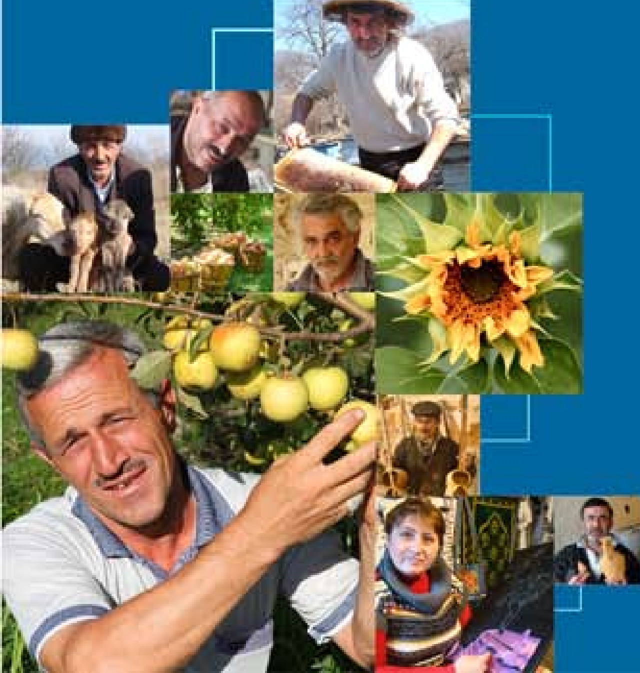
AccessBank

Your Accessible European Bank



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annual report **2010**

SUPERVISORY BOARD

Mr Michael Jainzik
Chairman

Mr Syed Aftab Ahmed

Mr Orhan Aytemiz

Mr Thomas Engelhardt

Ms Victoria Miles

MANAGEMENT BOARD

Dr Andrew Pospielovsky
General manager

Mr Rufat Ismayilov
Deputy General Manager and Infrastructure Director

Mr Shakir Ragimov
Business Banking Director

Mr Anar Gasanov
Retail Banking and Operations Director

Mr Elshan Hajiyev
Financial Director

ACCESSBANK – AZERBAIJAN'S ACCESSIBLE EUROPEAN BANK

- Mission – to provide financial services for Azerbaijan's micro and small businesses and low and middle income households
- 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%)
- Azerbaijan's leading microfinance lender with over 36% market share, serving more than 120,000 clients, including 90,000 businesses
- Twenty-eight branches and 1,200 staff across the country
- Total assets of USD 459 million and Loan Portfolio of USD 341 million at year-end 2010
- Highest rated private bank in Azerbaijan by Fitch Ratings (BB+)

EUROMONEY 2010 Awards for excellence

'Best Bank in Azerbaijan'
2010 Euromoney Awards for Excellence

'Best Emerging Market Bank Azerbaijan'
2011 Global Finance

WORLD'S BEST EMERGING MARKET BANK · 2011 · AZERBAIJAN
GLOBAL FINANCE

CONTENTS

KEY RESULTS

	2010	2009	Change
Balance Sheet Items	**USD ('000)**	**USD ('000)**	
Total Assets	458,733	374,514	22.5%
Liquid Assets	81,763	70,586	15.8%
Total Loan Portfolio (gross)	340,671	296,991	14.7%
Business Loan Portfolio	312,591	276,400	13.1%
Micro Loans (< $ 10,000)	159,205	141,988	12.1%
Trust and Small Loans ($ 10,001 - $ 100,000)	84,809	81,161	4.5%
Medium Loans (> $ 100,000)	67,962	53,251	27.6%
Consumer Loan Portfolio	21,412	14,377	48.9%
Staff Loans	6,668	6,214	7.3%
Accrued Interest and Disbursement Fees	3,661	2,193	66.9%
Loan Loss Reserve	9,568	8,211	16.5%
Net Loan Portfolio	333,607	290,974	14.7%
Fixed and Other Assets	43,363	12,954	234.8%
Customer Deposits	158,755	84,674	87.5%
Borrowings	202,873	220,824	-8.1%
Equity	93,314	66,349	40.6%
Profit and Loss Account	**USD ('000)**	**USD ('000)**	
Operating Income	77,582	59,595	30.2%
Operating Expense	44,684	34,714	28.7%
Profit Before Tax	32,898	24,881	32.2%
Profit After Tax	32,799	24,886	31.8%
Ratios			
Return on Equity (year-end)	35.1%	37.5%	-6.4%
Return on Average Assets	7.8%	8.2%	-4.9%
Cost / Income	57.6%	58.2%	-1.0%
Capital Adequacy	26.5%	25.8%	2.7%
Miscellaneous			
Number of Outstanding Loans	122,519	100,489	21.9%
Number of Business Loans	92,135	78,025	18.1%
Number of Micro Loans	87,654	74,284	18.0%
Average Micro Loan Size (disbursed USD)	3,029	2,915	3.9%
Number of Trust, Small and Medium Loans	4,481	3,741	19.8%
Average Trust, Small, and Medium Loan Size (disbursed USD)	51,287	46,864	9.4%
Number of Agro Loans	33,802	24,500	38.0%
Average Agro Loan Size (disbursed USD)	2,300	2,194	4.8%
Number of Deposit Accounts	181,635	114,507	58.6%
Number of Branches	28	23	21.7%
Number of Staff	1,243	960	29.5%
Portfolio at Risk (>30 days)	1.00%	0.85%	17.6%

MISSION STATEMENT

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

AccessBank strives to be a responsible bank and provide a comprehensive range of financial services that are appropriate to the needs of our clients, 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

Success and responsibility

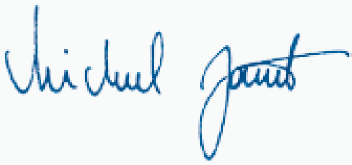
In eight years, from its birth as a green-field start-up, AccessBank has grown to become Azerbaijan's leading small business bank. The Bank is spearheading development and diversification of the economy, especially in the regions, where it is also the leading investor in agriculture. AccessBank's impact extends beyond the 140,000 businesses it has financed – AccessBank serves as a model of 'best practice' in Azerbaijan and its success has motivated many Azerbaijani banks to copy its practices and even follow it into the SME and micro-finance markets.

With this success comes a heavy mantle of responsibility – a mantle which the Shareholders and management shoulder solemnly. This responsibility extends to all stakeholders – it begins with fair and equal treatment of staff, where AccessBank recruits young university graduates, invests heavily in training, and offers opportunities to build professional careers. It extends to transparent and beneficial relations with our clients, ensuring all our products are appropriate to and have a positive impact on our clients. It includes responsibilities to local communities and authorities where AccessBank goes beyond fulfilling its legal obligations, such as payment of taxes, and where AccessBank strives to make a positive contribution to the development of the communities in which it works. Finally, AccessBank is committed to being transparent in its performance and relations with respect to our shareholders and refinancing partners.

This commitment was recognised in 2010 by awards from the SMART Campaign and Microfinance Centre for AccessBank's 'Excellence in Client Protection and Avoidance of Over-Indebtedness'; by Euromoney naming AccessBank as the 'Best Bank in Azerbaijan' in its annual 'Awards for Excellence'; and by Standard and Poor's rating agency which ranked AccessBank as the 'Most Transparent Bank in Azerbaijan' in its inaugural Transparency and Disclosure Survey of Azerbaijan's Banks.

While many institutions are now trying to follow AccessBank's example, AccessBank remains the only bank dedicated to serving small business and low and middle income households, with the products and risk management experience to do so responsibly and sustainably. The shareholders remain proud and committed to AccessBank's outstanding role in the development and diversification of Azerbaijan's economy and supporting the welfare of its clients.

Michael Jainzik
Chairman of the Supervisory Board



LETTER FROM THE MANAGEMENT

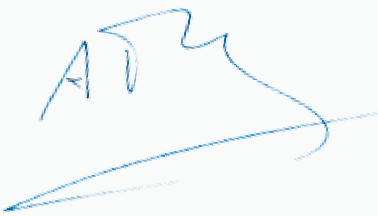
Staff and management - ready to face new challenges

AccessBank is now entering a new phase in its development. The last five years can be characterised as the 'Take-off' phase of AccessBank's development, marked by the rapid expansion of the Bank, its branch network, client base and portfolio. On the back of this growth AccessBank took its place among Azerbaijan's leading banks and as the country's small business bank. As AccessBank approaches the completion of its core branch network, this phase is ending and growth is slowing. The Bank is now entering a new phase of 'Maturity' – of consolidating its role and position in the Azerbaijan financial services market. The era of rapid growth through physical expansion of the branch network and client base is now in the past. At the same time, with the expansion of the institution and the slowing of economic growth, risk is increasing. This also necessitates a shift in management focus – from prioritising growth to strengthening risk management.

While AccessBank management believes that there is still potential for slower growth, management expects this growth to come from deepening of client relationships with a broader range of products. This will further raise the sophistication and complexity of the Bank's work, which also entails new risks.

We take confidence from the fact that during our eight-year history our staff and management have also matured – we have learned from our shortcomings as well as our success. Our staff and management have now accumulated considerable experience in working with Azerbaijan's small business community and managing risk and, together, we remain ready to meet the challenges that lie before us.

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 2010 was AZN 41.8 million consisting of 20 million shares with a nominal face value of AZN 2.09 each following an increase of AZN 21.8 million in March 2010, through the capitalisation of retained earnings. In March 2011, the share capital was increased by a further AZN 26 million, again through capitalisation of retained earnings, to AZN 67.8 million. The nominal face value of shares was thus increased to AZN 3.39 while the distribution and number of shares remained the same.

Black Sea Trade & Development Bank

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 EUR 3.5 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

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 Entwicklungsbank (KfW Development Bank): On behalf of the German Federal Government, KfW Entwicklungsbank finances investments and accompanying advisory services in developing and transition countries. Its aim is to build up and expand the social and economic infrastructure of the respective countries, and to advance sound financial systems while protecting resources and ensuring a healthy environment. KfW Entwicklungsbank is a leader in supporting responsible and sustainable microfinance and is involved in target group-oriented financial institutions around the world. It is part of KfW, which has a balance sheet total of EUR 442 billion (as of 31 December 2010). KfW is one of the five biggest banks in Germany and is AAA-rated by Moody's, Standard & Poor's and Fitch Ratings. (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)

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

2005

- Term deposit launched and AccessBank joins the international SWIFT, Western Union and Privat Money 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 with introduction of additional deposit and money transfer products, retail lending, debit cards, ATMs, and joining the Visa card network

2007

- AccessHolding joins as a new shareholder
- Continuing introduction of new retail and 'cross-sector' products, including international trade-finance, Visa-branded debit cards, Salary Projects, and point-of-sale terminals
- Dedicated Agro Loan product launched
- Alpha rating obtained from M-CRIL specialist microfinance rating agency
- New refinancing loans concluded in the 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

2008

- Micro Finance Bank of Azerbaijan renamed AccessBank to create a stronger and more distinct brand
- BB+ rating first received from Fitch Ratings – the highest rating of any private bank in Azerbaijan and matching the country ceiling
- New refinancing loans concluded in the year exceed USD 80 million, including the se-cond closing of AccessBank's debut bond and the signing of the Bank's first syndica-ted 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

- AccessBank named one of the three most sustainable banks of Eastern Europe in the 2009 Financial Times Sustainable Banking Awards
- AccessBank joins the 'SMART' Campaign for Client Protection – the first bank in Azerbaijan to do so

2010

- BB+ rating confirmed by Fitch Ratings, with Individual Rating increased to ‘D’ – the highest rating for a private bank in Azerbaijan
- Five new branches open, including three in the regions and two in Baku, and a building purchased for the new Head Office
- First dividend of AZN 5 million distributed to shareholders. Deposits increased 86% during the year to finish at USD 152 million. This combined with retained earnings to more than cover asset growth and reduce dependency on foreign borrowings
- Became a lead sponsor of the Azerbaijan Football Federations Association, (AFFA) which includes 11 men’s, women’s and junior national teams
- AccessBank CEO named ‘Banker of the Year’ in Azeri Business Awards
- Awarded ‘5 Diamonds’ by the Microfinance Information Exchange for transparency – the highest level available
- The Microfinance Centre (MFC) recognised AccessBank for good practice in client protection and avoidance of over-indebtedness – making it the only MFI in the Caucasus so awarded
- Euromoney named AccessBank the Best Bank in Azerbaijan in annual ‘Awards for Excellence’
- Standard and Poor’s rating agency ranked AccessBank as the most transparent bank in Azerbaijan

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	22	18	5,500	0.6	6
2006	55	47	16,000	4	10
2007	133	115	46,000	14	14
2008	242	208	69,000	27	20
2009	375	297	98,000	82	23
2010	459	341	120,000	152	28

BUSINESS REVIEW

POLITICAL AND ECONOMIC ENVIRONMENT

Parliamentary elections in November 2010 confirmed the stability and continuity of the existing political order, with only 24 out of 125 deputies replaced. On the economic front, in 2010 Azerbaijan maintained stable, albeit slower, economic growth than in years past. Oil prices remained steadily high, driving budget and current account surpluses and supporting the stability of the currency. However, this slower growth led to deflation in real estate demand and prices, impacting negatively on the construction sector, which previously served to stimulate the non-oil sector of the economy. As such, some negative trends have filtered into SMEs, reducing growth and demand for financing. In addition, inclement weather in 2010 affected some crops in specific regions of Azerbaijan, reducing agricultural incomes for many, which then had a dampening impact on the general economy of the regions of Azerbaijan.

The State Statistics Committee reported 5% GDP growth for 2010, officially lower than the 9.3% figure reported for 2009, but higher when considering actual income earned from the sale of oil rather than volume produced. Thus, GDP for 2010 was reported as AZN 41.5 billion (USD 52.1 billion) – or 20% higher in monetary terms than the 2009 total of AZN 34.5 billion (USD 43.3). This resulted in an increase in state budget revenues of 10% to AZN 11.4 billion (USD 14.3 billion) in 2010, compared to AZN 10.3 billion (USD 12.9 billion) in 2009, and 11% in expenditures to AZN 11.8 billion (USD 14.8 billion) in 2010 compared to AZN 10.6 billion (USD 13.2 billion). Inflation was kept in check with CPI officially reported at 5.7% (in line with unofficial estimates), compared with 1.5% in 2009 and 21% in 2008.

The higher oil prices fed through to an increase in the trade surplus to USD 14.8 billion (USD 8.6 billion in 2009) on exports of USD 21.3 billion and imports of USD 6.6 billion. This supported the stability of the currency and the AZN remained virtually unchanged against the local reference currency, the USD, at AZN 0.7979 versus AZN 0.8031 at 2009-end. Energy exports should ensure continued economic stability in the medium-term, but the volatility of energy prices in 2008 and the subsequent slowing of the construction and real estate markets reinforce the need for economic diversification. Other concerns include control of inflationary pressures, spreading the benefits of oil income, and reducing corruption.

The development of the banking sector reflected that of the economy with some banks faring better than others, but with no significant 'shocks'. Total banking assets increased by 14% (from AZN 11.7 billion to AZN 13.3 billion) in 2010 – the same as in 2009, while the total loan portfolio increased by 8% (from AZN 8.0 billion to AZN 8.6 billion) – lagging behind the 2009 growth figure of 20%. However, 2009's growth was concentrated in the majority state-owned International Bank of Azerbaijan while growth in 2010 was more dispersed through privately owned banks. Deposits increased by a slightly faster rate of 20% to AZN 5.1 billion. As a proportion of GDP, total banking assets decreased slightly to 32% (33% in 2009), the total loan portfolio to 21% (24% in 2009), and deposits to 12% (17% in 2009), representing relatively low levels of banking penetration.

In 2010 the banking sector continued to benefit from the three-year tax exemption for profit that is capitalised, which began from 1 January 2009 – introduced to help strengthen the sector. While the Central Bank has been advocating consolidation in the banking sector for many years, little consolidation has occurred and the number of banks at 2010-end stood at 45 (compared with 46 at 2009-end) with the licences of three minor banks under suspension as they are being wound down.

