total neither past due nor impaired	**180**	**69**	**40**	**289**

12 Other Financial Assets (continued)

Analysis by credit quality of other financial assets outstanding at 31 December 2008 was as follows:

In thousands of Azerbaijani Manats	Settlements with money transfer systems	Settlements with plastic cards	Total
Neither past due nor impaired			
- Collected or settled after the end of the reporting period	122	41	**163**
Total neither past due nor impaired	**122**	**41**	**163**
Receivables individually determined to be impaired (gross)			
- 30 to 90 days overdue	-	54	**54**
Total individually impaired (gross)	-	**54**	**54**
Less impairment provision	-	**(54)**	**(54)**
Total other financial assets	**122**	**41**	**163**

The primary factors that the Bank considers in determining whether the other financial asset is impaired are its overdue status and realisability of related collateral, if any. As a result, the Bank presents above an ageing analysis of other financial assets that are individually determined to be impaired. Neither past due nor impaired, but renegotiated balances represent the carrying amount of other financial asset that would otherwise be past due or impaired whose terms have been renegotiated.

Refer to Note 29 for the disclosure of the fair value of each class of other financial assets. Information on related party balances is disclosed in Note 31.

13 Other Assets

In thousands of Azerbaijani Manats	31 December 2009	31 December 2008
Advances for purchase of intangible assets and equipment	732	96
Prepaid expenses	265	192
Other	-	328
Total other assets	**997**	**616**
Current	265	520
Non-current	732	96

Information on related party balances is disclosed in Note 31.

14 Due to Other Banks

In thousands of Azerbaijani Manats	31 December 2009	31 December 2008
Correspondent accounts and overnight placements of other banks	2	2
Short-term placements of other banks	3,003	-
Total due to other banks	**3,005**	**2**

On 30 April 2009 and 29 October 2009, AccessBank Liberia placed short term deposits in AccessBank CJSC in the amount USD 3,023 thousand and USD 523 thousand with market interest rate and maturity dates 25 April 2010 and 27 April 2010, respectively. At 31 December 2009, the outstanding amounts due to other banks under these deposits were USD 3,208 thousand or AZN 2,576 thousand and USD 532 thousand or AZN 427 thousand, respectively.

15 Customer Accounts

In thousands of Azerbaijani Manats	31 December 2009	31 December 2008
Public organisations		
- Term deposits	3,003	-
Other legal entities		
- Current/settlement accounts	2,651	1,007
- Term deposits	10,575	4,375
Individuals		
- Current/demand accounts	6,265	3,780
- Term deposits	42,505	12,690
Total customer accounts	**64,999**	**21,852**

Economic sector concentrations within customer accounts are as follows:

	31 December 2009		31 December 2008	
In thousands of Azerbaijani Manats	Amount	%	Amount	%
Individuals	48,770	75.0	16,470	75.4
Insurance and other financial services	10,610	16.3	4,274	19.6
Public organisations	3,003	4.6	-	-
Trade, services, manufacturing	2,616	4.1	1,108	5.0
Total customer accounts	**64,999**	**100.0**	**21,852**	**100.0**

At 31 December 2009, the Bank had 51 active customers (31 December 2008: 18 customers) with balances above AZN 150 thousand. The aggregate balance of these customers was AZN 32,709 thousand (31 December 2008: AZN 7,984 thousand) or 50% (31 December 2008: 37%) of total customer accounts.

Refer to Note 29 for the disclosure of the fair value of each class of customer accounts. Interest rate analysis of customer accounts is disclosed in Note 26. Information on related party balances is disclosed in Note 31.

16 Other Borrowed Funds

In thousands of Azerbaijani Manats	31 December 2009	31 December 2008
European Bank for Reconstruction and Development	22,317	2,015
Developing World Markets Securitizations S.A. - MFBA BOND 1	20,606	20,486
Kreditanstalt für Wiederaufbau	19,335	11,910
International Finance Corporation	13,847	2,491
Pettelaar Effectenbewaarbedrijf N.V	11,573	5,909
Triodos Custody B.V (custodian of Triodos Fair Share Fund)	9,993	5,978
Blue Orchard Loan for Development	9,697	9,667
Global Microfinance Facility	8,165	8,143
Dexia Micro Credit Fund	6,608	9,831
Bank im Bistum Essen	5,720	5,691
Swiss Investment Fund for Emerging markets	4,914	4,897
VDK Spaarbank N.V.	4,836	4,810
MINLAM Microfinance Offshore Master Fund LP	4,110	4,097
Impulse Microfinance Investment Fund	4,068	4,050
Global Commercial Microfinance Consortium, LTD	3,207	3,191
Black Sea Trade and Development Bank	2,521	3,248
Triple Jump B.V.	2,486	2,476
Microfinance Loan Obligations S.A. - Compartment Local	2,467	2,460
OPEC Fund for International Development	2,235	3,121
ResponsAbility S.I.C.A.V.	2,095	2,090
OikoCredit Ecumenical Development Cooperative Society U.A.	1,812	3,065
Developing World Markets Securitizations S.A – SNS Microfinance Fund	1,611	1,604
Asian Development Bank	1,305	2,087
Dual Return Find S.I.C.A.V.	1,259	2,462
EMF Microfinance AgmvK	1,218	1,216
Finethic Microfinance Fund	841	801
Vantage Mutual Fund	274	255
Total term borrowings	**169,120**	**128,051**

On 19 November 2008 the Bank signed a syndicated loan agreement with European Bank for Reconstruction and Development in the amount USD 28,000 thousand. The Bank received this loan in two tranches in the amount of USD 14,000 thousand each on 10 March 2009 and 19 October 2009. Principal amounts are to be repaid in semi-annual instalments starting on 9 June 2010 and ending on 9 December 2011. Interest is paid in semi-annuall instalments starting from 9 June 2009. At 31 December 2009, the balance of borrowing under this facility was USD 27,788 thousand or AZN 22,317 thousand (31 December 2008: USD 2,515 thousand or AZN 2,015 thousand).

