AccessBank

Your Accessible European Bank

ANNUAL REPORT 2011

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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 30% market share, serving more than 120,000 clients
- Twenty-nine branches and 1,300 staff across the country
- Total assets of USD 488 million and Loan Portfolio of USD 378 million at year-end 2011
- Highest rated bank in Azerbaijan by Fitch Ratings (BB+)

'Best Bank in Azerbaijan'
2010 Euromoney
Awards for Excellence

'Best Bank in Azerbaijan'
2011 Euromoney
Awards for Excellence

'Best Emerging Market Bank Azerbaijan'
2011 Global Finance

'Bank of the Year 2011 Azerbaijan'
The Banker

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KEY RESULTS

	2010	2011	Change
Balance Sheet Items	**USD ('000)**	**USD ('000)**	
Total Assets	458,733	487,686	6.3%
Liquid Assets	81,763	68,704	-16.0%
Total Loan Portfolio (gross)	340,671	378,074	11.0%
Business Loan Portfolio	312,591	338,309	8.2%
Micro Loans (< $ 10,000)	159,205	157,358	-1.2%
Trust and Small Loans ($ 10,001 - $ 100,000)	84,809	88,216	4.0%
Medium Loans (> $ 100,000)	68,577	92,735	35.2%
Consumer Loan Portfolio	21,412	31,740	48.2%
Staff Loans	6,668	8,025	20.4%
Accrued Interest and Disbursement Fees	2,504	2,747	9.7%
Loan Loss Reserve	9,568	9,938	3.9%
Net Loan Portfolio	333,607	370,883	11.2%
Fixed and Other Assets	43,363	48,100	10.9%
Customer Deposits (net, excluding accrued interest)	152,066	178,811	17.6%
Borrowings (net, excluding accrued interest)	200,047	184,268	-7.8%
Equity	93,314	108,484	16.3%
Profit and Loss Account	**USD ('000)**	**USD ('000)**	
Operating Income	77,582	76,643	-1.2%
Operating Expense	44,684	53,842	20.5%
Profit Before Tax	32,898	22,801	-30.7%
Profit After Tax	32,799	21,955	-33.1%
Ratios			
Return on Equity (year-end)	35.1%	20.2%	
Return on Average Assets	7.8%	4.7%	
Cost / Income	57.6%	70.3%	
Capital Adequacy	26.5%	28.9%	
Miscellaneous			
Number of Outstanding Loans	122,519	119,501	-2.5%
Number of Business Loans	92,135	82,583	-10.4%
Number of Micro Loans	87,654	77,477	-11.6%
Average Micro Loan Size (disbursed USD)	3,029	3,076	1.6%
Number of Trust, Small and Medium Loans	4,481	5,106	13.9%
Average Trust, Small, and Medium Loan Size (disbursed USD)	51,287	48,901	-4.7%
Number of Agro Loans	33,802	30,899	-8.6%
Average Agro Loan Size (disbursed USD)	2,300	2,538	10.3%
Number of Deposit Accounts	181,635	220,594	21.4%
Number of Branches	28	29	3.6%
Number of Staff	1,243	1,372	10.4%
Portfolio at Risk (>30 days)	1.00%	0.76%	-24.0%

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 to 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. In the provision of these services, AccessBank pursues the highest banking standards, especially with respect to responsibility, efficiency, transparency, customer satisfaction, prudence and human resource development. As a commercial bank with a full banking licence, AccessBank also offers financial services to other client segments, including larger 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 lack of access to appropriate financial services. AccessBank has been created to close this gap: to provide access to appropriate 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, 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 the Bank.

LETTER FROM THE CHAIRMAN OF THE SUPERVISORY BOARD

Maturity and New Challenges

AccessBank will mark its first decade of operation in 2012, a decade in which the Bank grew from a green-field start-up, to become Azerbaijan's leading small business bank, providing financing to over 80,000 entrepreneurs across the country. Now AccessBank is also becoming a leading provider of financial services to low and middle income households – helping families manage their finances and savings. Today AccessBank plays a vital role in building an inclusive financial sector and in the diversification and development of Azerbaijan's economy, especially in the regions of the country and in the agricultural sector, helping sustain families, create employment and eliminate poverty.