AccessBank continued to outperform the sector, but less so in 2010 than in years past as the economic slowdown impacted on the lower rungs of the economy. In terms of total banking assets, Access-

Bank's market share increased to 2.8% from 2.7% at 2009-end while rising to seventh position from ninth out of 45 banks in the market. At the same time, the Bank held its position in terms of total loan portfolio at sixth as market share increased from 2.9% to 3.0%. In agricultural lending AccessBank maintained its top position – well ahead of any competitors – with more than 14% share of the total agricultural portfolio of Azerbaijan's banking sector.

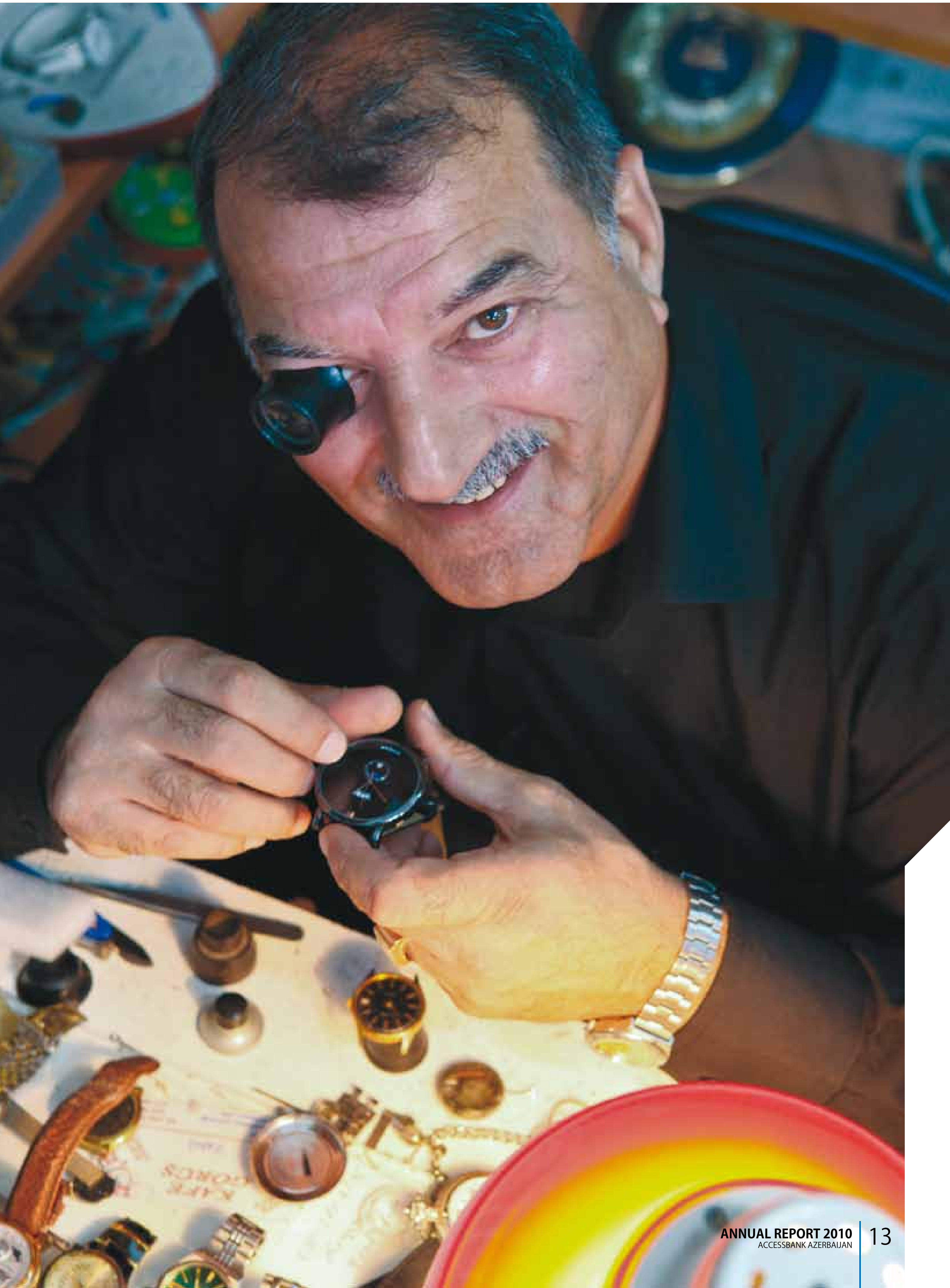
Apart from the banks, approximately 19 non-bank credit organizations are engaged in microfinance. The Azerbaijan Microfinance Association (AMFA) collects data for 30 institutions involved in microfinance (consisting of these 19 non-bank financial institutions and 11 banks, including AccessBank). The micro loan portfolio of these institutions stood at USD 488 million at 2010-end, giving AccessBank 36% market share (same as at 2009-end), double its nearest competitor and making AccessBank by far the leading microfinance institution in Azerbaijan, especially with small farmer households.

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 provides clients a full range of financial services, including savings products, 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 – saving clients' time and money. The intensifying competition is, however, increasing the risk of client over-indebtedness, as many clients seek and obtain loans from multiple-lenders. AccessBank management takes this risk seriously and is spearheading AMFA's 'One Client One Lender Campaign'

'ONE CLIENT – ONE LENDER' – CLIENT PROTECTION AND RESPONSIBLE BANKING

AccessBank is committed to responsible banking – to being a reliable and transparent long-term partner for its clients, offering services that are truly beneficial. Through careful analysis of the business and its repayment capacity, AccessBank helps entrepreneurs evaluate the risks they face and pace their development to avoid unreasonably high debt that they may not be able to cope with. This extends to retail lending, where AccessBank's loan products are carefully tailored and targeted to help families acquire core household goods without overburdening clients with debt. AccessBank's aim is for each loan to have a positive impact on our clients. AccessBank has formalised its commitment by joining the SMART Campaign for Client Protection in 2009 – the first bank in Azerbaijan to do so. This is a global campaign working with microfinance leaders to help deliver transparent, respectful, and prudent financial services to all clients.

In 2010 AccessBank was one of the lead institutions in MFTransparency's Transparent Pricing Initiative – that published comparative APR interest rates on MFTransparency's web-site; and in May AccessBank was awarded for its Excellence in Client Protection and Avoidance of Over-Indebtedness by the SMART Campaign and Microfinance Centre (MFC) at the annual MFC conference. Now AccessBank is attempting to tackle over-indebtedness caused by multiple lending by different institutions through spearheading AMFA's 'One Client – One Lender' campaign which is working towards limiting over-indebtedness. However, the clearest and most objective measure of AccessBank's commitment to responsible banking are the Bank's low arrears rates with PAR > 30 days at 2010-end at 1.00% for the entire portfolio. Even in the Bank's Retail lending PAR >30 ended the year at a very low level of 0.56%.



FINANCIAL RESULTS

AccessBank's total assets increased by 23% in 2010, ending the year at USD 459 million compared with USD 375 million at 2009-end. The USD 84 million increase was financed by deposit growth of USD 70 million (up 86% to USD 152 million from USD 82 million at 2009-end) and profit (USD 33 million). This allowed for a reduction in borrowings of 9% to USD 200 million from USD 219 million at 2009-end. Capital adequacy remained extremely strong, ending the year at 28% for Total Capital Adequacy and 25% for Tier 1 – or more than twice the Central Bank regulatory norm of 12% and 6% respectively.

Post-tax profit for 2010 reached USD 33 million, compared to USD 25 million in 2009. The improved profitability was driven by continued growth in income streams, mainly through portfolio growth (up 15% to USD 341 million from USD 297 million at 2009-end) while costs were controlled. Profitability was also boosted by the tax exemption on capitalised profit (see above) from which AccessBank benefited as all 2010 profit was capitalised. In October the Bank paid its first dividend to shareholders of AZN 5 million (from 2008's retained earnings). Good cost-control was reflected in the Expense / Income ratio, which ended the year at 58%, the same as 2009. As the Bank reduced its dependence on foreign financing there was an increase in Financial Expense to 9.4% from 8.5% in 2009, coupled with a slight reduction in Financial Income to 33.0% from 33.1%, reflecting the increasing proportion of higher cost local deposits in the Bank's refinancing structure.

CLIENTS BENEFIT FROM ACCESSBANK'S PROFITABILITY

As AccessBank scaled up and improved its efficiency, from 2007 onwards the Bank began to generate regular profit. AccessBank shareholders and management are committed to sharing the benefits of the Bank's profitability with our clients and over the last 12 months the Bank has been able to reduce its lending interest rates by 3 percentage points. But the benefit of AccessBank's profitability for our clients extends beyond reductions in interest rates. Prior to 2010 the shareholders reinvested all profit earned by AccessBank into expanding the Bank and branch network. As a result, 20 times as many clients were receiving financing from AccessBank in January 2010 compared to five years earlier, in January 2006. More importantly, the profitability of the bank facilitated a dramatic increase in local currency lending (in AZN), 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 2010-end, AccessBank was able to provide AZN denominated loans to 80,000 clients (66% of the total) compared to 4,300 at 2006-end (33% of the total). AccessBank's AZN portfolio increased to the equivalent of USD 119 million at 2010-end (35% of the total), from USD 4.5 million at 2006-end (10% of the total).

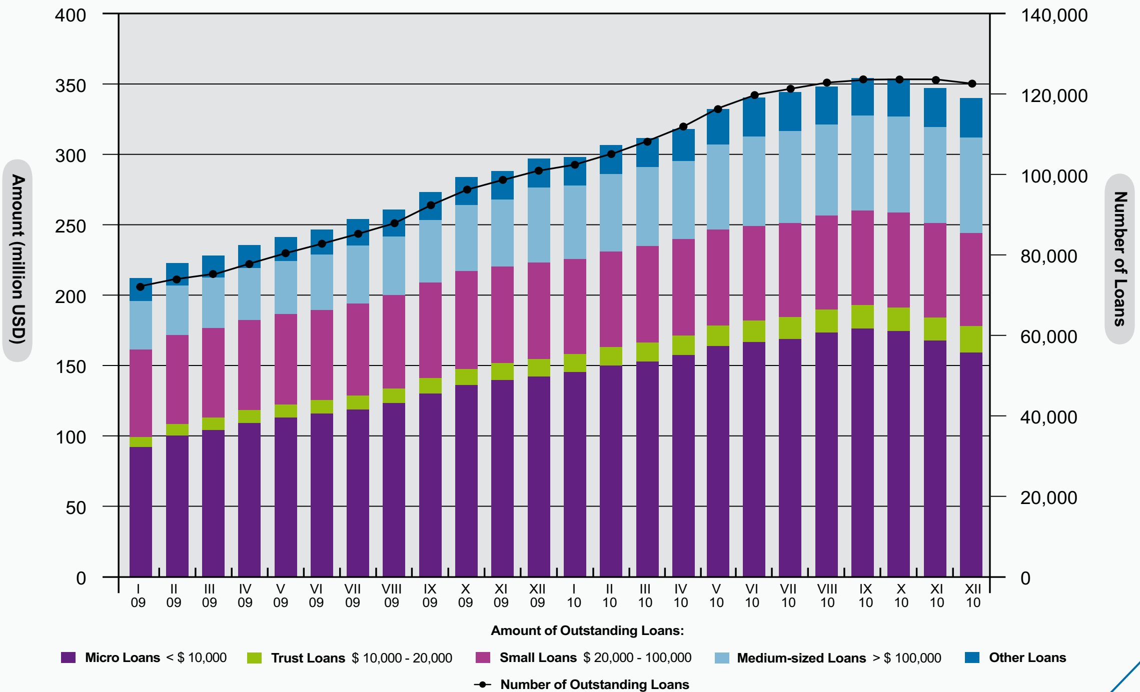
OUR CLIENTS

■ In the northern Azerbaijan town of Shabran, Ilhama Aliyeva works with seven other women from her community to make carpets in the traditional "Shirvan" style. It takes three to four women two months to make the high quality carpets. While this high level of labour makes for quality carpets, it also makes for an expensive product. Finding buyers can take some time, leaving Ms Aliyeva with little income to purchase the materials required for her next project. With loans of AZN 900 and AZN 1,000 from AccessBank, Ms Aliyeva has been able to purchase the needed materials and also repair her loom. This has led to an increase in salaries for the seven women working for her in some of the only positions available to women in her town.

LOAN PORTFOLIO DEVELOPMENT

AccessBank's total outstanding loan portfolio increased 15% in 2010, reaching USD 341 million from USD 297 million at 2009-end. A total of 123,000 loans for USD 436 million were disbursed in 2010 (up from 104,000 loans for USD 363 million in 2009), with an average loan size of USD 3,554 (up negligibly from USD 3,494 in 2009). In the first quarter of the year, total cumulated disbursals from AccessBank surpassed USD 1 billion and finished the year at USD 1.3 billion to more than 220,000 clients (400,000 loans). Portfolio quality remained excellent, with Portfolio at Risk > 30 days finishing the year at 1.00%, compared with 0.85% at the end of 2009. This exceptionally low level of arrears reflects AccessBank's commitment to responsible lending and avoidance of client over-indebtedness (see 'One Client - One Lender' box, p.12). Loan write-offs in 2010 totalled USD 1.7 million, which included USD 1.3 million in the first write-off of SME loans to date, much of which is still expected to be recovered, but was written off, as recovery through the courts in Azerbaijan can take many years. Portfolio growth was again highest in the Micro and Trust Loan segment, as demand in the SME segment remained subdued by the cooling in the economy.

DEVELOPMENT OF TOTAL LOAN PORTFOLIO 2009-2010



BUSINESS BANKING

BUSINESS PORTFOLIO DEVELOPMENT

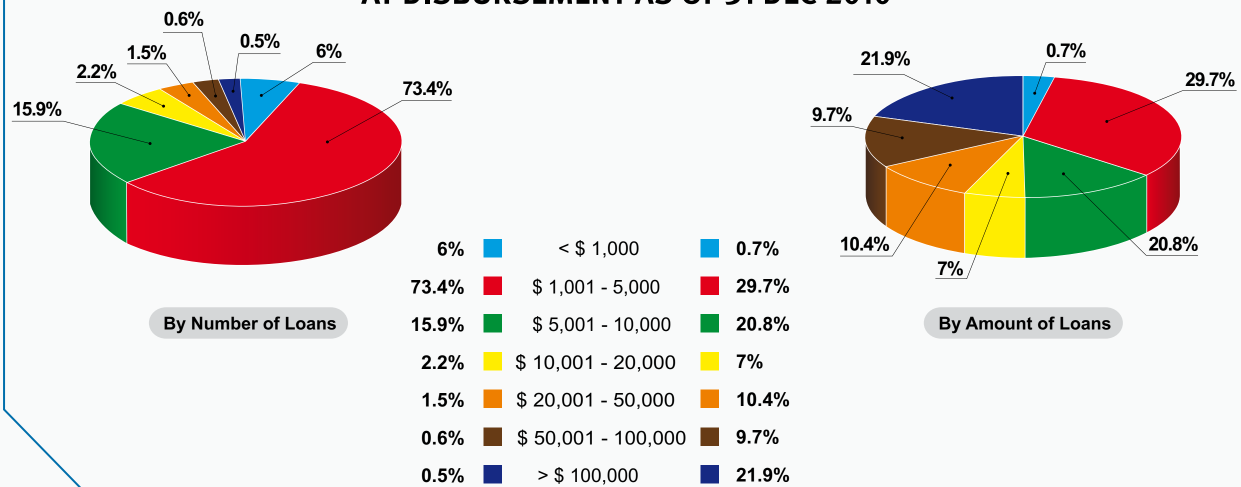
The outstanding business loan portfolio increased by 13% in 2010 to end the year at USD 313 million (92,000 loans to 90,000 clients), compared to USD 276 million at 2009-end. In total 90,000 loans for USD 397 million were disbursed in 2010, increases of 10% and 17% respectively over 2009. The average size for all business loans was USD 4,398, with 41% of all loans still being disbursed to first time clients.