16 Other Borrowed Funds (continued)

On 25 June 2009 and 1 December 2009 the Bank signed loan agreements with Petterlaar Effectenbewaarbedrijt N.V. in the amount of USD 5,000 thousand and AZN 1,606 thousand (equivalent of USD 2,000 thousand) respectively. Principal amounts are to be repaid in two equal instalments on 15 March 2012 and 31 July 2012, and in one instalment on 18 December 2011, respectively. Interest is paid in semi-annual instalments for the loan in the amount of USD 5,000 thousand and in quarterly instalments for the other loan. At 31 December 2009, the balance of borrowing from Petterlaar Effectenbewaarbedrijt N.V. was USD 14,410 thousand or AZN 11,573 thousand (31 December 2008: USD 7,377 thousand or AZN 5,909 thousand).

On 6 November 2009 the Bank signed a loan agreement with Kreditanstalt für Wiederaufbau in the amount of USD 22,000 thousand. Interest is to be paid in six instalments starting from March 2011. Principal is to be repaid in six equal semi-annual instalments by 30 September 2013, which is the maturity date. At 31 December 2009, the balance of borrowing from Kreditanstalt für Wiederaufbau was USD 24,075 thousand or AZN 19,335 thousand (31 December 2008: USD 14,869 thousand or AZN 11,910 thousand).

On 18 December 2009 the Bank signed loan agreements with the International Finance Corporation in the amount of USD 15,000 thousand. Principal amounts are to be repaid in six equal semi-annual instalments by maturity date which is 15 March 2014. Interest is to be paid starting from June 2010 in semi-annual instalments. At 31 December 2009, the balance of borrowing from International Finance Corporation was USD 17,244 thousand or AZN 13,847 thousand (31 December 2008: USD 3,110 thousand or AZN 2,491 thousand).

On 1 September 2009 the Bank signed a loan agreement with Triodos SICAV II (Triodos Microfinance Fund) in the amount of USD 5,000 thousand. Principal is to be repaid on 1 October 2011, which is the maturity date. Interest is to be paid in semi-annual instalments starting from 1 January 2010. At 31 December 2009, the balance of borrowing from Triodos SICAV II (Triodos Microfinance Fund) was USD 12,443 thousand or AZN 9,993 thousand (31 December 2008: USD 7,463 thousand or AZN 5,978 thousand).

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

The Bank is obliged to comply with certain financial covenants stipulated by the aforementioned borrowing agreements. At 31 December 2009, management believes that the Bank was in compliance with those covenants.

Refer to Note 29 for disclosure of the fair value of each class of other borrowed funds. Interest rate analysis of other borrowed funds is disclosed in Note 26. All existing borrowing agreements as at 31 December 2009 bear market interest rate (31 December 2008: market interest rate). Information on related party balances is disclosed in Note 31.

The carrying value of each class of other borrowed funds approximates fair value as 31 December 2009 and 31 December 2008. At 31 December 2009, the estimated fair value of other borrowed funds was AZN 169,120 thousand (31 December 2008: AZN 128,051 thousand).

17 Other Financial Liabilities

Other financial liabilities comprise the following:

In thousands of Azerbaijani Manats	31 December 2009	31 December 2008
Accrued staff cost	1,661	409
Accrued expenses	176	167
Settlements with money transfer systems	136	180
Other	134	-
Total other financial liabilities	**2,107**	**756**

Refer to Note 29 for disclosure of the fair value of each class of other financial liabilities.

18 Subordinated Debt

On 2 July 2007 the Bank signed a subordinated loan agreement with the Deutsche Bank Aktiengesellschaft (registered in Germany) in USD 10,211 thousand. The loan bears market interest rate. 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 borrowing agreement. At 31 December 2009, management believes that the Bank was in compliance with those covenants. At 31 December 2009, the balance of the borrowing under this facility was USD 10,223 thousand or AZN 8,222 thousand (31 December 2008: USD 10,238 thousand or AZN 8,189 thousand).

Refer to Note 29 for the disclosure of the fair value of subordinated debt. Interest rate analysis of subordinated debt is disclosed in Note 26. Information on related party balances is disclosed in Note 31.

19 Share Capital

In thousands of Azerbaijani Manats except for number of shares	Number of outstanding shares	Ordinary shares	Total
At 1 January 2008	11,000	11,000	11,000
New shares issued	9,000	9,000	9,000
At 1 January 2009	20,000	20,000	20,000
New shares issued	-	-	-
At 31 December 2009	**20,000**	**20,000**	**20,000**

The total authorized number of shares is 20,000 thousand shares (31 December 2008: 20,000 thousand) with a par value of AZN 1 per share (31 December 2008: AZN 1 per share). All issued ordinary shares are fully paid. Each share carries one vote.

As at 31 December 2009 and 2008, the following shareholders owned the issued shares of the Bank:

Owners	31 December 2009, % of shareholding	31 December 2008, % of shareholding
International Finance Corporation	20.00	20.00
Black Sea Trade and Development Bank	20.00	20.00
Kreditanstalt für Wiederaufbau	20.00	20.00
European Bank for Reconstruction and Development	20.00	20.00
AccessHolding	16.53	16.53
LFS Financial Systems	3.47	3.47
Total	**100.0**	**100.0**

20 Interest Income and Expense

In thousands of Azerbaijani Manats	2009	2008
Interest income		
Loans and advances to customers	66,647	45,092
Due from other banks	1,507	92
Investment securities available for sale	44	287
Total interest income	**68,198**	**45,471**
Interest expense		
Other borrowed funds	13,411	10,207
Term deposits	4,231	1,377
Term placements of other banks	158	-
Subordinated debt	933	961
Total interest expense	**18,733**	**12,545**
Net interest income	**49,465**	**32,926**

21 Fee and Commission Income and Expense

In thousands of Azerbaijani Manats	2009	2008
Fee and commission income		
- Settlement transactions	377	279
- Commission income on purchase or sale of foreign currency	147	99
- Cash collection	132	86
- Guarantees issued	40	17
- Other	71	42
Total fee and commission income	**767**	**523**
Fee and commission expense		
- Plastic cards	76	29
- Cash transactions	43	125
- Settlement transactions	38	36
- Other	14	10
Total fee and commission expense	**171**	**200**
Net fee and commission income	**596**	**323**

22 Administrative and Other Operating Expenses

In thousands of Azerbaijani Manats		2009	2008
Staff costs		16,595	10,356
Advertising and marketing services		1,817	1,147
Printing, stationery and office supplies		1,314	1,004
Depreciation of property and equipment	11	1,291	917
Rent on office premises		1,245	1,071
Repair and maintenance		1,158	607
Security services		936	682
Service and membership fees		800	1,000
Communication		779	514
Software program support expense		525	22
Amortisation of software	11	472	30
Business travel expense		152	143
Utilities		134	107
Deposit Insurance Fund fees		110	44
Other		551	427
Total administrative and other operating expenses		**27,879**	**18,071**

Included in staff costs are social security contributions of AZN 2,915 thousand (2008: AZN 1,837 thousand).