AccessBank's developmental impact extends beyond the USD 2-billion in financing it has provided to over 250,000 clients to date; today AccessBank also serves as a model of 'best practice' for Azerbaijan's financial sector. In 2011 this was recognised by Fitch Ratings with AccessBank securing the highest rating among Azerbaijan's banks ('BB+ Outlook Stable') and by Euromoney, Global Finance, and The Banker who all named AccessBank as the 'Best Bank' in Azerbaijan in their annual awards. The success of AccessBank has motivated many of Azerbaijan's financial institutions to replicate its practices and follow AccessBank into the SME and micro-finance markets, expanding access to financial services for these key segments.

As AccessBank completes its first decade, it is entering a new phase of maturity, but one that also brings new challenges. As the Bank matures, growth will slow, increasing the importance of diversifying product ranges, improving customer service and efficiency, and strengthening risk management. And as Azerbaijan's financial sector matures and more institutions enter the micro and SME markets, the risk of over-indebting clients also increases. AccessBank staff, management and shareholders remain committed to meeting these challenges and preserving our reputation for responsible banking.

Lastly, after six years as General Manager of the Bank, Andrew Pospielovsky has decided to move on to new challenges and a leadership change is planned for 2012. On behalf of the Supervisory Board, I would like to express my gratitude to Dr Pospielovsky for his extensive contribution to the successful performance of AccessBank, and to wish success to Michael Hoffmann, his successor, in this new and challenging position.

Orhan Aytemiz
Chairman of the Supervisory Board

LETTER FROM THE MANAGEMENT

Responsible Banking

As AccessBank entered a new phase of maturity in 2011 with a slowdown in growth, we took the opportunity to ensure that we were pursuing our mission responsibly - ensuring that we were providing access to financial services that were truly beneficial for our client base. As more and more institutions in Azerbaijan enter the Micro and SME market, we see the risk of over-indebtedness increasing. After more than six years of rapid growth, in 2011 we focused on taking stock, on reviewing our lending and business practices and portfolios to ensure maximum portfolio quality and minimal risk. In AccessBank, we believe that low default rates are the most objective measure of responsible banking – that our products and services are truly beneficial and that we are not loading our clients with debt that may be detrimental to their business and household budgets. While the total outstanding portfolio with any arrears over thirty days (PAR > 30) was already at an industry-leading 1.0% of our total portfolio at the start of the year, by year-end, we managed to reduce this to 0.76%. In Retail lending portfolio quality (PAR > 30) also improved, from 0.56% to 0.27% - portfolio quality levels that few imagine are even possible.

In 2011 we also posted excellent progress on eliminating currency risk from our borrowers and by year-end 91% of our loans were denominated in Manats – the local currency. At the same time we made further progress in diversifying our funding base, growing deposits and reducing reliance on international lenders to reach parity between the two, and by year-end both deposits and international borrowings were financing 38% each of our total assets.

The management and staff of AccessBank are thus confident that we are entering 2012 not only with a strong foundation, but also with a house that is ‘in order’. This will be all the more important in 2012, because of the planned change in the leadership of the Bank – after six years I will be stepping aside to make room for a fresh pair of hands at the helm, which will bring new energy to the Bank. Therefore I would also like to take this opportunity to welcome my successor, Michael Hoffmann, and thank all our stakeholders, our Supervisory Board, management and staff, for their support.

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 was re-named as 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 2011 was AZN 67.8 million, consisting of 20 million shares with a nominal face value of AZN 3.39 each, following an increase of AZN 26 million in March 2010, through the capitalisation of retained earnings. In March 2012, the share capital was increased by a further AZN 17.2 million, again through capitalisation of retained earnings, to AZN 85 million. The nominal face value of shares was thus increased to AZN 4.25 while the distribution and number of shares remained the same.