Micro loans, ranging from USD 100 – USD 10,000, grew the most in absolute terms during 2010, up 12% or USD 17 million during the year to USD 159 million (88,000 loans). The Micro segment continues to dominate both in terms of number of loans – 95% of business loans were below USD 10,000 and 79% were below USD 5,000 – and in terms of amount, making up 51% of the total business portfolio. A total of 87,000 Micro Loans for USD 250 million were disbursed in 2010 – nearly doubling the total disbursed to SME clients during the year, demonstrating AccessBank's continued focus on the Micro product. The strength of AccessBank's risk management is reflected by the exceptionally low Portfolio at Risk > 30 days rate for the Micro Portfolio, which stood at 1.09% at year-end, with only 90 micro loans for USD 350,000 written-off in 2010. Risk for both the Bank and clients was also reduced by the continuing increase in the proportion of Micro Loans disbursed in the local currency. Indeed, 85% of Micro Loans (75,000 of 87,000) disbursed in 2010 were provided in AZN, up from 76% in 2009 and 64% in 2008.

The most significant growth in relative terms was posted in the 'Trust Loan' segment, ranging from USD 10,001 to USD 20,000, with the outstanding portfolio increasing by 47% during the year to USD 19 million (1,700 loans), with 1,088 Trust Loans for USD 18 million disbursed during the year. This segment was added in 2008 to further improve efficiency by applying Micro Lending technology and speed to larger loans.

The SME portfolio (loans over USD 20,000) grew by 11% in 2010 to USD 135 million with a total of 1,781 loans for USD 129 million disbursed during the year (average loan size of USD 72,431). The SME Portfolio at Risk > 30 days finished the year at 1.01%, with USD 1.3 million written-off during the year. Maintaining portfolio quality remains management's top priority.

BREAKDOWN OF OUTSTANDING BUSINESS PORTFOLIO BY LOAN SIZE AT DISBURSEMENT AS OF 31 DEC 2010



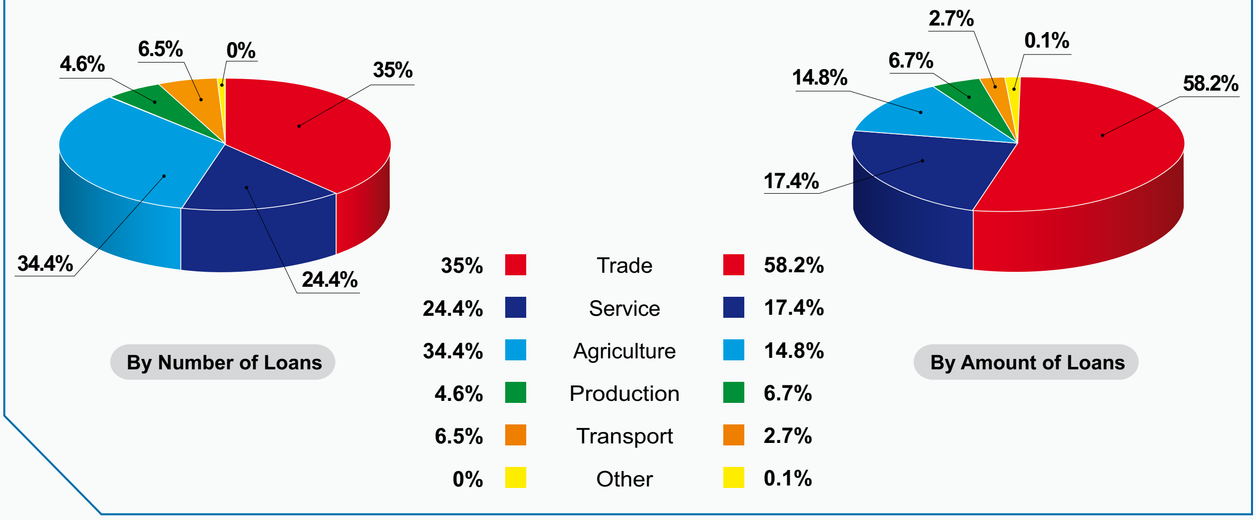
The diversification of AccessBank's loan portfolio across economic sectors continued to improve in 2010. Reflecting the structure of the economy and microfinance in general, the wholesale and retail trade segment continued to claim the largest share, with 58.2% of the outstanding business loan portfolio in terms of amount at year-end. This was followed by services (17.6%) and agriculture (14.8%). Despite the high figure for trade, this number has decreased over the years from 73% at 2006-end. The portfolio in this sector is also highly diversified across a wide range of both wholesale and retail activities. The decrease in the proportion of the portfolio accounted for by trade was absorbed by the agricultural sector, which recorded the largest growth in 2010 from 12.3%. In terms of number of loans, the agricultural sector now accounts for a much higher share, over one-third of the total – reflecting the smaller average loan size in the 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 Agro Loan product portfolio had reached USD 50 million with an average disbursal of only USD 2,230. Quality also remains excellent with Portfolio at Risk of 1.37%, although this does mark an increase on the 2009-end figure of 0.28%, reflecting the fact that 2010 was a relatively weak year for agriculture in Azerbaijan due to inclement weather affecting some crops. 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).

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 Trade Financing or managing company payrolls through AccessBank under Salary Projects. 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

BREAKDOWN OF OUTSTANDING BUSINESS PORTFOLIO BY SECTOR AS OF 31 DEC 2010



RETAIL BANKING AND OPERATIONS

its strategic objective of expanding and diversifying AccessBank's funding base for core, micro and small business lending activities.

DEPOSITS AND CURRENT ACCOUNTS

The growth of deposit and current accounts volume in 2010 remained extremely strong after an exceptional 2009. Total deposits increased a further 86% in 2010 after 210% growth in 2009 to reach USD 152 million (182,000 accounts), compared with USD 82 million (115,000 accounts) at 2009-end and only USD 26 million at 2008-end. The share of Total Assets financed by deposits has now tripled over the last two years to 33% at 2010-end, compared to 11% at 2008-end.

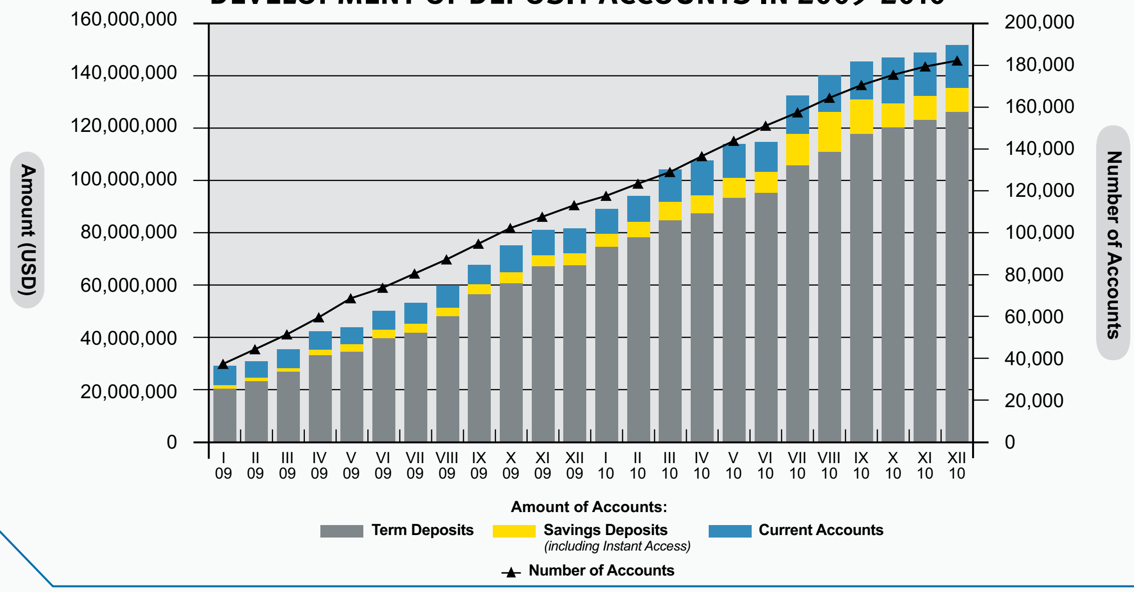
ACCOUNT TURNOVER

Account turnover increased by 33% in 2010 despite businesses' continued preference for informal transfer systems that bypass both tax authorities and legal restrictions on international payment transfers. While this non-cash turnover increased to USD 233 million, cash turnover increased 68% to USD 835 million in 2010 from USD 497 million in 2009. 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, Caspian Money, 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 24% to 37,500 in 2010, while the total amount transferred increased by 18% to USD 22 million.

DEVELOPMENT OF DEPOSIT ACCOUNTS IN 2009-2010



OUR CLIENTS

■ Namig Agayev learned his trade in his uncle's wood-workshop in Baku for seven years before returning to his hometown of Khudat, in northern Azerbaijan, to set up on his own. He started by renting a corner of someone else's workshop, but, on the basis of the experience he gained in Baku, he developed his business quickly and was able to add two employees. However, when Mr Agayev received large orders he often found himself short of capital to purchase the wood he needed. Also, Mr Agayev wanted to buy fresh wood and cure this himself, so as to increase his margins and have more control over the quality of his raw materials, but curing wood takes time and requires more capital. With a AZN 1,000 loan from AccessBank in 2008, Mr Agayev was able to buy fresh wood at lower prices and take larger orders. This has helped him to improve the quality of his products and expand his business so that he now has six employees and rents his own workshop. Mr Agayev's income has also grown, helping him to support his young and growing family.

VISA CARDS

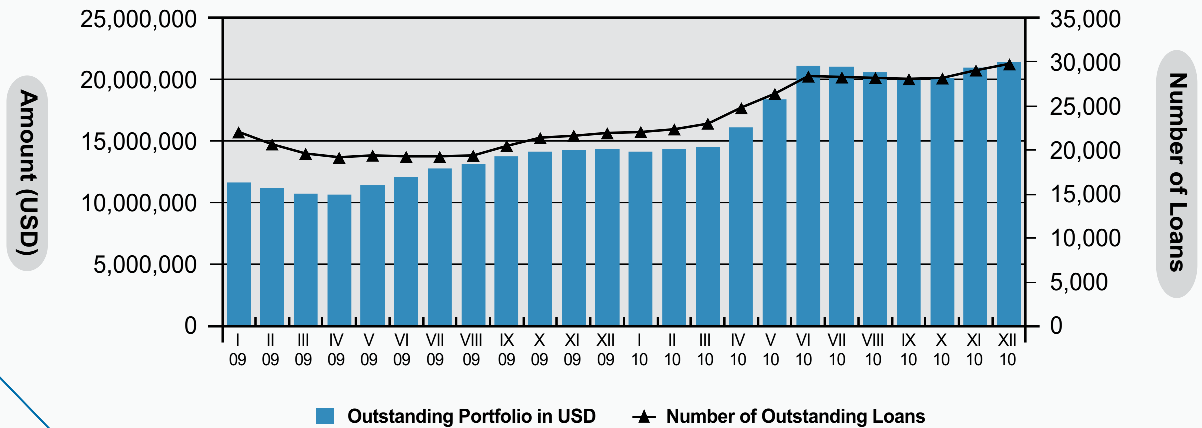
In 2010, AccessBank continued its focus on increasing the client base for the Bank's Visa-branded plastic cards through Salary Projects, expansion of the ATM network, and wider acceptance. Features of the AccessBank Visa Cards include a 'multi-currency' option, meaning that the cards can be linked to 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. Salary Projects, whereby employees receive their salaries from their employer via their AccessBank debit cards further encourage the use of current accounts by SMEs, corporate clients and their employees and strengthen their relationship with the Bank. The number of Salary Projects by the end of 2010 reached 126 with 10,000 cards, from 96 with 7,500 cards at 2009-end. The total number of debit cards increased by 30% to 19,519 from 15,070, and the total volume of transactions increased even faster – up 64% to USD 42 million. Improvements in AccessBank's plastic cards offering in 2010 included receiving 'Principal Membership' status from Visa which will allow AccessBank to perform clearing of international transactions directly with Visa, rather than another intermediary; the acceptance of MasterCard at all ATMs; complete in-house card generation (reducing cost and reducing the time required to issue new cards); and provision of insurance for cardholders for fraudulent transactions by third parties.

RETAIL LENDING

AccessBank's Retail lending serves three strategic objectives: firstly, it fulfils our mission of providing financial services to low and middle income households; secondly, it helps AccessBank develop a retail client base for attracting deposits; and thirdly, it strengthens links with SME and corporate clients by providing financing to their customers and employees. AccessBank's range of Retail loan products includes: Partner Loans – providing financing to the customers of retailers of core household goods; Auto Loans; Cash Loans to individuals in selected stable professions; and Deposit Loans – loans secured by deposit that allow clients to obtain short-term financing without having to break their long-term deposits.

In 2010 the Retail loan portfolio increased by 49% ending the year at USD 21 million (30,000

RETAIL CREDIT DEVELOPMENT (OUTSTANDING PORTFOLIO IN USD) IN 2009-2010



Azerbaijan 1 - 0 Turkey
12 October 2010

loans). However, this growth was from a low starting point and the Retail loan portfolio remains a relatively small percentage of the total portfolio at 6.3%.

AccessBank is committed to developing retail lending responsibly to ensure that clients are not overburdened 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 0.56% at year-end, with only 95 Retail loans for USD 59,000 written off in 2010.

MARKETING

In 2010 AccessBank became one of the main sponsors of the Azerbaijan Football Federations Association (AFFA). This sponsorship supports eleven national football teams, including men's and women's senior and junior teams, and indoor and beach football teams. AccessBank and AFFA are also working together to promote and support the development of football and healthy sports participation in schools and across the country, as we strive to go beyond our core mission in playing a positive role in the communities we work in.

Other marketing activities continue to include television, billboard and bus advertisements. These have focused on the availability of loans, which has continued to act as the Bank's most successful 'deposit' promotion campaign to date as it instils public confidence in the Bank. Other marketing activities extended from localised promotions for new branch openings to community outreach events. The Marketing Department also supports AccessBank's Call Centre, which is fielding more than 450 calls per day.

REFINANCING

In 2010 AccessBank met most of its refinancing needs with increasing deposits and retained earnings. The Bank obtained a total of only USD 25.5 million in new refinancing during the year and rolled-over a further USD 5.5 million – significantly less than the USD 70 million received in 2009 and USD 81 million in 2008. Total outstanding borrowed funds contracted from USD 221 million to USD 203 million during the year, and the share of assets financed by foreign borrowings decreased to 43% from 58% at 2009-end and 69% at 2008-end. Meanwhile the share of total assets financed by deposits tripled to 33% at 2010-end, from 23% at 2009-end and 11% at 2008-end. Transactions during the year included: the draw-down of an AZN denominated loan from EBRD of USD 10 million; a new USD 3 million loan from DWM Income Funds also denominated in AZN; a draw-down of USD 5 million from the OPEC Fund for International Development; a new loan of USD 7.5 million from the Microfinance Enhancement Facility; and the roll-over of three expiring loans for USD 5.5 million from Triodos Fair Share Fund/Triodos Doen. While the amount of international refinancing AccessBank required in 2010 was relatively small, the Bank faces no shortage of offers of funding from international lenders. This position is reinforced by the continuing annual reconfirmation of AccessBank's BB+ Long-Term Issuer Default Rating by Fitch Ratings, the highest rating for any private Azerbaijani bank and coupled with the highest individual rating of any bank in the country at 'D'.