23 Income Taxes

Income tax credit recorded in the statement of comprehensive income comprises the following:

In thousands of Azerbaijani Manats	2009	2008
Current tax expense	8	2,915
Deferred tax (credit)/charge	(12)	43
Income tax (credit)/charge for the year	**(4)**	**2,958**

The income tax rate applicable to the majority of the Bank's income during the year ended 31 December 2009 is 22%. The reconciliation between the expected and the actual taxation charge is provided below.

In thousands of Azerbaijani Manats	2009	2008
Profit before tax	**19,982**	**13,413**
Theoretical tax charge at statutory rate (22%)	4,396	2,951
Tax effect of permanent differences	106	7
Current income tax liability not accrued due to three-year tax holiday	(4,786)	-
Reversal of tax effect of temporary differences due to three-year tax holiday	280	-
Income tax (credit)/charge for the year	**(4)**	**2,958**

In the year of 2008, a new law on "Stimulation of Increasing the Capitalization of Banks, Insurance and Reinsurance Companies" was enacted. According to the law the profit tax rate for banks, insurance and reinsurance companies is reduced to 0% for three fiscal years from 1 January 2009, where all profits are retained within the business and transferred to the registered charter capital. The management did not accrue any current income tax liability for the results of the year ended 31 December 2009 based on its intention to benefit from the provisions of the law. The current taxable profit which is transferred to the share capital is AZN 21,800 thousand. (2008: nil)

On 19 June 2009, the Republic of Azerbaijan reduced the standard corporate income tax rate from 22% to 20% with effect from 1 January 2010.

Differences between IFRS and statutory taxation regulations in Azerbaijan give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. Due to the three-year tax holiday noted above, the net deferred tax liability of AZN 12 thousand outstanding as at 31 December 2008 was fully reversed during 2009, considering the fact that, all those temporary differences would have reversed by the end of the tax holiday period. The tax effect of the movements in these temporary differences is detailed below:

In thousands of Azerbaijani Manats	1 January 2009	Credited/ (charged) to profit or loss	31 December 2009
Tax effect of deductible/(taxable) temporary differences			
Property, equipment and intangible assets	(18)	18	-
Other liabilities	6	(6)	-
Net deferred tax asset / (liability)	**(12)**	**12**	-

23 Income Taxes (continued)

In thousands of Azerbaijani Manats	1 January 2008	Credited/ (charged) to profit or loss	31 December 2008
Tax effect of deductible/(taxable) temporary differences			
Property, equipment and intangible assets	(12)	(6)	(18)
Other liabilities	43	(37)	6
Net deferred tax asset / (liability)	**31**	**(43)**	**(12)**

24 Earnings per Share

Basic earnings/(loss) per share are calculated by dividing the profit or loss attributable to equity holders of the Bank by the weighted average number of ordinary shares in issue during the year, excluding treasury shares.

The Bank has no dilutive potential ordinary shares; therefore, the diluted earnings per share equal the basic earnings per share. Earnings per share are calculated as follows:

In thousands of Azerbaijani Manats except for number of shares	2009	2008
Profit for the year attributable to ordinary shareholders	19,986	10,455
Weighted average number of ordinary shares in issue (thousands)	20,000	15,844
Basic and diluted profit per ordinary share (expressed in AZN per share)	**0.99**	**0.66**

25 Segment Information

The chief operating decision maker, the Management Board, reviews the Bank's internal reporting which primarily comprise the information prepared for IFRS reporting purposes in order to assess performance and allocate resources. The operating segments have been determined based on these reports as follows:

- Micro – Micro loans up to AZN 8 thousand issued to enterprises for corporate purposes;
- Trust – Micro loans between AZN 8 thousand and AZN 16 thousand issued to enterprises for corporate purposes;
- SME – Loans above AZN 16 thousand issued to small and medium enterprises for corporate purposes;
- Retail – Consumer loans issued and deposits attracted from individuals; and
- Staff Loans – Loans issued to employees of the Bank.

For the purposes of these financial statements the Bank aggregated Micro loans with Trust loans and called this reportable segment as "Micro"; and aggregated Retail with Staff Loans and called this reportable segment as "Retail". The aggregations were done in accordance with the qualitative and qualitative aggregation requirements as set out in IFRS 8.

25 Segment Information (continued)

The Management Board assesses the performance of the operating segments based on a measure of adjusted profit before income tax. This measurement basis excludes the effect of certain expenses from the operating segments as disclosed in the relevant reconciliation below. Other information provided to the Management Board is measured in a manner consistent with that in these financial statements, except for the items presented in the relevant reconciliation below. The reconciling items are managed at the Bank level and are not allocated to the segments for management and/or reporting purposes.

Segment information for the reportable segments of the Bank for the years ended 31 December 2009 and 31 December 2008 is set out below:

In thousands of Azerbaijani Manats	Micro	SME	Retail	Total
Year ended 31 December 2009				
External revenues:				
- Interest income	40,250	21,706	4,611	**66,567**
- Fee and commission income	-	-	767	**767**
- Other operating income	-	-	399	**399**
Revenue from external customers	**40,250**	**21,706**	**5,777**	**67,733**
External expenses:				
- Interest expense	9,760	7,674	1,299	**18,733**
- Fee and commission expense	-	-	171	**171**
- Provision for loan impairment	1,250	1,284	65	**2,599**
Expense from external customers	**11,010**	**8,958**	**1,535**	**21,503**
Adjusted profit before non-segment income, administrative and other expense and income tax	**29,240**	**12,748**	**4,242**	**46,230**
Total assets reported	**122,264**	**95,176**	**16,241**	**233,681**
Year ended 31 December 2008				
External revenues:				
- Interest income	24,277	17,326	3,489	**45,092**
- Fee and commission income	-	-	523	**523**
- Other operating income	-	-	351	**351**
Revenue from external customers	**24,277**	**17,326**	**4,363**	**45,966**
External expenses:				
- Interest expense	5,703	5,827	1,015	**12,545**
- Fee and commission expense	-	-	200	**200**
- Provision for loan impairment	926	988	202	**2,116**
Expense from external customers	**6,629**	**6,815**	**1,417**	**14,861**
Adjusted profit before non-segment income, administrative and other expense and income tax	**17,648**	**10,511**	**2,946**	**31,105**
Total assets reported	**74,572**	**75,977**	**13,120**	**163,669**