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

The Black Sea Trade and Development Bank (BSTDB) is an international financial institution established by 11 countries from the Black Sea region. The mission of the bank is to accelerate development and promote co-operation among its shareholder countries. The Bank has an authorised capital of 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 (20%)

The EBRD is an international financial institution that supports projects from central Europe to central Asia. Investing primarily in private sector clients whose needs cannot be fully met by the market, the Bank fosters transition towards open and democratic market economies. In all its operations the EBRD follows the highest standards of corporate governance and sustainable development. Owned by 63 countries and two intergovernmental institutions, the EBRD maintains a close political dialogue with governments, authorities and representatives of civil society to promote its goals. (www.ebrd.org)

International Finance Corporation (20%)

IFC, a member of the World Bank Group, is the largest global development institution focused exclusively on the private sector. We help developing countries achieve sustainable growth by financing investment, providing advisory services to businesses and governments, and mobilizing capital in the international financial markets. In fiscal 2011, amid economic uncertainty across the globe, we helped our clients create jobs, strengthen environmental performance, and contribute to their local communities—all while driving our investments to an all-time high of nearly $19 billion. (www.ifc.org)

KfW - Kreditanstalt für Wiederaufbau (20%)

As a promotional bank, KfW supports change and encourages forward-looking ideas – in Germany, Europe, and throughout the world. On behalf of the Federal Government, KfW Development Bank administers Germany's official Financial Cooperation in more than 100 developing and transition countries in Africa, Asia, South and Central America, the Middle East and the Caucasus. Its priority areas of activity include poverty reduction and economic development, good governance, education and health care, and protection of the climate and the environment. KfW Development Bank is a leader in supporting responsible and sustainable microfinance around the world. KfW has a balance sheet of 495 billion EUR (2011) 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 (14.12% 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); FMO (the Dutch development bank – 10.03%) and MicroAssets (a staff investment programme of LFS – 3.26%). 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. Assuming a dual role as manager and investor, LFS has created AccessHolding as the holding company for a growing network of commercial 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 introduced

2005

- Term deposit and international SWIFT, Western Union and Privat Money transfer services introduced
- 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
- 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 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 the Bank's first subordinated loan, from Deutsche Bank

2008

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

2009

- AccessBank named one of the three 'Most Sustainable Banks in 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

- First dividend of AZN 5 million distributed to shareholders
- AccessBank becomes a lead sponsor of the Azerbaijan Football Federations Association (AFFA), supporting the development of football in Azerbaijan and the 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 – the only MFI in the Caucasus so awarded
- Euromoney named AccessBank the 'Best Bank in Azerbaijan' in its annual 'Awards for Excellence'
- Standard and Poor's rating agency ranked AccessBank as the most transparent bank in Azerbaijan
- AccessBank won 'Best Employer' award from Azerbaijan Micro-Finance Association

2011

- Fitch reaffirms AccessBank's 'BB+ - Outlook stable' rating – the highest in Azerbaijan's financial sector
- AccessBank wins Global Finance 'Best Emerging Market Bank in Azerbaijan' annual award
- Euromoney names AccessBank 'Best Bank in Azerbaijan' in its annual 'Awards for Excellence' for the second consecutive year
- The Banker names AccessBank 'The Bank of the Year in Azerbaijan' in its annual 'Bank of the Year' awards

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
2011	488	378	118,000	179	29

Political and Economic Environment

The existing political order remained stable through 2011, with no national elections or challenges, and this stability is anticipated for 2012 and beyond. In December, Turkey and Azerbaijan signed an agreement for construction of a 2,000km gas pipeline to transport Azerbaijan's natural gas to European markets. The first delivery of gas is not expected until 2017, but this agreement supports the geopolitical importance and economic stability of Azerbaijan for at least the next decade, while oil production is expected to begin to taper off. This contraction was already felt in 2011, with an 11% decline in oil production, dampening GDP growth to 0.1% for 2011 according to the State Statistical Committee, compared to 5% in 2010. Non-oil GDP posted a healthy growth of 9.4% in 2011, with 5.8% growth posted in the agricultural sector thanks to good harvests in 2011, following weak harvests in 2010 – this impacted positively on most rural businesses. However, nominal GDP grew by a much stronger 20.4%, increasing to AZN 50.1 billion (USD 63.7 billion) from AZN 41.6 billion (USD 52.9 billion) in 2010, boosted by rising global oil prices, that more than compensated for the reduction in oil production. This helped result in an increase in state budget revenues of 37.7% to AZN 15.7 billion (USD 20.0 billion), compared to AZN 11.4 billion (USD 14.5 billion) in 2010, and 30.8% in expenditure to AZN 15.4 billion (USD 19.6 billion) in 2011, compared to AZN 11.8 billion (USD 15.0 billion) in 2010. Inflation edged up slightly with CPI officially reported at 7.9%, compared with 5.7% in 2010 and 1.5% in 2009.