INFRASTRUCTURE

In 2010, AccessBank opened five new branches, three in the regions and two sub-branches in Baku, bringing the total to 28. The regional branches included full service branches in Barda and Goychay. The other regional branch was the addition of a Retail branch in Ganja in order to take pressure off the main branch while also offering more targeted services to clients. Likewise, two sub-branches offering retail services excluding Retail lending were opened in Baku suburbs, reducing the travel burden on clients. With these additions, AccessBank now serves 13 main cities and towns of Azerbaijan and covers most of the population with a branch in their own or an adjacent region.

In November, AccessBank purchased a building in Baku for use as the Bank's future Head Office. This will allow the Bank to consolidate its entire Head Office staff in one location and is expected to guarantee the Head Office needs for the next twenty years. Refurbishment of the building will be one of the two major infrastructure projects in 2011. The second infrastructure project, which has already been initiated and will continue through the next two years, is the migration of the Bank's core banking software to Temenos T-24 MCB. These will be major investments for the Bank over the next two years, both in financial terms and management capacity.

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 escalating (see 'One Client – One Lender' box, p.12). Strengthening risk management and control remains a continual and constant process. Credit and Operational risk , the major risks faced by AccessBank, is managed at branch level by strict policies and procedures, segregation of functions, and Senior Loan Officers, Senior Back Office Specialists, Chief Cashiers, and Heads of SME and Customer Service. These are branch-level managers dedicated to training, supervising and controlling their respective teams. They are supported by their Branch Manager and Head Office Business and Departmental Heads and training and support staff.

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 a Risk Management Department and Risk, ALCO and IT committees, reporting quarterly to the Supervisory Board. Since its creation the Risk Management Department has grown to eight staff, responsible for reviewing all exposures over USD 100,000, undertaking selective portfolio reviews, and strategic monitoring and analysis of all aspects of risk.

Currency and liquidity risk is managed by a daily review by the Treasury Department, Finance Director and General Manager of the Bank's currency and liquidity position and of their compliance with limits set by the Supervisory Board. Currency Risk is minimised by balancing lending in local and foreign currency with the Bank's local and foreign currency resources (see 'Clients Benefit from AccessBank's Profitability' box, p.14). Management of Currency, Liquidity and Interest Rate risk is then reviewed on a monthly basis by the ALCO Committee and on at least a quarterly basis by the Risk Committee and Supervisory Boards.

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, contrib-

uting to management's control capacities and risk management. This will be further strengthened with the introduction of the Temenos T24 system, which has been vetted throughout internationally respected banks over many years.

The efficacy of the control mechanisms and Risk Management in AccessBank is subject to constant review by the Internal Audit Function. By 2010-end, the Audit Department numbered nine 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 risk and audit specialists in Berlin, from LFS, at the AccessHolding level.

OUTLOOK

The economic stability prevalent in 2010 is expected to persist through 2011 and beyond, especially as the outlook for oil prices remains strong. Nevertheless, credit risk continues to challenge the banking sector as some businesses are struggling to deal with the changing economic environment after the 'boom-years' of 2005-2008. In addition, the weaker agricultural year of 2010 is having a trickledown effect on a wide range of consumers and consumer-oriented businesses, especially in the regions of Azerbaijan.

The developments in Azerbaijan's economy are reflected in AccessBank's own development: growth rates for the Bank are also slowing as the changing economic environment is dampening demand for financing and as the main expansion of AccessBank's branch network nears completion. However, the slower economic growth and lower inflation have had a positive impact on savings, making deposits more appealing. This has served to diversify AccessBank's funding sources and also increased the Bank's local currency resources, helping the Bank increase AZN lending and reduce currency risk for its clients and therefore itself. The Bank will continue to seek ways of reducing and mitigating risk where possible and is now prioritising strengthening of risk management and control over growth for 2011 and the medium term.

Although competition in the sector has intensified in recent years, AccessBank remains the only bank focused on serving the needs of Azerbaijan's micro and small businesses and low and middle income households. As such, it remains the leading bank with both the dedicated products and proven risk management expertise to serve these market segments responsibly and sustainably. Unlike non-bank microfinance institutions, AccessBank is able to offer a complete range of financial services to clients, including current and savings accounts and money-transfer systems. AccessBank enters 2011 in a robust position with high capital adequacy and liquidity, excellent portfolio quality, strong deposit growth and a deep pool of refinancing partners. AccessBank's leading reputation in the Azerbaijani banking market has been cemented by good service, reliability, and visibility. The management team and staff have proven their expertise and ability to deal with new challenges and are confident that, together with the shareholders, AccessBank will face-up to any uncertainties that 2011 may bring.

OUR CLIENTS

■ Tarlan Movlamov began making baklava in Khachmaz in 1987 in a small workshop in his yard. Using high quality ingredients, his confectionery became known throughout the region, even though he sold his baklava at a premium price. However, his workshop was small and cramped, limiting his output and making the work gruelling. So with five loans from AccessBank ranging from AZN 500 to AZN 1400, Mr Movlamov has built a new larger workshop and home in a village outside the city to house his business as well as family of seven.

CORPORATE GOVERNANCE, ORGANISATION AND STAFF

From its foundation, the Shareholders and management of AccessBank have been committed to pursuing the highest standards and international best practice in Corporate Governance and organisation of the Bank. The Organisational Structure of the Bank is clearly defined with all duties, responsibilities and processes delimitated and documented in policies, procedures and job descriptions. The revision and improvement of these policies and procedures as well as Corporate Governance in the Bank as a whole, is a continual and constant process. AccessBank's leading commitment to Corporate Governance was confirmed in 2010 by the Standard & Poor's Ratings Agency which ranked AccessBank as the 'most transparent Azerbaijani bank' in its inaugural Transparency & Disclosure (T&D) Survey of Azerbaijan's banking sector.

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.

AccessBank has a matrix management structure, in which technical supervision by Head Office departments complements a hierarchical structure where staff in branches report to their respective branch managers. Business managers for Micro, SME and Retail Lending, Credit Back Office, Banking Services, Plastic Cards and Cashiers oversee their respective activities throughout the branch network, providing branch managers and staff with invaluable support and guidance.

GENERAL ASSEMBLY OF SHAREHOLDERS

The highest decision-making body in AccessBank is the General Assembly of Shareholders, which met five times in 2010, with 100% of the shares represented by physically present individuals at all five meetings. The General Assembly appoints the five members of the Supervisory Board, members of the Management Board, and Audit, Risk, ALCO and IT Committees and determines the remuneration of the Supervisory Board and Audit Committee members. Other responsibilities include the approval of the external auditor and the audited financial statements, creation of reserves, extraordinary audits and branch openings and closing. Further powers include all actions regarding the shares of the Bank, including distribution of profit, increases in charter capital, issuance or listing of shares and selling of shares to any party.

SUPERVISORY BOARD

In 2010, the Supervisory Board consisted of Mr Michael Jainzik, Chairman; Mr Syed Aftab Ahmed; Mr Orhan Aytemiz; Mr Thomas Engelhardt and Ms Victoria Miles (see facing page). The Supervisory Board met five times in person in 2010, three times with all five Supervisory Board members physically attending, and twice with four members physically present.

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 different capacities. All five have extensive relevant, but also diverse, regional and professional experience. AccessBank thus benefits from having a very strong Supervisory Board that has a deep understanding of the Bank, the region, microfinance and banking.

The Supervisory Board of AccessBank is ap-

ACCESSBANK SUPERVISORY BOARD MEMBERS

Mr MICHAEL JAINZIK, *Chairman*
Member and Chairman of AccessBank's Supervisory Board since December 2006. After being responsible for KfW's banking sector investments in Azerbaijan from 2003 to 2007, Mr Jainzik currently works as a Principal Sector Economist in KfW's competence centre for financial system development. Mr Jainzik studied Economics and Management at the Universities of Lüneburg and Witten/Herdecke (Germany) and ETEA Córdoba (Spain) and received the degree of "Diplom-Ökonom" (German equivalent to a Masters in Economics and Management). Mr Jainzik is fluent in German and English, and also speaks Spanish. Apart from AccessBank, Mr Jainzik serves on the Supervisory Boards of the Belarusian Bank for Small Business and the Luxemburg-based microfinance investment company Rural Impulse Fund II. For Rural Impulse Fund II, he also serves on the fund's Investment Committee.

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

Mr ORHAN AYTEMIZ
Member of AccessBank's Supervisory Board since its inception (June 2002). He has been a Director in BSTDB's Project Finance group, based in Thessaloniki, Greece, since January 1999 where he is responsible for project and corporate finance and equity investments in general industries, transportation, tourism and real estate sectors in the countries of operation of BSTDB. His previous experience includes working for the Turkish Development Bank and Turk Eximbank in Turkey. Mr Aytemiz graduated with an MA in Sociology from Eastern Michigan University and with a BS in Business Administration from Middle East Technical University. He is Turkish and is fluent in Turkish and English.

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

Ms VICTORIA MILES
Member of AccessBank's Supervisory Board since February 2010. Ms Miles joined JPMorgan in 2000 and is now Co-Head of the Global Emerging Market Corporate Fixed Income Research team, as well Head of Strategy for CEEMEA Corporate Research and the Senior Credit Research Analyst for Emerging Markets Financial Institutions. She has specialized in emerging markets research since 1993. Ms Miles has received the number one ranking in the Institutional Investor Poll for Eastern European Credit Analysts and in the Euromoney Poll for emerging markets credit research many times. She graduated from Durham University with a BA in Economics and Spanish. Ms Miles is British and is fluent in English and Spanish.

pointed by the General Assembly of Shareholders and determines the business policy of the Bank, within the mission framework set by the General Assembly of Shareholders, and oversees and reviews the work of the Management Board and committees of the Bank. None of the Supervisory Board members own shares in the Bank and they are remunerated for their attendance at meetings at a fixed rate determined by the General Assembly of Shareholders.

ACCESSBANK MANAGEMENT BOARD MEMBER

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 compliance officer, as well as the Legal and Human Resources departments report directly to him. Mr Shakir Ragimov is responsible for Business Banking and Risk Management. Mr Anar Gasanov is responsible for Retail and Operations including Plastic Cards, Marketing, and the Call Centre. Mr Rufat Ismayilov is responsible for the Bank's Infrastructure, including Procurement, Security and IT. And Elshan Hajiyev, the Finance Director, is in charge of Accounting, Financial Control and the Treasury Department. Branch managers report to the Management Board as a whole.

Remuneration of the Management Board is determined by the Supervisory Board and may include annual bonuses related to the performance of the Bank which in 2010 did not exceed 25% of their total remuneration. No managers or employees of AccessBank are shareholders of AccessBank.

AUDIT COMMITTEE – The Audit Committee is appointed by the General Assembly of Shareholders and reports directly both to the Supervisory Board and General Assembly of Shareholders. The Audit Committee oversees the work of the Internal Audit Department (see Risk Management above) and reviews the work of the External Auditors. It consists of three members with a broad range of local and international audit and banking experience: Christopher Falco, Chairman, is a Senior Banker at the European Bank for Reconstruction and Development, based in Baku, with extensive experience in banking and MSME consulting; Mr Sohrab Farhadov received his MA in Economics at Bowling Green State University and has since worked in audit and financial control in Azerbaijan; Ms Alexandra Weichesmiller is an international audit specialist with LFS Financial Systems and previously was a Senior Auditor with Ernst & Young.

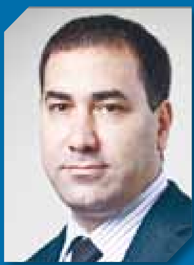
ALCO COMMITTEE – The ALCO Committee is appointed by and reports directly to the Supervisory Board. The Committee reviews on a monthly basis: liquidity; maturity, currency and interest rate matching; and compliance with regulatory norms and covenants including capital adequacy and large loan exposures.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

RISK COMMITTEE – The Risk Committee is appointed by and reports directly to the Supervisory Board. The Committee monitors and reviews on a quarterly basis systemic and bank specific risks, including sector, currency, liquidity, refinancing, market and operational risks. The Committee also reviews macro economic and social developments in Azerbaijan and how this could impact on the business of the Bank and makes recommendations to Bank management on adjustments in lending and refinancing policy. The Committee is comprised of the Management Board and the Head of Risk.

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

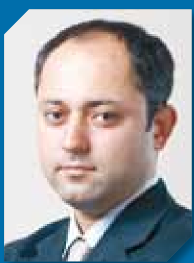
ACCESSBANK MANAGEMENT BOARD MEMBERS

Dr ANDREW POSPIELOVSKY,
General Manager and Chairman of the Management Board
Joined AccessBank in June 2006 as General Manager and Chairman of the Management Board, and is responsible for the day-to-day management of the Bank. Prior to joining AccessBank, Dr Pospielovsky worked on numerous MSME projects throughout the former Soviet Union as well as in Asia and Africa with particular focus on risk management, product development, MIS updating, and marketing. He has also worked as an Emerging Markets Analyst and a Lecturer at the University of London, where he attained his Doctoral degree. Dr Pospielovsky also serves on the supervisory boards of AccessBank Tajikistan and DAWF – the German - Azerbaijan Business Association. Originally from England, Dr Pospielovsky is fluent in English and Russian.



Mr RUFAT ISMAYILOV, *Deputy General Manager and Infrastructure Director*
Joined AccessBank in September 2002 as a Micro Loan Officer. Promoted to Senior Loan Officer and subsequently to Branch Manager of Central Branch, prior to his appointment as Administration Manager in 2005. In February 2006, Mr Ismayilov joined the Management Board with responsibility for the Bank's Infrastructure and Procurement. He has a Master's Degree in Finance from the Azerbaijan State Economic University. Mr Ismayilov also serves on the supervisory board of the Azerbaijan Micro-Finance Association (AMFA). Mr Ismayilov is Azeri and is fluent in Azerbaijani, Russian and English.

Mr SHAKIR RAGIMOV, *Business Banking Director*
Joined AccessBank in September 2002 as a Micro Loan Officer. Promoted to Senior Loan Officer and in March 2004 to the newly established SME Department, which he then headed from December 2005. In April 2008, he was promoted to Head of the Business Banking Department and became a member of the Management Board. He has a Master's Degree in Business Administration and Finance from the Azerbaijan State Economic University. Mr Ragimov is Azeri and is fluent in Azerbaijani, Russian and English.