25 Segment Information (continued)

A reconciliation of adjusted profit before income tax to total profit before income tax is provided as follows:

In thousands of Azerbaijan Manats	Year ended 31 December 2009	Year ended 31 December 2008
Adjusted profit before non-segment income, administrative and other expense and income tax	**46,230**	**31,105**
Non-segment interest income	1,631	379
Administrative and other operating expenses	27,879	18,071
Profit before income tax	**19,982**	**13,413**

Reportable segments' assets are reconciled to total assets as follows:

In thousands of Azerbaijan Manats	31 December 2009	31 December 2008
Total segment assets	233,681	163,669
Cash and cash equivalents	46,567	16,360
Mandatory cash balances with CBAR	253	995
Investments available for sale	40	5,863
Due from other banks	9,828	20
Investments securities held to maturity	-	125
Property, plant and equipment	7,123	5,127
Intangible assets	1,994	977
Other financial assets	289	163
Other assets	997	616
Total assets per statement of financial position	**300,772**	**193,915**

The above segment information is prepared in USD and then converted into AZN for the purposes of these financial statements. The balance sheet items are translated using the official exchange rate as of the reporting date. Management believes that, the exchange rates used to translate income and expenses approximate the exchange rates at the date of respective transactions.

As the Bank's all operations are carried out in Azerbaijan, the Bank does not provide geographical information regarding its segments.

The Bank does not have any major customer that it relies on as prescribed in IFRS 8. Therefore, the Bank does not provide additional information on major customers.

26 Financial Risk Management

The Bank has exposure to financial risks which include credit, 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 to establish risk limits and then ensure that exposure to risks stays within these limits. The Management Board is also responsible for ensuring an appropriate balance is established between risk and return, whilst minimizing any potential adverse effects on the Bank's financial performance. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures to minimise operational and legal risks.

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

Risk Management Bodies and Governance. Risk management policies and processes around the assessment, approval, monitoring and control of risks are performed by a number of specialised 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 regarding Risk management	Management Board-level Risk Management Committee	-
Market and liquidity risk	ALCO	Treasury
Credit, country, concentration risk	Risk Committee	Credit Department
Operational risks	Management Board	Bank's Departments
Strategic and organizational risk	Supervisory Board	Management Board

Credit risk. The Bank takes on exposure to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. An exposure to credit risk arises as a result of the Bank's lending and other transactions with counterparties giving rise to financial assets including likelihood that borrower or counterparty fails to meet their obligations in accordance with agreed terms.

The Bank's maximum exposure to credit risk is reflected in the carrying amounts of financial assets on the balance sheet. For guarantees and commitments to extend credit, the maximum exposure to credit risk is the amount of the commitment. Refer to Note 28. The credit risk is mitigated by collateral and other credit enhancements as disclosed in Note 9.

26 Financial Risk Management (continued)

The principal credit risk management methods used is described in the formal Credit Policy adopted and implemented by the Bank. These include the setting of limits and the diversification of the credit portfolio based upon defined criterion (such as industry, duration, related persons, region, etc.). Credits will also be classified at initiation and throughout the life of the loan based upon a risk level determined using best practice rating systems. Such tools will also be used to establish appropriate provisions for potential losses as necessary. All restrictions and norms issued by the CBAR, related to lending operations, have also been carefully considered and embedded into the Bank's Credit Policy.

The Bank also structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or borrowers, and to geographical and industry segments. The limits on the level of credit risk by product and industry sector are approved regularly by management. Such risks are monitored on a revolving basis and subject to an annual or more frequent review.

The general credit risk approval structure, for corporate legal entities, private individuals and financial organisations, is as follows:

For secured loans:

- The Supervisory Board reviews and approves limits above 3% of the total statutory equity up to a maximum limit of 20% of the total statutory equity for all loans and meets on a regular basis;
- The Credit Committee reviews and approves all limits below 3% of the total statutory equity. The Credit Committee meets on a regular basis.

Loan applications originated by the relevant client relationship managers are passed on to the relevant credit committee for approval of credit limit. Exposure to credit risk is also managed, in part, by obtaining collateral and corporate and personal guarantees.

The Bank uses formalised internal credit ratings to monitor exposures to credit risk. The Bank's credit department reviews ageing analysis of outstanding loans and follows up on past due balances. Management therefore considers it appropriate to provide ageing and other information about credit risk as disclosed in Notes 8 and 9.

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

Market risk. The Bank takes on exposure to market risks. Market risks arise from open positions in (a) currency, (b) interest rate and (c) equity products, all of which are exposed to general and specific market movements. Management sets limits on the value of risk that may be accepted, which is monitored on a daily basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

Currency risk. The Bank is exposed to the effects of fluctuations in the prevailing local/foreign currency exchange rates on its financial position. Currency risk is the risk that movements in foreign exchange rates will affect the Bank's income or the value of its portfolios of financial instruments.

The Bank uses every effort to match its assets and liabilities by currency. Exposure to foreign exchange risks faced by the Bank are also limited by the CBAR normative requirements, which place a 10% of capital limit on open positions in any single foreign currency and a 20% open limit on all foreign currencies.

In respect of currency risk, management sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily.