The higher oil prices fed through to an increase in the trade surplus to USD 16.8 billion (USD 14.8 billion in 2010) on exports of USD 26.6 billion and imports of USD 9.8 billion. This supported the stability of the currency and the AZN remained virtually unchanged against the local reference currency, the USD, at AZN 0.7865 versus AZN 0.7979 at 2010-end. Energy exports should ensure continued economic stability in the medium-term, but the inherent volatility of energy prices and slowing oil production both reinforce the need for economic diversification. Other concerns remain control of inflationary pressures, improving the business environment and spreading the benefits of oil income.

The development of the banking sector reflected that of the economy, with some banks faring better than others. Total banking assets increased by 7.3% (to AZN 14.3 billion from AZN 13.3 billion) in 2011 – while the total loan portfolio increased by 5% (to AZN 9.0 billion from AZN 8.6 billion) – lagging behind the 2010 growth figure of 14%. Deposits increased by a faster rate of 29% to AZN 6.7 billion. As a proportion of GDP, total banking assets decreased to 28% (32% in 2010), the total loan portfolio to 18% (21% in 2010), and deposits increased to 13% (12% in 2010), representing relatively low levels of banking penetration. The majority state-owned International Bank of Azerbaijan continues to dominate, but saw a 9.3% decrease in its total assets and a 15% drop in its credit portfolio in 2011, reducing its market-share of total Banking Assets to 35% and of Loan Portfolio to 35% (42% and 43% respectively at 2010-end).

In 2011 the banking sector continued to benefit from the three-year tax exemption on capitalised profit, introduced from 1 January 2009 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 2011-end stood at 44 (compared with 45 at 2010-end).

AccessBank continued to outperform the sector, but less so in 2011 than in years past as the economic slowdown impacted on the lower rungs of the economy. In terms of total banking assets, AccessBank's market share decreased to 2.7% from 2.8% at 2010-end, while dropping to eighth position from seventh out of 44 banks in the market. At the same time, the Bank's market share in terms of total loan portfolio increased from 3.0% to 3.1% while dropping to seventh position from sixth. In agricultural lending AccessBank remained the market leader with 30,000 clients and 7% share of the total agricultural portfolio of Azerbaijan's banking sector. Apart from the banks, approximately 27 non-bank credit organizations are engaged in microfinance. The Azerbaijan Microfinance Association (AMFA) collects data for

30 institutions involved in microfinance (consisting of 18 of these non-bank financial institutions and 12 banks, including AccessBank). The micro loan portfolio of these institutions stood at USD 646 million at 2011-end, giving AccessBank 28% market share (36% at 2010-end). This makes 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, declining loans to customers with high levels of debt in other institutions and actively supporting AMFA's work on tackling over-indebtedness (see 'AccessBank Leading the Way to Responsible Banking' below).

ACCESSBANK LEADING THE WAY TO RESPONSIBLE BANKING

AccessBank was founded on the principle of Responsible Banking – being a reliable and transparent long-term partner for its clients and offering beneficial and appropriate services. Through careful analysis of client businesses and their repayment capacity, AccessBank helps entrepreneurs evaluate the risks they face and pace their development to avoid high debt levels 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 be beneficial and avoid overburdening clients with debt. In all its products AccessBank aims to be as transparent and simple as possible and for each of its products to have a positive impact on clients. An example of this is AccessBank's work to increase the proportion of loans extended in local currency to remove currency risk from its clients, despite the higher cost of AZN resources (see 'Our Success Helping Clients Succeed' below). AccessBank has formalised its commitment to Responsible Banking 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 2011 AccessBank was the first institution in Azerbaijan to voluntarily submit itself to a Smart Assessment on client protection practices as the Bank strives to be a market leader in this area. In 2010 AccessBank was one of the lead institutions in MFTransparency's Transparent Pricing Initiative – that published comparative APR interest rates on MFTransparency's website; and 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. Motivated by our concern at the increasing risk of over-indebtedness, AccessBank is actively supporting AMFA's Client Protection Campaign. And we are using the Central Bank's Credit Register to help identify client debt levels and decline loans to clients with loans from multiple lenders, even with perfect credit histories. This resulted in a 9,000 decrease in the number of micro clients in 2011. However, the clearest and most objective measure of the correctness of AccessBank's approach and commitment to Responsible Banking are the Bank's low arrears rates with PAR > 30 days improving in 2011 and ending the year at 0.76% for the entire portfolio, compared with 1.00% at 2010-end. Even in the Bank's Retail lending PAR >30 ended the year at a low level of 0.27%.