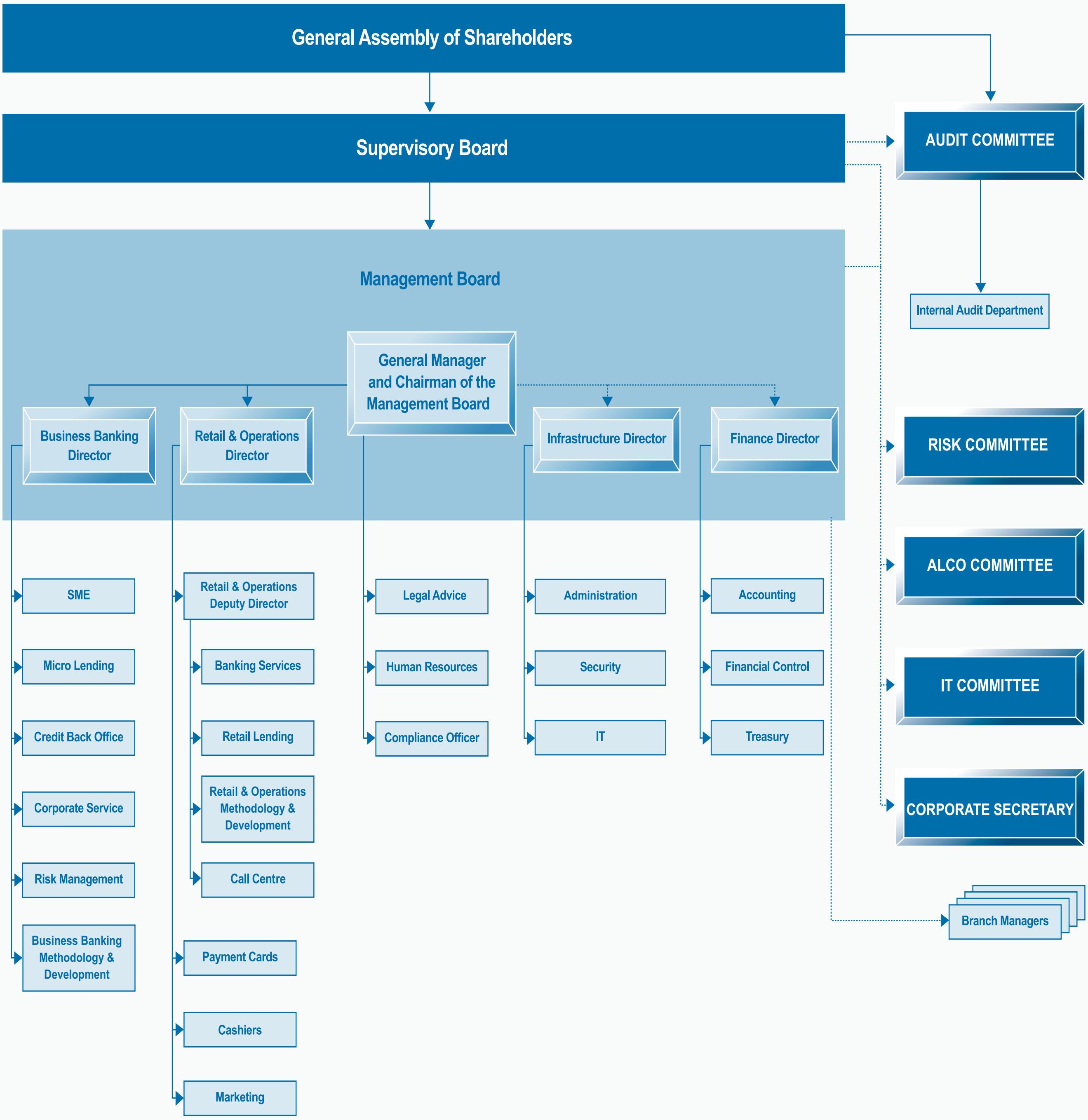


Mr ANAR GASANOV, *Retail & Operations Director*
Joined AccessBank in September 2002 as a Micro Loan Officer. Promoted to Senior Loan Officer then to the SME Department. In July 2006 he was appointed to the newly created post of Head of Retail Banking, where he was involved in the creation and development of AccessBank's Banking Services, Plastic Cards and Consumer Lending departments and deposit products. In September 2007 Mr Gasanov was appointed to the Management Board as the Director of Retail Banking and Operations. Mr Gasanov has a Master's Degree in Banking and Lending from Istanbul University. He is Azeri and fluent in Azerbaijani, Turkish, Russian and English.

Mr ELSHAN HAJIYEV, *Finance Director*
Mr Hajiyev has been the Finance Director and a member of AccessBank's Management board since the founding of the Bank. Prior to joining AccessBank Mr Hajiyev worked at HSBC Bank in Baku as a Financial Control Supervisor for six years and, prior to that, at the Industrial Investment Bank of Azerbaijan in Baku and Menatep Bank in Moscow. He has a Master's Degree in Freight Transport from the Moscow Institute for Road Transport and a diploma in Financial Services Management from the Institute of Financial Services (Chartered Institute of Bankers, UK). Mr Hajiyev is Azeri and is fluent in Azerbaijani, Russian and English.

CORPORATE GOVERNANCE, ORGANISATION AND STAFF

ORGANISATION CHART AS AT DECEMBER 2010




Daily Reports
Daily Reports
Daily Reports

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 SMART 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. Women make up 36% of the total workforce of the Bank and 26% of the management.

Humanitarian aid for families of victims of the Khodjaly Massacre

Excursion for disabled children to the country in Ganja

Blood donation drive for thalessemic children

The transparent, clean and un-bureaucratic financial services provided to AccessBank's clients meet the anti-corruption standards of the Global Compact and SMART 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 on the internet, available to all. This transparency was recognised in 2010 when Standard & Poor's named AccessBank the most transparent bank in Azerbaijan in their 'Transparency and Disclosure by Azerbaijani Banks' report.

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 being burdened with debt they may not be able to afford. The commitment to this principle is 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 – 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, paying AZN 11.5 million (USD 14.4 million) in taxes and social insurance payments in 2010 (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 the box 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 ecosystem 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. This commitment extends to a procurement policy focused on minimizing the environmental impact of purchases. As a commitment to these ideals, AccessBank was the first financial institution in Azerbaijan to print its Annual Report 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 2010 include: sponsoring the Girls Leading Our World (GLOW) summer camp for schoolgirls from the regions of Azerbaijan, with participation of an AccessBank female manager; distribution of food to needy families for the holidays by Bank staff; regular visits by staff to various homes for orphans, disabled, pensioners and veterans to distribute goods, and provide entertainment and company; sponsorship and judging of the Azerbaijani portion of the 'Writing Olympics', an international English language writing competition; sponsorship of the 'Seeing in Colour' art exhibition and workshop for young Azeri artists organised with the British Council in Azerbaijan; financing and printing of a handbook for doctors, caregivers and relatives of people with Down's syndrome; as well as numerous other community projects handled personally by the Bank's staff.

AccessBank Closed Joint Stock Company

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

31 December 2010

CONTENTS

pwc

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 2010 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 2010, 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
29 April 2011

PricewaterhouseCoopers Audit Azerbaijan LLC
The Landmark Office Plaza III, 12th floor, 90A Nizami Street
AZ 1010, Baku, Azerbaijan
T: +994 (12) 497 25 15, F: +994 (12) 497 74 11, www.pwc.com/az

In thousands of Azerbaijani Manats	Note	31 December 2010	31 December 2009
ASSETS			
Cash and cash equivalents	7	57,805	46,567
Mandatory cash balances with the Central Bank of Azerbaijan Republic ("CBAR")		371	253
Investment securities available for sale		40	40
Due from other banks	8	7,023	9,828
Loans and advances to customers	9	266,185	233,681
Investment properties	10	21,708	-
Property, plant and equipment	11	9,382	7,123
Intangible assets	11	1,615	1,994
Deferred income tax asset	22	51	-
Other financial assets	12	527	289
Other assets	13	1,316	997
TOTAL ASSETS		**366,023**	**300,772**
LIABILITIES			
Due to other banks		-	3,005
Customer accounts	14	126,671	64,999
Other borrowed funds	15	153,692	169,120
Current income tax liability	22	130	-
Other financial liabilities	16	2,766	2,107
Other liabilities		129	34
Subordinated debt	17	8,180	8,222
TOTAL LIABILITIES		**291,568**	**247,487**
EQUITY			
Share capital	18	41,800	20,000
Retained earnings		32,655	33,285
TOTAL EQUITY		**74,455**	**53,285**
TOTAL LIABILITIES AND EQUITY		**366,023**	**300,772**

Approved for issue and signed on behalf of the Management Board on 29 April 2011.

Dr. Andrew Pospielovsky
Chairman of the Management Board

Mr. Elshad Hajiyev
Finance Director, member of the Management Board

At 31 December 2010, the prevailing exchange rates were USD 1 = AZN 0.7979 and EUR 1 = AZN 1.056 (31 December 2009: USD 1 = AZN 0.8031 and EUR 1 = AZN 1.1499), refer to Note 3.

In thousands of Azerbaijani Manats	Note	2010	2009
Interest income	19	87,703	68,198
Interest expense	19	(25,589)	(18,733)
Net interest income		**62,114**	**49,465**
Provision for loan impairment	9	(2,067)	(2,599)
Net interest income after provision for loan impairment		**60,047**	**46,866**
Fee and commission income	20	1,129	767
Fee and commission expense	20	(175)	(171)
Gains less losses from foreign currency dealing		749	893
Foreign exchange (loss)/ gain		75	(528)
Other operating income		78	34
Impairment loss on property, plant and equipment		(257)	-
Administrative and other operating expenses	21	(35,397)	(27,879)
Profit before tax		**26,249**	**19,982**
Income tax (expense) / credit	22	(79)	4
Profit for the year		**26,170**	**19,986**
Other comprehensive income for the year		**-**	**-**
Total comprehensive income for the year		**26,170**	**19,986**
Earnings per share for profit attributable to the equity holders of the Bank, basic and diluted (expressed in AZN per share)	23	**1.31**	**0.99**

In thousands of Azerbaijani Manats	Share capital	Retained earnings	Total
Balance at 31 December 2008	**20,000**	**13,299**	**33,299**
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**
Increase in share capital	21,800	(21,800)	-
Dividend paid/declared	-	(5,000)	(5,000)
Total recognised profit for the year attributable to ordinary shareholders	-	26,170	26,170
Balance at 31 December 2010	**41,800**	**32,655**	**74,455**

In thousands of Azerbaijani Manats	Note	2010	2009
Cash flows from operating activities			
Interest received		87,573	67,157
Interest paid		(22,207)	(16,741)
Fees and commissions received		1,129	767
Fees and commissions paid		(175)	(171)
Income received from foreign currency dealing		749	893
Other operating income received		78	33
Staff costs paid		(20,761)	(15,494)
Administrative and other operating expenses paid		(11,696)	(10,052)
Income tax paid		-	(1,755)
Cash flows from operating activities before changes in operating assets and liabilities		**34,690**	**24,637**
Net (increase) / decrease in mandatory cash balances with the CBAR		(118)	742
Net decrease / (increase) in due from other banks		2,658	(9,637)
Net increase in loans and advances to customers		(34,294)	(71,739)
Net increase in other financial assets and other assets		(576)	(126)
Net (decrease) / increase in due to other banks		(3,005)	3,003
Net increase in customer accounts		58,525	41,534
Net increase in other financial liabilities		181	90
Net increase in other liabilities		95	34
Net cash generated from / (used in) operating activities		**58,156**	**(11,462)**
Cash flows from investing activities			
Proceeds on sale of investment securities available for sale		-	5,945
Acquisition of investment property	10	(21,708)	-
Acquisition of property and equipment		(4,400)	(2,906)
Acquisition of intangible assets		(179)	(1,566)
Net cash (used in) / generated from investing activities		**(26,287)**	**1,473**
Cash flows from financing activities			
Proceeds from other borrowed funds	15	26,203	52,330
Repayment of other borrowed funds		(41,909)	(11,606)
Dividend paid		(5,000)	-
Net cash (used in) / generated from financing activities		**(20,706)**	**40,724**
Effect of exchange rate changes on cash and cash equivalents		**75**	**(528)**
Net increase in cash and cash equivalents		**11,238**	**30,207**
Cash and cash equivalents at the beginning of the year		46,567	16,360
Cash and cash equivalents at the end of the year	7	**57,805**	**46,567**

1 Introduction

These financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2010 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, with a focus on serving agricultural, and micro and small business customers.

The Bank participates in the state deposit insurance scheme, which was introduced by the Azerbaijani Law, "Deposits of individuals insurance in Azerbaijan Republic" dated 29 December 2006. The State Deposit Insurance Fund guarantees full repayment of deposits of individuals in the amount up to AZN 30,000.

The Bank has twenty eight branches within the Republic of Azerbaijan. (31 December 2009: twenty three branches).

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.

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 global financial and economic crisis which commenced in the middle of 2007 has resulted in, among other things, at times a lower level of capital market funding and higher interbank lending rates and lower liquidity levels across the Azerbaijani banking sector. At times this has resulted 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.

De-recognition 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.

3 Summary of Significant Accounting Policies (continued)

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. 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 other non-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 the end of each reporting period, 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 end of each reporting period.

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.

3 Summary of Significant Accounting Policies (continued)

Investment property. Investment property is property held by the Bank to earn rental income or for capital appreciation, or both and which is not occupied by the Bank. Investment property includes assets under construction for future use as investment property.

Investment property is initially recognised at cost, and subsequently measured by using cost model whereby carrying amount is equal to assets acquired less accumulated depreciation and provision for impairment, where required. If any indication exists that investment properties may be impaired, the Bank estimates the recoverable amount as the higher of value in use and fair value less costs to sell. The carrying amount of an investment property is written down to its recoverable amount through a charge to profit or loss for the year. An impairment loss recognised in prior years is reversed if there has been a subsequent change in the estimates used to determine the asset's recoverable amount.

Earned rental income is recorded in profit or loss for the year within other operating income.

Subsequent expenditure is capitalised only when it is probable that future economic benefits associated with it will flow to the Bank and the cost can be measured reliably. All other repairs and maintenance costs are expensed when incurred. If an investment property becomes owner-occupied, it is reclassified to premises and equipment. Depreciation on items of investment property is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives. Estimated useful lives of investment property are 20 years.

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

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
Investment properties	20 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.

3 Summary of Significant Accounting Policies (continued)

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 4 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.

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 statement of financial position 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 or 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 end of the reporting period. 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.

3 Summary of Significant Accounting Policies (continued)

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 end of the reporting period, 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 registered 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 2010, the Bank did not recognise deferred taxes for those temporary taxable and deductible differences which will be reversed between 31 December 2010 and 31 December 2011.

Uncertain tax positions. The Bank's uncertain tax positions are reassessed by management at the end of each reporting period. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of the reporting period and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on management’s best estimate of the expenditure required to settle the obligations at the end of the reporting period.

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.

3 Summary of Significant Accounting Policies (continued)

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.

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 end of the respective reporting period. 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.

At 31 December 2010, the principal exchange rates were USD 1 = AZN 0.7979 and EUR 1 = AZN 1.0560 (31 December 2009: USD 1 = AZN 0.8031 and EUR 1 = AZN 1.1499).

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.

3 Summary of Significant Accounting Policies (continued)

***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.

The third statement of financial position as of 1 January 2009 is not presented in these financial statements as a result of the below described changes in presentation. 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 statement of financial position as of 1 January 2009 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 31.12.2009	Changed IFRS figures of 31.12.2009 in 31.12.2010 financial statements	Reason for reclassification
Fee and commission income Settlement transactions – AZN 37 thousand Other – AZN 71 thousand	**Fee and commission income** Settlement transactions – AZN 25 thousand Commission from plastic cards – AZN 180 thousand Other – AZN 17 thousand	Commission from Plastic card transactions have been removed from "Settlement transactions" and from "Other" and added as a separate line for consistency with current year's figures.
Fee and commission expense Settlement transactions – AZN 38 thousand Plastic cards – AZN 76 thousand Other – AZN 14 thousand	**Fee and commission expense** Settlement transactions – AZN 35 thousand Plastic cards – AZN 88 thousand Other – AZN 5 thousand	Commission expense has been removed from "Plastic card" subsection to "Settlement transactions" subsection and Commission expense has been removed from "Other" subsection to "Settlement transactions" subsection to achieve a more appropriate presentation.
Statement of Cash Flows 2010	**Statement of Cash Flows 2009**	**Reason for changes**
Gross Income received from trading in foreign currencies – AZN 749 thousand (2009: AZN 893 thousand) Effect of exchange rate changes on cash and cash equivalents – AZN 75 thousand (2009: AZN (528) thousand)	**Net** Effect of exchange rate changes on cash and cash equivalents – AZN 365 thousand	Management decided to change presentation of the gains and losses from foreign currencies and present them separately on the face of the Statement of Cash Flows, including the comparative information. Management concluded that this change in presentation was immaterial, therefore not further disclosures were made in this financial statements regarding this change.

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.

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 30.

Classification of the partially leased out building as "Investment property". Main part of a premise that the Bank possessed as at 31 December 2010 with a carrying value of AZN 21,708 thousands was leased out to third parties. Management considered the relevant clause in IAS 40 requiring that, if the portions of the premise could not be sold separately, the property would be classified as investment property only if an insignificant portion is held for use for administrative purposes. Therefore, this premise was classified as Investment Property as at 31 December 2010.