26 Financial Risk Management (continued)

The table below summarises the Bank's exposure to foreign currency exchange rate risk at the balance sheet date:

In thousands of Azerbaijani Manats	At 31 December 2009 Monetary financial assets	At 31 December 2009 Monetary financial liabilities	At 31 December 2009 Net balance sheet position	At 31 December 2008 Monetary financial assets	At 31 December 2008 Monetary financial liabilities	At 31 December 2008 Net balance sheet position
Azerbaijani Manats	89,678	44,420	45,258	56,886	22,671	34,215
US Dollars	198,745	199,029	(284)	128,408	133,239	(4,831)
Euros	2,011	3,996	(1,985)	1,710	2,935	(1,225)
Other	224	8	216	191	5	186
Total	**290,658**	**247,453**	**43,205**	**187,195**	**158,850**	**28,345**

The following table presents sensitivities of profit or loss and equity to reasonably possible changes in exchange rates applied at the balance sheet date, with all other variables held constant:

In thousands of Azerbaijani Manats	At 31 December 2009 Impact on profit or loss	At 31 December 2008 Impact on profit or loss
US Dollar strengthening by 10%	(28)	(483)
US Dollar weakening by 10%	28	483
Euro strengthening by 10%	(199)	(122)
Euro weakening by 10%	199	122

All investments securities available for sale as at 31 December 2009 and 31 December 2008 were denominated in AZN, therefore, any reasonable possible change in exchange rates would not have any impact on equity.

The exposure was calculated only for monetary balances denominated in currencies other than the functional currency of the respective entity of the Bank.

Interest rate risk. The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. Management monitors on a daily basis and sets limits on the level of mismatch of interest rate repricing that may be undertaken.

26 Financial Risk Management (continued)

The table below summarises the Bank's exposure to interest rate risks. The table presents the aggregated amounts of the Bank's financial assets and liabilities at carrying amounts, categorised by the earlier of contractual interest repricing or maturity dates.

In thousands of Azerbaijani Manats	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	Total
31 December 2009					
Total financial assets	67,880	92,737	69,241	60,800	**290,658**
Total financial liabilities	17,535	74,440	37,643	117,835	**247,453**
Net interest sensitivity gap at 31 December 2009	**50,345**	**18,297**	**31,598**	**(57,035)**	**43,205**
31 December 2008					
Total financial assets	34,313	55,738	48,640	48,504	**187,195**
Total financial liabilities	7,728	26,790	14,704	109,628	**158,850**
Net interest sensitivity gap at 31 December 2008	**26,585**	**28,948**	**33,936**	**(61,124)**	**28,345**

At 31 December 2009, if interest rates at that date had been 100 basis points lower (2008: 100 basis points lower) with all other variables held constant, profit for the year would have been AZN 495 thousand (2008: AZN 329 thousand) higher, mainly as a result of lower interest expense on variable interest liabilities. The impact of a reasonably possible shift in market interest rates on components of equity, other than due to the effects of the change in profit on retained earnings, would not be significant.

If interest rates had been 100 basis points higher (2008: 100 basis points higher), with all other variables held constant, profit would have been AZN 495 thousand (2008: AZN 329 thousand) lower, mainly as a result of higher interest expense on variable interest liabilities. The impact of a reasonably possible shift in market interest rates on components of equity, other than due to the effects of the change in profit on retained earnings, would not be significant.

The Bank monitors interest rates for its financial instruments. The table below summarises effective interest rates, including the effect of any fees, commissions, and / or tax liabilities that may be payable, based on reports reviewed by key management personnel:

	31 December 2009			31 December 2008		
In % p.a.	**AZN**	**USD**	**EUR**	**AZN**	**USD**	**EUR**
Assets						
Due from other banks	9.54	7.77	-	12.62	-	-
Loans and advances to customers	33.40	32.40	-	34.00	33.00	-
Investment securities available for sale	4.10	-	-	6.53	-	-
Liabilities						
Term deposits	10.96	10.54	6.17	13.00	12.39	6.00
Term placements of other banks	-	10.5	-	-	-	-
Other borrowed funds	12.05	9.20	-	12.00	9.72	-
Subordinated debt	-	11.11	-	-	11.11	-

The sign "-" in the table above means that the Bank does not have the respective assets or liabilities in the corresponding currency.

26 Financial Risk Management (continued)

Geographical risk concentrations. The geographical concentration of the Bank's financial assets and liabilities at 31 December 2009 is set out below:

In thousands of Azerbaijani Manats	Azerbaijan	OECD	Non-OECD	Total
Assets				
Cash and cash equivalents	40,652	5,476	439	46,567
Mandatory cash balances with the CBAR	253	-	-	253
Due from other banks	9,828	-	-	9,828
Loans and advances to customers	233,681	-	-	233,681
Investment securities available for sale	40	-	-	40
Other financial assets	-	143	146	289
Total financial assets	**284,454**	**5,619**	**585**	**290,658**
Liabilities				
Due to other banks	2	-	3,003	3,005
Customer accounts	64,999	-	-	64,999
Other borrowed funds	-	152,333	16,787	169,120
Other financial liabilities	2,040	67	-	2,107
Subordinated debt	-	8,222	-	8,222
Total financial liabilities	**67,041**	**160,622**	**19,790**	**247,453**
Net balance sheet position	**217,413**	**(155,003)**	**(19,205)**	**43,205**
Credit related commitments	**482**	**-**	**-**	**482**

26 Financial Risk Management (continued)

The geographical concentration of the Bank's financial assets and liabilities at 31 December 2008 is set out below:

In thousands of Azerbaijani Manats	Azerbaijan	OECD	Non-OECD	Total
Assets				
Cash and cash equivalents	13,188	2,745	427	16,360
Mandatory cash balances with CBAR	995	-	-	995
Due from other banks	20	-	-	20
Loans and advances to customer	163,669	-	-	163,669
Investment securities available for sale	5,863	-	-	5,863
Investment securities held to maturity	125	-	-	125
Other financial assets	102	50	11	163
Total financial assets	**183,962**	**2,795**	**438**	**187,195**
Liabilities				
Due to other banks	2	-	-	2
Customer accounts	21,852	-	-	21,852
Other borrowed funds	-	110,533	17,518	128,051
Other financial liabilities	589	-	167	756
Subordinated debt	-	8,189	-	8,189
Total financial liabilities	**22,443**	**118,722**	**17,685**	**158,850**
Net balance sheet position	**161,519**	**(115,927)**	**(17,247)**	**28,345**
Credit related commitments	**113**	**-**	**-**	**113**

Assets, liabilities and credit related commitments have generally been based on the country in which the counterparty is located. Balances with Azerbaijan counterparties actually outstanding to/from off-shore companies of these Azerbaijan counterparties are allocated to the caption "Azerbaijan". Cash on hand and premises and equipment have been allocated based on the country in which they are physically held.