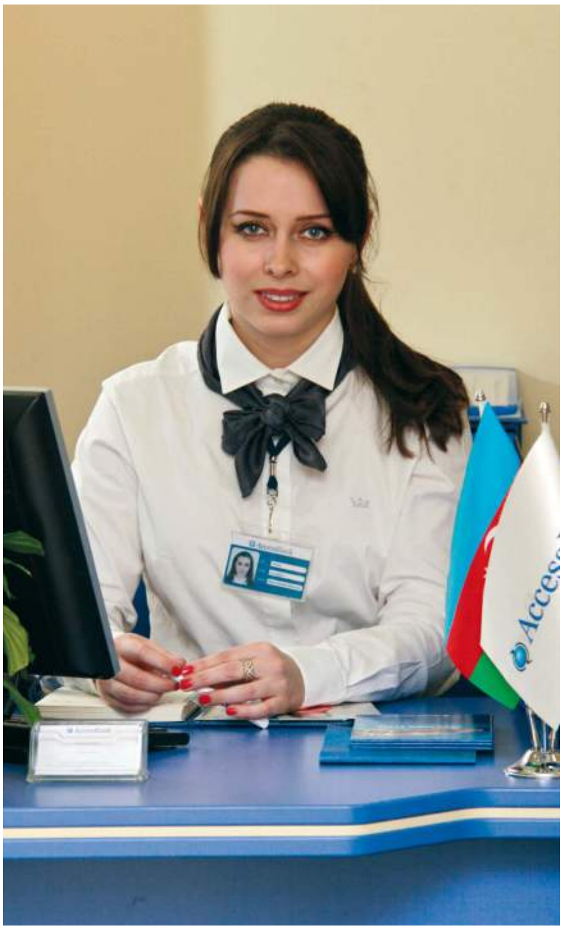
BUSINESS REVIEW

Financial Results

AccessBank's total assets increased by 6% in 2011, ending the year at USD 488 million compared with USD 459 million at 2010-end. The USD 29 million increase was financed by deposit growth of USD 27 million (up 18% to USD 179 million from USD 152 million at 2010-end) and profit (USD 22 million). This allowed for a reduction in borrowings of 8% to USD 184 million from USD 200 million at 2010-end. Capital adequacy remained extremely strong, ending the year at 29% for Total Capital Adequacy and 26% for Tier 1 – or more than twice the Central Bank regulatory norm of 12% and 6% respectively.

Post-tax profit for 2011 reached USD 22 million compared to USD 33 million in 2010. The decrease in profitability was expected, due to declining interest rates on loans and increased costs. This was reflected in the Expense / Income ratio, which ended the year at 70%, up from 58% in 2010 and the decrease in Financial Income to 30.5% from 33.0%. Declining interest rates also lowered Financial Expense, but by a smaller proportion, to 9.1% from 9.4% in 2010. Portfolio growth of 11% partially compensated for these trends. Lastly, profitability continued to be boosted by the tax exemption on capitalised profit (see above) as AccessBank capitalised the majority of 2011 earnings. In September the Bank paid a dividend of AZN 6.4 million to shareholders.