5 Adoption of New or Revised Standards and Interpretations

Certain new standards and interpretations became effective for the Bank from 1 January 2010:

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 should be recognised in profit or loss when the entity settles the dividend payable.

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.

5 Adoption of New or Revised Standards and Interpretations (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 requires 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 previous standard required 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 has to be measured at its fair value.

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 allows entities to choose to measure non-controlling interests using the previous IFRS 3 method (proportionate share of the acquiree'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 has to re-measure its previously held equity interest in the acquiree 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 are accounted for separately from the business combination and therefore recognised as expenses rather than included in goodwill. An acquirer has to recognise a liability for any contingent purchase consideration at the acquisition date. Changes in the value of that liability after the acquisition date are 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.

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.

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.

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.

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.

5 Adoption of New or Revised Standards and Interpretations (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. In addition, the amendments clarifying classification as held for sale under IFRS 5 in case of a loss of control over a subsidiary published as part of the *Annual Improvements to International Financial Reporting Standards,* which were issued in May 2008, are effective for annual periods beginning on or after 1 July 2009.

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

6 New Accounting Pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2011 or later and which the Bank has not adopted early.

Classification of Rights Issues - Amendment to IAS 32 (issued on 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.

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.

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 profit or loss based on the fair value of the equity instruments compared to the carrying amount of the debt.

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.

6 New Accounting Pronouncements (Continued)

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.

IFRS 9, Financial Instruments Part 1: Classification and Measurement. IFRS 9 issued in November 2009 replaces those parts of IAS 39 relating to the classification and measurement of financial assets. IFRS 9 was further amended in October 2010 to address the classification and measurement of financial liabilities. Key features of the standard 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.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated as at fair value through profit or loss in other comprehensive income.

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

Disclosures—Transfers of Financial Assets – Amendments to IFRS 7 (issued in October 2010 and effective for annual periods beginning on or after 1 July 2011.). The amendment requires additional disclosures in respect of risk exposures arising from transferred financial assets. The amendment includes a requirement to disclose by class of asset the nature, carrying amount and a description of the risks and rewards of financial assets that have been transferred to another party yet remain on the entity's statement of financial position. Disclosures are also required to enable a user to understand the amount of any associated liabilities, and the relationship between the financial assets and associated liabilities. Where financial assets have been derecognised but the entity is still exposed to certain risks and rewards associated with the transferred asset, additional disclosure is required to enable the effects of those risks to be understood.

6 New Accounting Pronouncements (Continued)

Improvements to International Financial Reporting Standards (issued in May 2010 and effective from 1 January 2011). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: IFRS 1 was amended (i) to allow previous GAAP carrying value to be used as deemed cost of an item of property, plant and equipment or an intangible asset if that item was used in operations subject to rate regulation, (ii) to allow an event driven revaluation to be used as deemed cost of property, plant and equipment even if the revaluation occurs during a period covered by the first IFRS financial statements and (iii) to require a first-time adopter to explain changes in accounting policies or in the IFRS 1 exemptions between its first IFRS interim report and its first IFRS financial statements; IFRS 3 was amended (i) to require measurement at fair value (unless another measurement basis is required by other IFRS standards) of non-controlling interests that are not present ownership interest or do not entitle the holder to a proportionate share of net assets in the event of liquidation, (ii) to provide guidance on acquiree's share-based payment arrangements that were not replaced or were voluntarily replaced as a result of a business combination and (iii) to clarify that the contingent considerations from business combinations that occurred before the effective date of revised IFRS 3 (issued in January 2008) will be accounted for in accordance with the guidance in the previous version of IFRS 3; IFRS 7 was amended to clarify certain disclosure requirements, in particular (i) by adding an explicit emphasis on the interaction between qualitative and quantitative disclosures about the nature and extent of financial risks, (ii) by removing the requirement to disclose carrying amount of renegotiated financial assets that would otherwise be past due or impaired, (iii) by replacing the requirement to disclose fair value of collateral by a more general requirement to disclose its financial effect, and (iv) by clarifying that an entity should disclose the amount of foreclosed collateral held at the reporting date and not the amount obtained during the reporting period; IAS 27 was amended by clarifying the transition rules for amendments to IAS 21, 28 and 31 made by the revised IAS 27 (as amended in January 2008); IAS 34 was amended to add additional examples of significant events and transactions requiring disclosure in a condensed interim financial report, including transfers between the levels of fair value hierarchy, changes in classification of financial assets or changes in business or economic environment that affect the fair values of the entity's financial instruments; and IFRIC 13 was amended to clarify measurement of fair value of award credits. The Bank does not expect the amendments to have any material effect on its financial statements, except the amendment to IAS 1 which was early adopted by the Bank as explained in Note 5.

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

7 Cash and Cash Equivalents

In thousands of Azerbaijani Manats	**31 December 2010**	**31 December 2009**
Cash balances with the CBAR (other than mandatory reserve deposits)	28,001	11,239
Cash on hand	20,935	12,081
Correspondent accounts and overnight placements with other banks:		
- Republic of Azerbaijan	3,540	17,332
- Other countries	5,329	5,915
Total cash and cash equivalents	**57,805**	**46,567**

7 Cash and Cash Equivalents (continued)

The credit quality of cash and cash equivalents balances may be summarised as follows at 31 December 2010:

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	28,001	-	28,001
- Rated Azerbaijani banks:			
Moody's/B2 with a stable outlook	-	143	143
Fitch/B with a stable outlook	-	12	12
Moody's/Ba2 with a negative outlook	-	1	1
Fitch/B with a negative outlook	-	11	11
- Other unrated Azerbaijani banks	-	3,373	3,373
- OECD banks	-	4,999	4,999
- Non-OECD banks	-	330	330
Total cash and cash equivalents, excluding cash on hand	**28,001**	**8,869**	**36,870**

The most recently published international ratings for the Republic of Azerbaijan are BBB-/Stable (Fitch Ratings-issued on 20 May 2010), Ba1/Positive (Moody's investors' Service-issued on 8 March 2011) and BB+/Positive (Standard Poor's-issued on 21 December 2010).

Interest rate analysis of cash and cash equivalents is disclosed in Note 25. Information on related party balances is disclosed in Note 30.

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	-	26	26
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	-	437	437
Total cash and cash equivalents, excluding cash on hand	**11,239**	**23,247**	**34,486**

8 Due from Other Banks

In thousands of Azerbaijani Manats	**31 December 2010**	**31 December 2009**
Short-term placements with other banks	7,023	9,828
Total due from other banks	**7,023**	**9,828**

On 12 November 2010 the Bank signed a deposit agreement with a rated local bank in the amount of AZN 3,000 thousand with maturity date of 12 May 2011.The deposit bears market interest rate. The outstanding amount of this deposit as of 31 December 2010 is AZN 3,023 thousand.

On 23 December 2010 the Bank signed a deposit agreement with a rated local bank in the amount of AZN 4,000 thousand with maturity date of 01 July 2011.The deposit bears market interest rate. The outstanding amount of this deposit as of 31 December 2010 is AZN 4,000 thousand.

An analysis by credit quality of amounts due from other banks outstanding at 31 December 2010 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	7,023
Total due from other banks	**7,023**

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 2010 or 31 December 2009.

Amounts due from other banks are not collateralised. 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**

Interest rate analysis of due from other banks is disclosed in Note 25. Refer to Note 28 for the estimated fair value of each class of amounts due from other banks. Information on related party balances is disclosed in Note 30.

9 Loans and Advances to Customers

In thousands of Azerbaijani Manats	31 December 2010	31 December 2009
Micro loans (up to AZN 16,000)	142,718	125,182
Small and medium enterprises loans ("SME loans" – over AZN 16,000)	108,477	98,426
Retail loans to salaried individuals	17,275	11,651
Staff loans	5,350	5,016
Less: Provision for loan impairment	(7,635)	(6,594)
Total loans and advances to customers	**266,185**	**233,681**

The movements in the provision for loan impairment during 2010 are as follows:

In thousands of Azerbaijani Manats	Micro loans	SME loans	Retail loans to salaried individuals	Staff loans	Total
Provision for loan impairment at 1 January 2010	**2,918**	**3,250**	**330**	**96**	**6,594**
Provision for impairment during the year	1,318	590	147	12	2,067
Amounts written-off during the year as uncollectible	(280)	(1,048)	(47)	-	(1,375)
Recovery of previously written-off loans	21	323	5	-	349
Provision for loan impairment at 31 December 2010	**3,977**	**3,115**	**435**	**108**	**7,635**

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 salaried 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**

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

	31 December 2010		31 December 2009	
In thousands of Azerbaijani Manats	Amount	%	Amount	%
Trade	146,339	53.4	132,936	55.3
Service	44,054	16.1	35,288	14.7
Agriculture	37,124	13.6	27,411	11.4
Household	22,707	8.3	16,659	6.9
Manufacturing	16,882	6.2	18,692	7.8
Transportation	6,714	2.4	9,289	3.9
Total loans and advances to customers (before impairment)	**273,820**	**100**	**240,275**	**100.0**

9 Loans and Advances to Customers (continued)

At 31 December 2010, the Bank had 14 borrowers (31 December 2009: 11 borrowers) with aggregated loan amounts above AZN 500 thousand. The total aggregate amount of these loans was AZN 10,672 thousand (31 December 2009: AZN 8,631 thousand) or 3.9% (31 December 2009: 3.6%) of the gross loan portfolio. The Bank is concentrated in agricultural, and micro and small business lending. The largest loan exposure to a single customer as at 31 December 2010 was the outstanding amount of loan to a local company in the amount of AZN 1,099 thousand (31 December 2009: AZN 1,526 thousand).

Information about collateral at 31 December 2010 is as follows:

In thousands of Azerbaijani Manats	**Micro loans**	**SME loans**	**Retail loans to salaried individuals**	**Staff loans**	**Total**
Unsecured loans	-	-	-	707	**707**
Loans collateralised by:					
- real estate	10,856	92,372	68	4,564	**107,860**
- vehicle	1,492	690	723	10	**2,915**
- inventory and equipment	130,303	14,637	7,190	10	**152,140**
- other assets	67	778	9,294	59	**10,198**
Total loans and advances to customers	**142,718**	**108,477**	**17,275**	**5,350**	**273,820**

Information about collateral at 31 December 2009 is as follows:

In thousands of Azerbaijani Manats	**Micro loans**	**SME Loans**	**Retail loans to salaried 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**

Other assets pledged as collateral mainly include furniture, fixture and gold. The disclosure above represents the carrying value of the loan based on the assets taken as collateral.

9 Loans and Advances to Customers (continued)

An analysis by credit quality of loans outstanding at 31 December 2010 is as follows:

In thousands of Azerbaijani Manats	**Micro loans**	**SME loans**	**Retail loans to salaried individuals**	**Staff loans**	**Total**
Total current and not impaired	**140,414**	**106,506**	**17,160**	**5,344**	**269,424**
Past due but not impaired					
- less than 7 days overdue and/or restructured loans	571	806	8	-	1,385
Total past due but not impaired	**571**	**806**	**8**	**-**	**1,385**
Loans individually determined to be impaired (gross)					
- 8 to 30 days overdue and/or restructured loans	582	157	52	-	791
- 30 to 90 days overdue and/or restructured loans	194	195	15	-	404
- over 90 days overdue and/or restructured loans	957	813	40	6	1,816
Total individually impaired loans (gross)	**1,733**	**1,165**	**107**	**6**	**3,011**
Gross carrying value of loans	**142,718**	**108,477**	**17,275**	**5,350**	**273,820**
Less impairment provisions	**(3,977)**	**(3,115)**	**(435)**	**(108)**	**(7,635)**
Total loans and advances to customers	**138,741**	**105,362**	**16,840**	**5,242**	**266,185**

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 salaried 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 30 days overdue and/or restructured loans	178	121	89	-	388
- 30 to 90 days overdue and/or restructured loans	98	33	8	-	139
- 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**

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 end of the reporting period. 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 2010 was as follows:

In thousands of Azerbaijani Manats	**Micro loans**	**SME loans**	**Retail loans to salaried individuals**	**Total**
Fair value of collateral - loan past due but not impaired				
- real estate	116	2,897	-	3,013
- vehicle	-	-	-	-
- inventory and equipment	733	799	3	1,535
Fair value of collateral - individually impaired loans				
- real estate	621	3,853	-	4,474
- vehicle	47	62	19	128
- inventory and equipment	5,295	319	198	5,812
Total	**6,812**	**7,930**	**220**	**14,962**

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 salaried individuals**	**Total**
Fair value of collateral - loan past due but not impaired				
- real estate	37	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**

Refer to Note 28 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 25, Information on related party balances is disclosed in Note 30.

10 Investment Properties

In thousands of Azerbaijani Manats	2010	2009
Investment properties at cost at the beginning of the year	**-**	**-**
Investment properties acquired during the year	21,708	-
Investment properties at cost at the end of the year	**21,708**	**-**

As at 31 December 2010, the carrying value of investment property approximated its fair value.

The Bank purchased this premises on 5 November 2010. The Bank intends to use this premises in the future for its own needs as head office. Starting from 1 December 2010 the Bank took over the right to lease out 5,058 square metres of this premises.

The rental income on investment property in 2010 amounted to AZN 68 thousand and is included in other operating income.

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 2009	1,088	2,326	238	4,136	7,788	1,059	8,847
Accumulated depreciation / amortisation	(500)	(1,020)	(103)	(1,038)	(2,661)	(82)	(2,743)
Carrying amount at 1 January 2009	**588**	**1,306**	**135**	**3,098**	**5,127**	**977**	**6,104**
Additions	353	1,588	93	1,339	3,373	1,489	4,862
Disposals	-	(136)	(9)	(637)	(782)	-	(782)
Accumulated depreciation / amortisation of disposals	-	50	9	637	696	-	696
Depreciation / amortisation charge	(255)	(612)	(65)	(359)	(1,291)	(472)	(1,763)
Carrying amount at 31 December 2009	**686**	**2,196**	**163**	**4,078**	**7,123**	**1,994**	**9,117**
Cost at 31 December 2009	1,441	3,778	322	4,838	10,379	2,548	12,927
Accumulated depreciation / amortisation	(755)	(1,582)	(159)	(760)	(3,256)	(554)	(3,810)
Carrying amount at 31 December 2009	**686**	**2,196**	**163**	**4,078**	**7,123**	**1,994**	**9,117**
Additions	626	1,068	183	2,252	4,129	221	4,350
Disposals	(61)	(55)	-	-	(116)	(1)	(117)
Transfers	33	9	-	-	42	(42)	-
Accumulated depreciation / amortisation of disposals	54	34	-	-	88	1	89
Depreciation / amortisation charge	(369)	(898)	(97)	(520)	(1,884)	(558)	(2,442)
Carrying amount at 31 December 2010	**969**	**2,354**	**249**	**5,810**	**9,382**	**1,615**	**10,997**
Cost at 31 December 2010	2,039	4,800	505	7,090	14,434	2,726	17,160
Accumulated depreciation / amortisation	(1,070)	(2,446)	(256)	(1,280)	(5,052)	(1,111)	(6,163)
Carrying amount at 31 December 2010	**969**	**2,354**	**249**	**5,810**	**9,382**	**1,615**	**10,997**

12 Other Financial Assets

In thousands of Azerbaijani Manats	31 December 2010	31 December 2009
Settlements with money transfer systems	126	180
Settlements with plastic cards	83	69
Other	318	40
Total other financial assets	**527**	**289**

Analysis by credit quality of other financial assets outstanding at 31 December 2010 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	126	83	318	527
Total neither past due nor impaired	**126**	**83**	**318**	**527**

Analysis by credit quality of other financial assets outstanding at 31 December 2009 was 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**

The primary factors that the Bank considers in determining whether the other financial asset is impaired are its overdue status and realisation ability 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 28 for the disclosure of the fair value of each class of other financial assets. Information on related party balances is disclosed in Note 30.