Liquidity risk. Liquidity risk is the risk that an entity will encounter as a result of unavailability of funding difficulties in meeting obligations associated with financial liabilities when they fall due. The Bank is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan drawdowns and guarantees from margin. The Bank does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty.

The day-to-day liquidity management is performed by the Treasury Department within a comprehensive framework set by the Assets and Liabilities Committee, and monitored independently by the Management Board. The Bank monitors and reports liquidity risk daily, paying particular attention to ensuring that there are optimal levels of cash and cash equivalent instruments to fund increases in assets, unexpected decreases in liabilities, as well as meeting legal requirements, while optimizing the cost of carrying any excess liquidity.

To manage liquidity risk, the Bank performs daily monitoring of future expected cash flows on clients' and banking operations, which forms part of the asset and liability management process. The Bank also has to comply with minimum levels of liquidity required by the CBAR.

The Bank seeks to maintain a stable funding base primarily consisting of amounts due to other banks, corporate and retail customer deposits. The Bank invests the funds in diversified portfolios of liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

26 Financial Risk Management (continued)

The liquidity management of the Bank requires considering the level of liquid assets necessary to settle obligations as they fall due; maintaining access to a range of funding sources; maintaining funding contingency plans; and monitoring balance sheet liquidity ratios against regulatory requirements. The Bank calculates instant liquidity ratio on a daily basis in accordance with the requirement of the CBAR. This ratio is calculated as the ratio of highly-liquid assets to liabilities payable on demand. The ratio was 273% at 31 December 2009, whereas the minimum percentage required by the CBAR is 30%.

The Treasury Department receives information about the liquidity profile of the financial assets and liabilities. The Treasury Department then provides for an adequate portfolio of short-term liquid assets, largely made up of short-term liquid trading securities, deposits with banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Bank as a whole.

The table below shows assets and liabilities at 31 December 2009 by their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows, including contractual amounts to be exchanged under gross loan commitments. Such undiscounted cash flows differ from the amount included in the balance sheet because the balance sheet amount is based on discounted cash flows.

When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the reporting date. Foreign currency payments are translated using the spot exchange rate at the balance sheet date.

The maturity analysis of financial instruments at 31 December 2009 is as follows:

In thousands of Azerbaijani Manats	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 12 months to 5 years	Over 5 years	Total
Assets						
Cash and cash equivalents	46,567	-	-	-	-	**46,567**
Mandatory reserves with the CBAR	-	-	-	-	253	**253**
Due from other banks	3,315	6,672	-	-	20	**10,007**
Loans and advances to customers	17,963	93,309	86290	108,626	2,185	**308,373**
Investment securities available for sale	-	-	-	-	40	**40**
Other financial assets	289	-	-	-	-	**289**
Total	**68,134**	**99,981**	**86,290**	**108,626**	**2,498**	**365,529**
Liabilities						
Due to other banks	2	3,095	-	-	-	**3,097**
Customer accounts	13,387	13,054	31,590	12,036	-	**70,067**
Other borrowed funds	2,102	21,109	19,280	154,635	362	**197,488**
Other financial liabilities	2,107	-	-	-	-	**2,107**
Subordinated debt	-	455	455	11,841	-	**12,751**
Financial guarantees	69	213	200	-	-	**482**
Total potential future payments for financial obligations	**17,667**	**37,926**	**51,525**	**178,512**	**362**	**285,992**
Liquidity gap arising from financial instruments	**50,467**	**62,055**	**34,765**	**(69,886)**	**2,136**	**79,537**
Cumulative liquidity gap	**50,467**	**112,522**	**147,287**	**77,401**	**79,537**	

26 Financial Risk Management (continued)

The maturity analysis of financial instruments at 31 December 2008 is as follows:

In thousands of Azerbaijani Manats	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 12 months to 5 years	Over 5 years	Total
Assets						
Cash and cash equivalents	16,360	-	-	-	-	**16,360**
Mandatory reserves with the CBAR	-	-	-	-	995	**995**
Due from other banks	-	-	-	-	20	**20**
Loans and advances to customers	11,958	60,152	60,197	83,262	2,651	**218,220**
Investment securities available for sale	5,892	-	-	-	-	**5,892**
Investments held to maturity	126	-	-	-	-	**126**
Other financial assets	163	-	-	-	-	**163**
Total	**34,499**	**60,152**	**60,197**	**83,262**	**3,666**	**241,776**
Liabilities						
Due to banks	2	-	-	-	-	**2**
Customer accounts	6,995	4,133	6,489	5,622	-	**23,239**
Other borrowed funds	-	6,296	12,186	115,277	24,717	**158,476**
Other financial liabilities	756	-	-	-	-	**756**
Subordinated debt	-	454	454	11,820	454	**13,182**
Financial guarantees	-	113	-	-	-	**113**
Total potential future payments for financial obligations	**7,753**	**10,996**	**19,129**	**132,719**	**25,171**	**195,768**
Liquidity gap arising from financial instruments	**26,746**	**49,156**	**41,068**	**(49,457)**	**(21,505)**	**46,008**
Cumulative liquidity gap	**26,746**	**75,902**	**116,970**	**67,513**	**46,008**	

Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitment disclosed in the above maturity analysis because the Bank does not generally expect the third party to draw funds under the agreement. The total outstanding contractual amount of commitments to extend credit as included in the above maturity table does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

26 Financial Risk Management (continued)

The Bank does not use the above maturity analysis based on undiscounted contractual maturities of liabilities to manage liquidity. Instead, the Bank monitors expected maturities and the resulting expected liquidity gap as follows:

In thousands of Azerbaijani Manats	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 12 months to 5 years	Over 5 years	Total
At 31 December 2009						
Financial assets	67,880	92,737	69,241	59,660	1,140	290,658
Financial liabilities	17,534	36,410	47,491	145,744	274	247,453
Net liquidity gap based on expected maturities	**50,346**	**56,327**	**21,750**	**(86,084)**	**866**	**43,205**
At 31 December 2008						
Financial assets	34,313	55,738	48,640	46,463	2,041	187,195
Financial liabilities	7,730	10,207	17,523	106,495	16,895	158,850
Net liquidity gap based on expected maturities	**26,583**	**45,531**	**31,117**	**(60,032)**	**(14,854)**	**28,345**

The above analysis is based on expected maturities. The entire portfolio of trading securities is therefore classified within demand and less than one month based on management's assessment of the portfolio's realisability.

The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Bank. It is unusual for banks ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Bank and its exposure to changes in interest and exchange rates.

Management believes that in spite of a substantial portion of customer accounts being on demand, diversification of these deposits by number and type of depositors, and the past experience of the Bank would indicate that these customer accounts provide a long-term and stable source of funding for the Bank.

27 Management of Capital

The objectives of management when managing the Bank's capital are (i) to comply with the capital requirements set by the CBAR and (ii) to safeguard the Bank's ability to continue as a going concern. Compliance with capital adequacy ratios set by the CBAR is monitored monthly with reports outlining their calculation reviewed and signed by the Finance Director. The other objectives of capital management are evaluated annually.

27 Management of Capital (continued)

Under the current capital requirements set by the CBAR banks have to: (a) hold the minimum level of total statutory capital of AZN 10,000 thousand; (b) maintain a ratio of regulatory capital to risk weighted assets ("statutory capital ratio") at or above a prescribed minimum of 12% and (c) maintain a ratio of tier-1 capital to the risk-weighted assets (the 'Tier-1 capital ratio') at or above the prescribed minimum of 6%. Regulatory capital is based on the Bank's reports prepared under the CBAR's regulations and comprises:

In thousands of Azerbaijani Manats	31 December 2009	31 December 2008
Net assets under Azerbaijani GAAP	33,299	22,844
Less investments	(40)	(40)
Less intangible assets	(1,995)	(900)
Plus statutory income for the year	19,986	10,532
Plus general provision for impairment	3,473	2,248
Plus subordinated debt	7,885	8,179
Total regulatory capital	**62,608**	**42,863**
Total capital adequacy ratio	**22.5%**	**23.8%**

The Bank is also subject to minimum capital requirements established by covenants stated in loan agreements, including capital adequacy levels calculated in accordance with the requirements of the Basel Accord, as defined in the International Convergence of Capital Measurement and Capital Standards (updated April 1998) and Amendment to the Capital Accord to incorporate market risks (updated November 2005), commonly known as Basel I. The composition of the Bank's capital calculated in accordance with Basel Accord is as follows:

In thousands of Azerbaijani Manats	2009	2008
Tier 1 capital		
Share capital	20,000	20,000
Retained earnings	33,285	13,299
Total tier 1 capital	**53,285**	**33,299**
Tier 2 capital		
Provision on risk weighted assets	3,076	2,144
Subordinated debt	8,200	8,181
Less: investments in financial institutions	(40)	(40)
Total tier 2 capital	**11,236**	**10,285**
Total capital	**64,521**	**43,584**
Total capital adequacy ratio	**26.2%**	**24.6%**

The Bank complied with all externally imposed capital requirements throughout the year ended 31 December 2009.

28 Contingencies and Commitments

Legal proceedings. From time to time and in the normal course of business, claims against the Bank may be received. On the basis of its own estimates and internal professional advice management is of the opinion that no material losses will be incurred in respect of claims and accordingly no provision has been made in these financial statements.

Tax legislation. Tax, currency and customs legislation of the Republic of Azerbaijan are 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 tax authorities. As a result, significant additional taxes, penalties and interest may be assessed. According to the Tax Code of the Republic of Azerbaijan fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain legislative circumstances reviews may cover longer periods.

The Bank's management believes that its interpretation of the relevant legislation is appropriate and the Bank's tax, currency and customs positions will be sustained. Accordingly, at 31 December 2009 no provision for potential tax liabilities was recorded.

Capital expenditure commitments. As at 31 December 2009, the Bank had no capital expenditure commitments.

Operating lease commitments. As at 31 December 2009, the Bank had no commitments under non-cancellable lease agreements.

Compliance with covenants. As at 31 December 2009 and during the year then ended, there were covenants that the Bank should have complied with. The Bank is subject to certain covenants related primarily to its borrowings. Non-compliance with such covenants may result in negative consequences for the Bank including, growth in the cost of borrowings and declaration of default. As at 31 December 2009 the Bank was in compliance with all covenants imposed by international financial institutions.

Credit related commitments. The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate or cash deposits and therefore carry less risk than a direct borrowing.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank monitors the term to maturity of credit related commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments. Outstanding credit related commitments and their fair values are as follows:

In thousands of Azerbaijani Manats	31 December 2009	31 December 2008
Guarantees issued	482	113
Total credit related commitments	**482**	**113**

The credit related commitments were denominated in Azerbaijani Manats at 31 December 2009. The future undiscounted cash flows from credit related commitments are equal to AZN 15 thousand (31 December 2008: AZN 3 thousand) as at 31 December 2009.

29 Fair Value of Financial Instruments

(a) Fair values of financial instruments carried at amortised cost.

At 31 December 2009, fair values of financial instruments carried at amortised cost approximated to their carrying values.

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price. Where quoted market prices are not available, the Bank used valuation techniques. Certain valuation techniques required assumptions that were not supported by observable market data.

The fair value of unquoted fixed interest rate instruments was estimated based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on currency, maturity of the instrument and credit risk of the counterparty and were as follows:

	31 December 2009	31 December 2008
Due from other banks		
Short-term placements with other banks	7% to 14% p.a.	7% to 14% p.a.
Loans and advances to customers		
Loans to customers – SME and micro loans	16% to 36% p.a.	16% to 36% p.a.
Loans to customers – retail loans to individuals	12% to 39% p.a.	12% to 39% p.a.
Investment securities held to maturity		
Repo notes of the CBAR	2% p.a.	2% p.a.
Due to other banks		
Short-term placement to other banks	-	-
Customer accounts		
- Term deposits of individuals	2% to 20% p.a.	1% to 20% p.a.
Other borrowed funds		
- Term borrowings from companies/government agencies	8% to 12% p.a.	8% to 12% p.a.
Subordinated debt		
- Subordinated debt	11% p.a.	11% p.a.