13 Other Assets

In thousands of Azerbaijani Manats	**31 December 2010**	**31 December 2009**
Advances for purchase of intangible assets and equipment	496	732
Prepaid expenses	356	265
Prepayments for operating lease agreement	102	-
Other	362	-
Total other assets	**1,316**	**997**
Current	718	265
Non-current	598	732

14 Customer Accounts

In thousands of Azerbaijani Manats	**31 December 2010**	**31 December 2009**
Public organisations		
- Term deposits	6,173	3,003
Other legal entities		
- Current/settlement accounts	5,027	2,651
- Term deposits	26,228	10,575
Individuals		
- Current/demand accounts	10,649	6,265
- Term deposits	78,594	42,505
Total customer accounts	**126,671**	**64,999**

Economic sector concentrations within customer accounts are as follows:

	31 December 2010		**31 December 2009**	
In thousands of Azerbaijani Manats	**Amount**	**%**	**Amount**	**%**
Individuals	89,243	70.5	48,770	75.0
Insurance and other financial services	28,217	22.3	10,610	16.3
Public organisations	6,173	4.8	3,003	4.6
Trade, services, manufacturing	3,038	2.4	2,616	4.1
Total customer accounts	**126,671**	**100**	**64,999**	**100**

At 31 December 2010, the Bank had 97 active customers (31 December 2009: 51 customers) with balances above AZN 150 thousand. The aggregate balance of these customers was AZN 59,737 thousand (31 December 2009: AZN 32,709 thousand) or 47% (31 December 2009: 50%) of total customer accounts.

Refer to Note 28 for the disclosure of the fair value of each class of customer accounts. Interest rate analysis of customer accounts is disclosed in Note 25. Information on related party balances is disclosed in Note 30.

15 Other Borrowed Funds

In thousands of Azerbaijani Manats	31 December 2010	31 December 2009
European Bank for Reconstruction and Development	20,698	22,317
Developing World Markets Securitizations S.A. - MFBA BOND 1	20,568	20,606
Kreditanstalt für Wiederaufbau	18,291	19,335
International Finance Corporation	12,263	13,847
Pettelaar Effectenbewaarbedrijf N.V	10,078	11,573
Blue Orchard Loan for Development	9,636	9,697
Triodos Custody B.V (custodian of Triodos Fair Share Fund)	8,341	9,993
Global Microfinance Facility	8,112	8,165
Microfinance Enhancement Facility – Cyrano	6,018	-
Bank im Bistum Essen	5,697	5,720
OPEC Fund for International Development	5,310	2,235
MINLAM Microfinance Offshore Master Fund LP	4,124	4,110
Swiss Investment Fund for Emerging markets	3,663	4,914
Impulse Microfinance Investment Fund	3,645	4,068
Dexia Micro Credit Fund	2,876	6,608
Microfinance Loan Obligations S.A. - Compartment Local	2,450	2,467
Developing World Markets SCA – SICAV SIF	2,404	-
VDK Spaarbank N.V.	2,389	4,836
Black Sea Trade and Development Bank	1,789	2,521
Developing World Markets Securitizations S.A – SNS Microfinance Fund	1,604	1,611
Dual Return Find S.I.C.A.V.	1,251	1,259
OikoCredit Ecumenical Development Cooperative Society U.A.	882	1,812
Finethic Microfinance Fund	798	841
Asian Development Bank	517	1,305
Vantage Mutual Fund	288	274
Global Commercial Microfinance Consortium, LTD	-	3,207
Triple Jump B.V.	-	2,486
ReponsAbility S.I.C.A.V.	-	2,095
EMF Microfinance AgmvK	-	1,218
Total term borrowings	**153,692**	**169,120**

On 12 March 2009 the Bank signed a loan agreement with the International Development Fund of OPEC in the amount USD 5,000 thousand. The Bank received this loan on 27 May 2010. Principal amount is to be repaid in semi-annual instalments starting on 27 May 2012 and ending on 27 May 2013. Interest is paid in semi-annual instalments starting from 27 November 2010. At 31 December 2010, the balance of borrowing under this facility was USD 4,985 thousand or AZN 3,978 thousand.

On 8 December 2009 the Bank signed a loan agreement with the European Bank for Reconstruction and Development in the amount AZN equivalent of USD 10,000 thousand. The Bank received this loan in two tranches in the amount of USD 5,000 thousand each on 7 April 2010 and 7 August 2010. Principal amount is to be repaid in semi-annual instalments starting on 7 February 2011 and ending on 7 April 2014. Interest is paid in semi-annual instalments starting from 7 October 2010. At 31 December 2010, the balance of borrowing under this facility was AZN 8,238 thousand.

On 20 August 2010 the Bank signed a loan agreement with Microfinance Enhancement Facility SA, SICAV - SIF in the amount USD 7,500 thousand. Principal amount is to be repaid on 30 August 2013. Interest is paid in semi-annual instalments starting from 31 January 2011. At 31 December 2010, the balance of borrowing from Microfinance Enhancement Facility SA, SICAV - SIF was USD 7,542 thousand or AZN 6,018 thousand.

On 8 November 2010 the Bank signed a loan agreement with the Developing World Markets SCA – SICAV SIF in the amount of AZN equivalent of USD 3,000 thousand. Principal amount is to be repaid on 30 November 2012. Interest is paid in quarterly instalments starting from 28 February 2011. At 31 December 2010, the balance of borrowing from Developing World Markets SCA – SICAV SIF was AZN 2,404 thousand.

15 Other Borrowed Funds (continued)

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 2010, management believes that the Bank was in compliance with those covenants.

Refer to Note 28 for disclosure of the fair value of each class of other borrowed funds. Interest rate analysis of other borrowed funds is disclosed in Note 25. Information on related party balances is disclosed in Note 30.

16 Other Financial Liabilities

Other financial liabilities comprise the following:

In thousands of Azerbaijani Manats	**31 December 2010**	**31 December 2009**
Accrued staff cost	2,140	1,661
Accrued expenses	259	176
Settlements with money transfer systems	157	136
Other	210	134
Total other financial liabilities	**2,766**	**2,107**

Refer to Note 28 for disclosure of the fair value of each class of other financial liabilities.

17 Subordinated Debt

On 2 July 2007 the Bank signed a subordinated loan agreement with Deutsche Bank Aktiengesellschaft (registered in Germany) for 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 2010, management believes that the Bank was in compliance with those covenants. At 31 December 2010, the balance of the borrowing under this facility was USD 10,252 thousand or AZN 8,180 thousand (31 December 2009: USD 10,223 thousand or AZN 8,222 thousand).

Refer to Note 28 for the disclosure of the fair value of subordinated debt. Interest rate analysis of subordinated debt is disclosed in Note 25. Information on related party balances is disclosed in Note 30.

18 Share Capital

In thousands of Azerbaijani Manats except for number of shares	Number of outstanding shares	Ordinary shares	Total
At 1 January 2009	20,000	20,000	20,000
New shares issued	-	-	-
At 1 January 2010	20,000	20,000	20,000
Increase in nominal value of shares	-	21,800	21,800
At 31 December 2010	**20,000**	**41,800**	**41,800**

The total authorised number of shares is 20,000 thousand shares (31 December 2009: 20,000 thousand) with a par value of AZN 2.09 per share (31 December 2009: AZN 1 per share). All issued ordinary shares are fully paid. Each share carries one vote. The Bank did not issue any new shares in year ending 31 December 2010, however, funds amounting AZN 21,800 thousand were transferred from retained earnings to Share Capital which increased the nominal value of the shares.

As at 31 December 2010 and 2009, the following shareholders owned the issued shares of the Bank:

Owners	31 December 2010, % of shareholding	31 December 2009, % 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
Access Microfinance Holding AG	16.53	16.53
LFS Financial Systems GmbH	3.47	3.47
Total	**100.0**	**100.0**

19 Interest Income and Expense

In thousands of Azerbaijani Manats	2010	2009
Interest income		
Loans and advances to customers	86,861	66,647
Due from other banks	815	1,507
Investment securities available for sale	27	44
Total interest income	**87,703**	**68,198**
Interest expense		
Other borrowed funds	14,163	13,411
Customer accounts	10,491	4,231
Subordinated debt	935	933
Term placements of other banks	-	158
Total interest expense	**25,589**	**18,733**
Net interest income	**62,114**	**49,465**

20 Fee and Commission Income and Expense

In thousands of Azerbaijani Manats	2010	2009
Fee and commission income		
- Settlement transactions	351	251
- Commission from plastic cards	280	180
- Commission income on purchase or sale of foreign currency	253	147
- Cash collection	185	132
- Guarantees issued	35	40
- Other	25	17
Total fee and commission income	**1,129**	**767**
Fee and commission expense		
- Plastic cards	101	88
- Settlement transactions	57	35
- Cash transactions	2	43
- Other	15	5
Total fee and commission expense	**175**	**171**
Net fee and commission income	**954**	**596**

21 Administrative and Other Operating Expenses

In thousands of Azerbaijani Manats	Note	2010	2009
Staff costs		21,013	16,595
Advertising and marketing services		2,150	1,817
Depreciation of property and equipment	11	1,884	1,291
Printing, stationery and office supplies		1,698	1,314
Rent on office premises		1,384	1,245
Repair and maintenance		1,258	1,158
Service and membership fees		1,154	800
Security services		1,132	936
Communication		803	779
Software program support expense		717	525
Amortisation of software	11	558	472
Business travel expense		226	152
Utilities		182	134
Deposit Insurance Fund fees		144	110
Other		1,094	551
Total administrative and other operating expenses		**35,397**	**27,879**

Included in staff costs are social security contributions of AZN 3,524 thousand (2009: AZN 2,915 thousand).

22 Income Taxes

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

In thousands of Azerbaijani Manats	**2010**	**2009**
Current tax expense	130	8
Deferred tax credit	(51)	(12)
Income tax charge / (credit) for the year	**79**	**(4)**

The income tax rate applicable to the majority of the Bank's income during the year ended 31 December 2010 is 20% (22% in 2009). The reconciliation between the expected and the actual taxation charge is provided below.

In thousands of Azerbaijani Manats	**2010**	**2009**
Profit before tax	**26,249**	**19,982**
Theoretical tax charge at statutory rate (20/22%)	5,250	4,396
Tax effect of permanent differences	29	106
Current income tax liability not accrued due to three-year tax holiday	(5,200)	(4,786)
Reversal of tax effect of temporary differences due to three-year tax holiday	-	280
Income tax charge / (credit) for the year	**79**	**(4)**

On 14 November 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, for the portion of the profit which is transferred to the registered share capital. As management intended to transfer AZN 26,000 thousand of 2010 profit to registered share capital (2009: AZN 21,800 thousand) management accrued AZN 130 in current income tax liability for the remaining portion of profit which will not be transferred to registered share capital.

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. The tax effect of the movements in these temporary differences is detailed below:

In thousands of Azerbaijani Manats	**1 January 2010**	**Credited to profit or loss**	**31 December 2010**
Tax effect of deductible temporary differences			
Property, equipment and intangible assets	-	51	51
Net deferred tax asset	-	**51**	**51**

22 Income Taxes (continued)

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 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	2010	2009
Profit for the year attributable to ordinary shareholders	26,170	19,986
Weighted average number of ordinary shares in issue (thousands)	20,000	20,000
Basic and diluted profit per ordinary share (expressed in AZN per share)	**1.31**	**0.99**

24 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 – Loans up to AZN 8 thousand issued to entrepreneurs and farmers;
- Trust – Loans between AZN 8 thousand and AZN 16 thousand issued to entrepreneurs and farmers;
- SME – Loans above AZN 16 thousand issued to entrepreneurs and small and medium enterprises for corporate purposes;
- Retail – Consumer loans issued to salaried individuals and attracted deposits and bank transaction business; 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.

24 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 2010 and 31 December 2009 is set out below:

In thousands of Azerbaijani Manats	**Micro**	**SME**	**Retail**	**Total**
Year ended 31 December 2010				
External revenues:				
- Interest income	54,393	25,601	6,631	86,625
- Fee and commission income			1,129	1,129
- Other operating income			902	902
Revenue from external customers	**54,393**	**25,601**	**8,662**	**88,656**
External expenses:				
- Interest expense	13,360	10,118	2,111	25,589
- Fee and commission expense			175	175
- Provision for loan impairment	1,288	622	157	2,067
Expense from external customers	**14,648**	**10,740**	**2,443**	**27,831**
Adjusted profit before non-segment income, administrative and other expense and income tax	**39,745**	**14,861**	**6,219**	**60,825**
Total assets reported	**138,741**	**105,362**	**22,082**	**266,185**
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**

24 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 2010	Year ended 31 December 2009
Adjusted profit before non-segment income, administrative and other expense and income tax	**60,825**	**46,230**
Non-segment interest income	1,078	1,631
Impairment loss on property, plant and equipment	257	-
Administrative and other operating expenses	35,397	27,879
Profit before income tax	**26,249**	**19,982**

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

In thousands of Azerbaijan Manats	31 December 2010	31 December 2009
Total segment assets (loans and advances to customers)	266,185	233,681
Cash and cash equivalents	57,805	46,567
Mandatory cash balances with CBAR	371	253
Investment securities available for sale	40	40
Due from other banks	7,023	9,828
Investment properties	21,708	-
Property, plant and equipment	9,382	7,123
Intangible assets	1,615	1,994
Deferred income tax asset	51	-
Other financial assets	527	289
Other assets	1,316	997
Total assets per statement of financial position	**366,023**	**300,772**

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 all of the Bank's 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.

25 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.

25 Financial Risk Management (continued)

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

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

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

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

Responsibility area	Decision-making body	Executive Management
Preparation of policies and procedures 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 organisational risk	Supervisory Board	Management Board

In May 2010 the bank introduced a position of branch control officer on a pilot basis, dedicated full-time to performing control functions aimed at reducing credit and operational risks. Management intends to expand the appointment of branch control officers to all of its large branches.

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 statement of financial position. For guarantees and commitments to extend credit, the maximum exposure to credit risk is the amount of the commitment. Refer to Note 27. The credit risk is mitigated by collateral and other credit enhancements as disclosed in Note 9.

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.

25 Financial Risk Management (continued)

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.

25 Financial Risk Management (continued)

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.

The table below summarises the Bank's exposure to foreign currency exchange rate risk at the end of the reporting period:

	At 31 December 2010			At 31 December 2009		
In thousands of Azerbaijani Manats	Monetary financial assets	Monetary financial liabilities	Net position	Monetary financial assets	Monetary financial liabilities	Net position
Azerbaijani Manats	140,882	98,801	42,081	89,678	44,420	45,258
US Dollars	188,068	188,177	(109)	198,745	199,029	(284)
Euros	2,902	4,315	(1,413)	2,011	3,996	(1,985)
Other	99	16	83	224	8	216
Total	**331,951**	**291,309**	**40,642**	**290,658**	**247,453**	**43,205**

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

	At 31 December 2010	At 31 December 2009
In thousands of Azerbaijani Manats	Impact on profit or loss	Impact on profit or loss
US Dollar strengthening by 10%	(11)	(28)
US Dollar weakening by 10%	11	28
Euro strengthening by 10%	(141)	(199)
Euro weakening by 10%	141	199

All investment securities available for sale as at 31 December 2010 and 31 December 2009 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.

25 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 re-pricing 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 2010					
Total financial assets	75,865	105,234	81,491	69,361	**331,951**
Total financial liabilities	22,733	79,876	71,983	116,717	**291,309**
Net interest sensitivity gap at 31 December 2010	**53,132**	**25,358**	**9,508**	**(47,356)**	**40,642**
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**

At 31 December 2010, if interest rates at that date had been 100 basis points lower (2009: 100 basis points lower) with all other variables held constant, profit for the year would have been AZN 621 thousand (2009: AZN 495 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 (2009: 100 basis points higher), with all other variables held constant, profit would have been AZN 621 thousand (2009: AZN 495 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 2010			**31 December 2009**		
In % p.a.	**AZN**	**USD**	**EUR**	**AZN**	**USD**	**EUR**
Assets						
Due from other banks	9.6	-	-	9.5	7.8	-
Loans and advances to customers	34.6	26.4	15.0	35.2	27.9	-
Investment securities available for sale	-	-	-	4.1	-	-
Liabilities						
Term deposits	12.1	13.1	8.0	13.6	13.6	8.5
Term placements of other banks	-	-	-	-	10.5	-
Other borrowed funds	11.1	8.1	-	12.1	8.2	-
Subordinated debt	-	11.1	-	-	11.1	-

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

25 Financial Risk Management (continued)

Geographical risk concentrations. The geographical concentration of the Bank's financial assets and liabilities at 31 December 2010 is set out below:

In thousands of Azerbaijani Manats	**Azerbaijan**	**OECD**	**Non-OECD**	**Total**
Assets				
Cash and cash equivalents	52,477	4,999	329	57,805
Mandatory cash balances with the CBAR	371	-	-	371
Due from other banks	7,023	-	-	7,023
Loans and advances to customers	266,185	-	-	266,185
Investment securities available for sale	40	-	-	40
Other financial assets	121	332	74	527
Total financial assets	**326,217**	**5,331**	**403**	**331,951**
Liabilities				
Customer accounts	126,671	-	-	126,671
Other borrowed funds	-	140,939	12,753	153,692
Other financial liabilities	2,610	134	22	2,766
Subordinated debt	-	8,180	-	8,180
Total financial liabilities	**129,281**	**149,253**	**12,775**	**291,309**
Net position	**196,936**	**(143,922)**	**(12,372)**	**40,642**
Credit related commitments	**748**	**-**	**-**	**748**

25 Financial Risk Management (continued)

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 CBAR	253	-	-	253
Due from other banks	9,828	-	-	9,828
Loans and advances to customer	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 position	**217,413**	**(155,003)**	**(19,205)**	**43,205**
Credit related commitments	**482**	**-**	**-**	**482**

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 difficulties as a result of unavailability of funding 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 and loan drawdowns. The Bank generally 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.

25 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 statement of financial position 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 374% at 31 December 2010, 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 2010 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 statement of financial position because statement of financial position 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 end of the reporting period.

The maturity analysis of financial instruments at 31 December 2010 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	57,805	-	-	-	-	**57,805**
Mandatory reserves with the CBAR	-	-	-	-	371	**371**
Due from other banks	79	3,243	4,002	-	-	**7,324**
Loans and advances to customers	18,813	110,582	96,528	121,405	3,099	**350,427**
Investment securities available for sale	-	-	-	-	40	**40**
Other financial assets	256	-	-	-	271	**527**
Total	**76,953**	**113,825**	**100,530**	**121,405**	**3,781**	**416,494**
Liabilities						
Due to other banks	-	-	-	-	-	**-**
Customer accounts	20,060	31,666	48,589	30,208	-	**130,523**
Other borrowed funds	-	28,984	37,634	108,911	-	**175,529**
Other financial liabilities	2,766	-	-	-	-	**2,766**
Subordinated debt	-	454	454	10,906	-	**11,814**
Financial guarantees	245	399	52	52	-	**748**
Total potential future payments for financial obligations	**23,071**	**61,503**	**86,729**	**150,077**	**-**	**321,380**
Liquidity gap arising from financial instruments	**53,882**	**52,322**	**13,801**	**(28,672)**	**3,781**	
Cumulative liquidity gap	**53,882**	**106,204**	**120,005**	**91,333**	**95,114**	

25 Financial Risk Management (continued)

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**
Investments held to maturity	-	-	-	-	-	**-**
Other financial assets	289	-	-	-	-	**289**
Total	**68,134**	**99,981**	**86,290**	**108,626**	**2,498**	**365,529**
Liabilities						
Due to 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**	

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.

25 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 2010						
Financial assets	75,865	105,234	81,491	66,747	2,614	331,951
Financial liabilities	22,733	60,026	80,293	128,257	-	291,309
Net liquidity gap based on expected maturities	**53,132**	**45,208**	**1,198**	**(61,510)**	**2,614**	**40,642**
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**

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.

26 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.

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 2010**	**31 December 2009**
Net assets calculated based on CBAR rules	48,285	33,299
Less investments	(40)	(40)
Less intangible assets	(1,568)	(1,995)
Plus statutory profit for the year	26,372	19,986
Plus general provision for impairment	3,984	3,473
Plus subordinated debt	6,518	7,885
Total regulatory capital	**83,551**	**62,608**
Total capital adequacy ratio	**28.2%**	**22.5%**

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	**2010**	**2009**
Tier 1 capital		
Share capital	41,800	20,000
Retained earnings	32,655	33,285
Total tier 1 capital	**74,455**	**53,285**
Tier 2 capital		
Provision on risk weighted assets	3,757	3,076
Subordinated debt	6,518	8,200
Less: investments in financial institutions	(40)	(40)
Total tier 2 capital	**10,235**	**11,236**
Total capital	**84,690**	**64,521**
Total capital adequacy ratio	**28.2%**	**26.2%**

The Bank complied with all externally imposed capital requirements throughout the year ended 31 December 2010.

27 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 2010 no provision for potential tax liabilities was recorded.

Capital expenditure commitments. As at 31 December 2010, the Bank had no capital expenditure commitments.

Operating lease commitments. As at 31 December 2010, the Bank had no commitments under non-cancellable lease agreements.

Contingent assets. The bank has entered into a contract with Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V for a borrowing of USD 20,000 thousand on 24 December 2010 with a maturity date of 09 December 2013. The funds from this contract have not been drawn down as at 31 December 2010.

Compliance with covenants. As at 31 December 2010 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 2010 the Bank was in compliance with all covenants imposed by international financial institutions, and local regulators.

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:

27 Contingencies and Commitments (continued)

In thousands of Azerbaijani Manats	31 December 2010	31 December 2009
Guarantees issued	748	482
Total credit related commitments	**748**	**482**

The credit related commitments were denominated in Azerbaijani Manats at 31 December 2010. The future undiscounted cash flows from credit related commitments are equal to AZN 10 thousand (31 December 2009: AZN 15 thousand) as at 31 December 2010.

28 Fair Value of Financial Instruments

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

At 31 December 2010, 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 2010	31 December 2009
Due from other banks		
Short-term placements with other banks	9% to 10% p.a.	7% to 14% p.a.
Loans and advances to customers		
Loans to customers – SME and micro loans	12% to 36% p.a.	16% to 36% p.a.
Loans to customers – Retail loans to salaried individuals	12% to 39% p.a.	12% to 39% p.a.
Customer accounts		
- Customer accounts	1% to 20% p.a.	2% to 20% p.a.
Other borrowed funds		
- Term borrowings from companies/government agencies	3.5% to 12% p.a.	8% to 12% p.a.
Subordinated debt		
- Subordinated debt	11% p.a.	11% p.a.

29 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.

29 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 2010:

In thousands of Azerbaijani Manats	**Loans and receivables**	**Investment securities available for sale (through equity)**	**Total**
ASSETS			
Cash and cash equivalents	57,805	-	57,805
Mandatory cash balances with the CBAR	371	-	371
Investments securities available for sale	-	40	40
Due from other banks			
- Short-term placements with other banks	7,023	-	7,023
Loans and advances to customers			
- Micro loans	138,741	-	138,741
- SME loans	105,362	-	105,362
- Retail loans to salaried individuals	16,840	-	16,840
- Staff loans	5,242	-	5,242
Other financial assets	527	-	527
TOTAL FINANCIAL ASSETS	**331,911**	**40**	**331,951**
NON-FINANCIAL ASSETS	34,072	-	34,072
TOTAL ASSETS	**365,983**	**40**	**366,023**

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 2009:

In thousands of Azerbaijani Manats	**Loans and receivables**	**Investment Securities Available for Sale (through equity)**	**Held to maturity**	**Total**
ASSETS				
Cash and cash equivalents	46,567	-	-	46,567
Mandatory reserves with CBAR	253	-	-	253
Investment securities available for sale	-	40	-	40
Due from other banks				
- Short-term placements with other banks with original maturities of more than three months	9,828	-	-	9,828
Loans and advances to customers				
- Micro loans	122,264	-	-	122,264
- SME loans	95,176	-	-	95,176
- Retail loans to salaried 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**

30 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 2010, 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	-	-	128
Current accounts	-	-	58
Term deposits	-	-	288
Other borrowed funds	53,041	-	-

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	-	-	263
Due to banks	-	3,003	-
Current accounts	-	-	32
Term deposits	-	-	298
Other borrowed funds	58,020	-	-

The income and expense items with related parties for the year ended 31 December 2010 were as follows:

In thousands of Azerbaijani Manats	**Shareholders**	**Key management personnel**
Interest income	-	22
Interest expense	4,229	23
Payment for management and software support	1,410	-

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	-

30 Related Party Transactions (continued)

Key management compensation is presented below:

In thousands of Azerbaijani Manats	31 December 2010 Expense	31 December 2010 Accrued liability	31 December 2009 Expense	31 December 2009 Accrued liability
Short-term benefits:				
- Salaries	762	222	482	92
Total	**762**	**222**	**482**	**92**

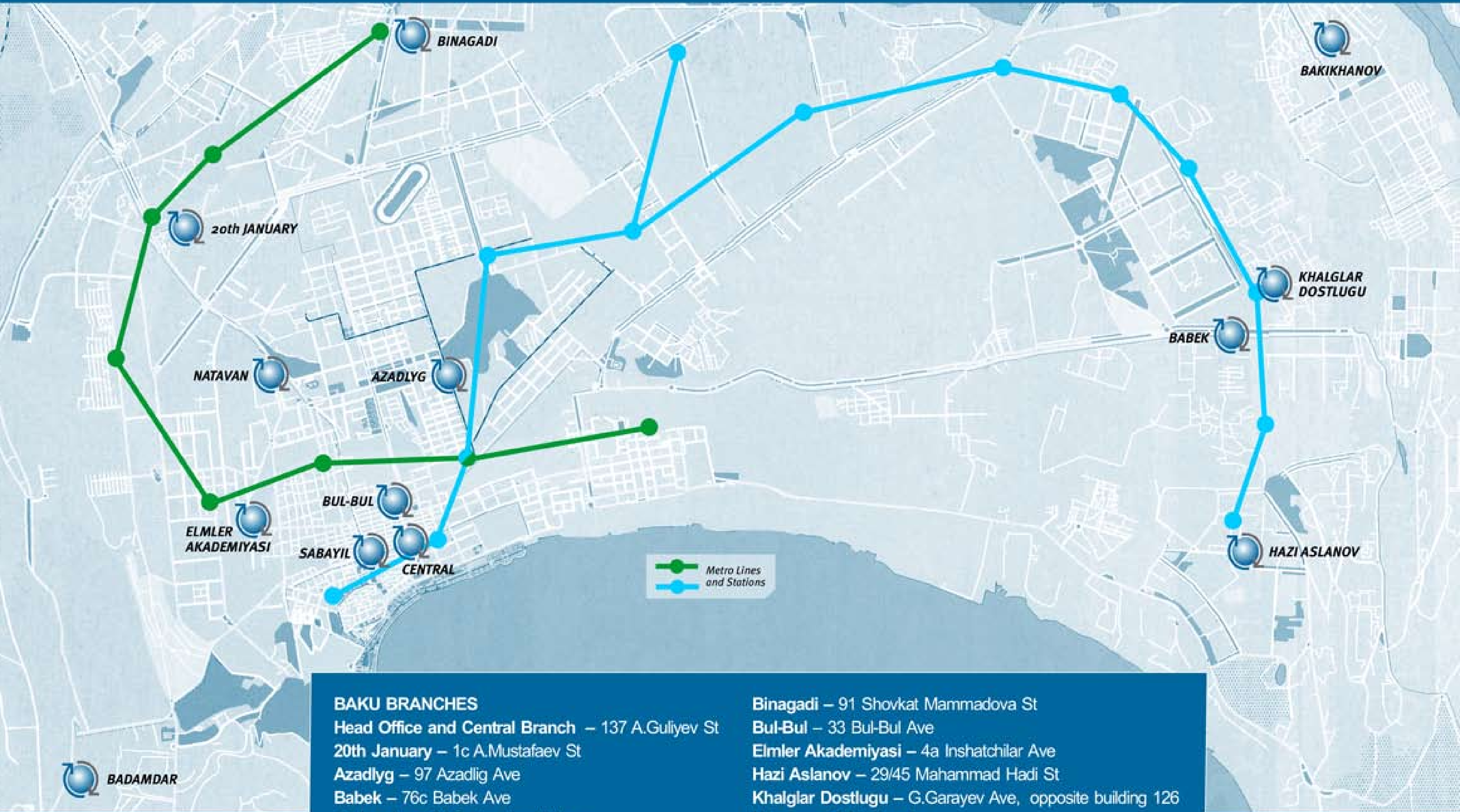
31 Events After the End of the Reporting Period

Subsequent to the end of the reporting period, according to the decision of the General Assembly of Shareholders held on 15 December 2010 the Bank increased its share capital from AZN 41,800 thousand to AZN 67,800 thousand, by utilising AZN 26,000 thousand of its statutory taxable profit for the year ended 31 December 2010. The nominal value of the shares increased from AZN 2.09 to 3.39. There was no change in the distribution or number of shares. The new share certificates were issued on 3 March 2011 and registered by the State Securities Committee on 11 March 2011.

The bank has subsequently repaid AZN 18,389 thousand of the principal amount and AZN 5,071 thousand interest totalling AZN 23,460 thousand on its Other Borrowed Funds.

On 24 December 2010, the Bank signed a term facility agreement with Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V. (FMO) in the amount of USD 20,000 thousand. On 28 March 2011, the Bank received the first tranche of USD 10,000 thousand under this agreement. Principal amounts and interests are to be repaid, in four equal semi-annual installments starting from 9 June 2012 and semi-annually starting from 9 June 2011, respectively. The facility bears market interest rate.

BRANCH NETWORK - BAKU



BAKU BRANCHES

Head Office and Central Branch – 137 A.Guliyev St
20th January – 1c A.Mustafaev St
Azadlyg – 97 Azadlig Ave
Babek – 76c Babek Ave
Badamdar – 34 Badamdar Highway
Bakikhanov – 70 M.Fataliyev St
Binagadi – 91 Shovkat Mammadova St
Bul-Bul – 33 Bul-Bul Ave
Elmler Akademiyasi – 4a Inshatchilar Ave
Hazi Aslanov – 29/45 Mahammad Hadi St
Khalglar Dostlugu – G.Garayev Ave, opposite building 126
Natavan – 3 Moskva Ave
Sabayil – 15 R.Rza St

BRANCH NETWORK - OUTSIDE BAKU

BRANCHES OUTSIDE BAKU

Barda – 8A I.Gayibov St, Barda
Ganja – 32 Abbaszade St, Ganja
Gazakh – H.Aliyev Ave, Gazakh
Goychay – 96 H.Aliyev Ave, Goychay
Imishli – 144 H.Aliyev Ave, Imishli
Jalilabad – H.Aliyev Ave, Jalilabad
Khachmaz – 215 N.Narimanov Ave, Khachmaz
Khyrdalan – H.Z.Tagiyev St, Block 27
Lenkoran – H.Aslanov Ave, Lenkoran
Mardakan – 2a Esenin St
Mingechevir – 98a U.Hajibeyov St, Mingechevir
Nizami – 110 Khatai Ave, Ganja
Salyan – Y.Gasimov St, Salyan
Sheki – 17 M.A.Rasulzade St, Sheki
Sumgayit – 9/11 Sulh St, 1 m/d, Sumgayit
Zaqatala – 29/1 F.Amirov St, Zaqatala

Our Shareholders

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