30 Presentation of Financial Instruments by Measurement Category

For the purposes of measurement, IAS 39, *Financial Instruments: Recognition and Measurement*, classifies financial assets into the following categories: (a) loans and receivables; (b) available-for-sale financial assets; (c) financial assets held to maturity and (d) financial assets at fair value through profit or loss ("FVTPL"). Financial assets at fair value through profit or loss have two subcategories: (i) assets designated as such upon initial recognition, and (ii) those classified as held for trading.

30 Presentation of Financial Instruments by Measurement Category (continued)

The following table provides a reconciliation of classes of financial assets with these measurement categories as of 31 December 2009:

In thousands of Azerbaijani Manats	Loans and receivables	Investment securities Available for sale (through equity)	Total
ASSETS			
Cash and cash equivalents	46,567	-	46,567
Mandatory cash balances with the CBAR	253	-	253
Investments securities available for sale	-	40	40
Due from other banks			
- Short-term placements with other banks	9,828	-	9,828
Loans and advances to customers			
- Micro loans	122,264	-	122,264
- SME loans	95,176	-	95,176
- Retail loans to individuals	11,321	-	11,321
- Staff loans	4,920	-	4,920
Other financial assets	289	-	289
TOTAL FINANCIAL ASSETS	**290,618**	**40**	**290,658**
NON-FINANCIAL ASSETS	10,114	-	10,114
TOTAL ASSETS	**300,732**	**40**	**300,772**

The following table provides a reconciliation of financial assets with the measurement categories defined in IAS 39, *Financial Instruments: Recognition and Measurement*, as of 31 December 2008:

In thousands of Azerbaijani Manats	Loans and receivables	Investment Securities Available for Sale (through equity)	Held to maturity	Total
ASSETS				
Cash and cash equivalents	16,360	-	-	**16,360**
Mandatory reserves with CBAR	995	-	-	**995**
Investment securities available for sale	-	5,863	-	**5,863**
Due from other banks				
- Short-term placements with other banks with original maturities of more than three months	20	-	-	**20**
Loans and advances to customers				
- Micro loans	74,572	-	-	**74,572**
- SME loans	75,977	-	-	**75,977**
- Retail loans to individuals	9,483	-	-	**9,483**
- Staff loans	3,637	-	-	**3,637**
Investment securities held to maturity	-	-	125	**125**
Other financial assets	163	-	-	**163**
TOTAL FINANCIAL ASSETS	**181,207**	**5,863**	**125**	**187,195**
NON-FINANCIAL ASSETS	6,720	-	-	6,720
TOTAL ASSETS	**187,927**	**5,863**	**125**	**193,915**

31 Related Party Transactions

Parties are generally considered to be related if the parties are under common control or one party has the ability to control the other party or can 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.

At 31 December 2009, the outstanding balances with related parties were as follows:

In thousands of Azerbaijani Manats	Shareholders	Entities under joint control	Key management personnel
Gross amount of loans and advances to customers (contractual interest rate: 12 -22 %)	-	-	263
Due to banks	-	3,003	-
Current accounts	-	-	32
Term deposits	-	-	298
Other borrowed funds	58,020	-	-

At 31 December 2008, the outstanding balances with related parties were as follows:

In thousands of Azerbaijani Manats	Shareholders	Key management personnel
Gross amount of loans and advances to customers (contractual interest rate: 12 -16%)	-	175
Term deposits	-	600
Other borrowed funds	19,664	-

The income and expense items with related parties for the year ended 31 December 2009 were as follows:

In thousands of Azerbaijani Manats	Shareholders	Key management personnel
Interest income	-	31
Interest expense	3,020	33
Payment for management and software support	1,012	-

The income and expense items with related parties for the year ended 31 December 2008 were as follows:

In thousands of Azerbaijani Manats	Shareholders	Key management personnel
Interest income	-	18
Interest expense	985	20
Payment for management and software support	729	-

31 Related Party Transactions (continued)

Key management compensation is presented below:

	31 December 2009		31 December 2008	
In thousands of Azerbaijani Manats	Expense	Accrued liability	Expense	Accrued liability
Short-term benefits:				
- Salaries	482	92	367	-
Total	**482**	**92**	**367**	**-**

32 Events After the Balance Sheet Date

Subsequent to the balance sheet date, according to the decision of General Assembly of Shareholders hold on 27 January 2010 the Bank increased its share capital from AZN 20,000 thousand to AZN 41,800 thousand by utilising its statutory taxable profit, AZN 21,757 thousand for the year ended 31 December 2009 and transferring AZN 43 thousand from its retained earnings from previous years. Emission procedures were completed on 16 March 2010.

BRANCH NETWORK

BAKU & ABSHERON BRANCHES

Head Office and Central Branch – 137 A.Guliyev St
20th January Branch – 1c A.Mustafaev St
Azadlyg Branch – 97 Azadlig Ave
Babek Branch – 76c Babek Ave
Badamdar Branch – 34 Badamdar Highway
Bakikhanov Branch – 70 M.Fataliyev St
Bul-Bul Branch – 33 Bul-Bul Ave
Elmler Akademiyasi Branch – 4a Inshatchilar Ave
Khalglar Dostlugu Branch – G.Garayev Ave, opposite building 126
Khirdalan Branch – H.Z.Tagiyev St, Block 27
Mardakan Branch – 2a Esenin St
Natavan Branch – 3 Moskva Ave
Sabayil Branch – 15 R.Rza St
Sumgayit Branch – 9/11 Sulh St, 1 m/d, Sumgayit city

REGIONAL BRANCHES

Ganja Branch – 32 Abbaszade St, Ganja city
Gazakh Branch – H.Aliyev Ave, Gazakh city
Goychay Branch – 96 H.Aliyev Ave, Goychay city
Jalilabad Branch – H.Aliyev Ave, Jalilabad city
Khachmaz Branch – 215 N.Narimanov Ave, Khachmaz city
Lenkoran Branch – H.Aslanov Ave, Lenkoran city
Mingechevir Branch – 98a U.Hajibeyov St, Mingechevir city
Nizami Branch – 110 Khatai Ave, Ganja city
Salyan Branch – Y.Gasimov St, Salyan city
Sheki Branch – 17 M.A.Rasulzade St, Sheki city
Zaqatala Branch – 29/1 F.Amirov St, Zaqatala city

Our Shareholders

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151 ÜMUMİ ZƏNG MƏRKƏZİ

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