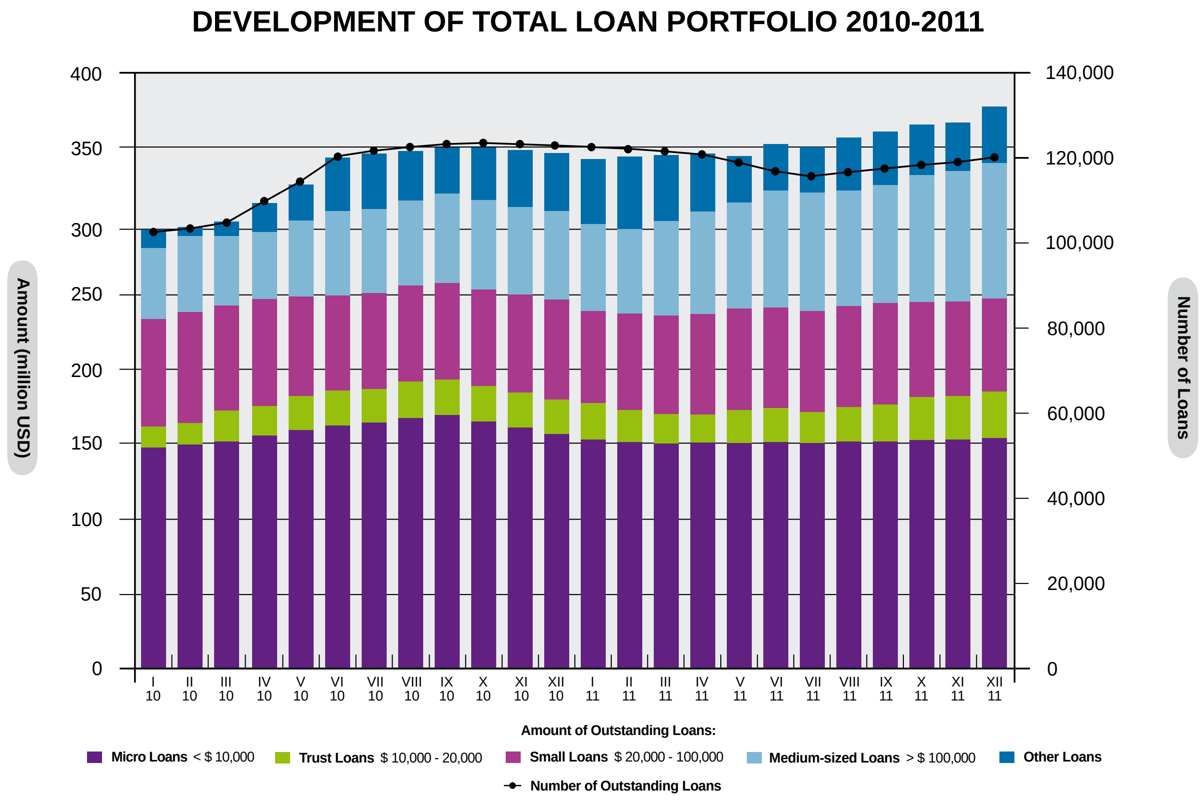
OUR SUCCESS HELPING CLIENTS SUCCEED



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 through 2010 and 2011 the Bank reduced all its loan interest rates by a minimum of three percentage points. But the benefit of AccessBank's profitability for our clients extends beyond reductions in interest rates. The majority of all profit earned by AccessBank has been reinvested into expanding the Bank and branch network. As a result, AccessBank today is able to provide financing for twenty times as many clients as in 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 2011-end, AccessBank was able to provide AZN denominated loans to 110,000 clients (91% of the total) compared to 4,300 at 2006-end (33% of the total). AccessBank's AZN portfolio increased to the equivalent of USD 178 million at 2011-end (47%) of the total), from USD 4.5 million at 2006-end (10% of the total).

Loan Portfolio Development

AccessBank's total outstanding loan portfolio increased 11% in 2011, reaching USD 378 million from USD 341 million at 2010-end. A total of 120,000 loans for USD 470 million were disbursed in 2011 (compared with 123,000 loans for USD 436 million in 2010), with an average loan size of USD 3,900 (up from USD 3,554 in 2010). Total cumulated disbursals from AccessBank finished the year at USD 1.8 billion to more than 269,000 clients (520,000 loans). Portfolio quality remained excellent, with Portfolio at Risk > 30 days improving over the year to 0.76%, compared with 1.00% at 2010-end. This exceptionally low level of arrears reflects AccessBank's commitment to responsible lending and avoidance of client over-indebtedness (see 'AccessBank Leading the Way to Responsible Banking' above). Loan write-offs in 2011 totalled USD 1.9 million, much of which is still expected to be recovered, but was written off as recovery through the courts can take many years. Recovery of previously written-off loans totalled USD 430,000 in 2011.



Business Banking

BUSINESS PORTFOLIO DEVELOPMENT

The outstanding business loan portfolio increased by 8% in 2011 to end the year at USD 338 million (83,000 loans), compared to USD 313 million at 2010-end (92,000 loans). In total 79,523 business loans for USD 409 million were disbursed in 2011, compared to 90,262 loans for USD 397m in 2010. The average size for all business loans was USD 5,139, with 32% of all business loans still being disbursed to first time clients.

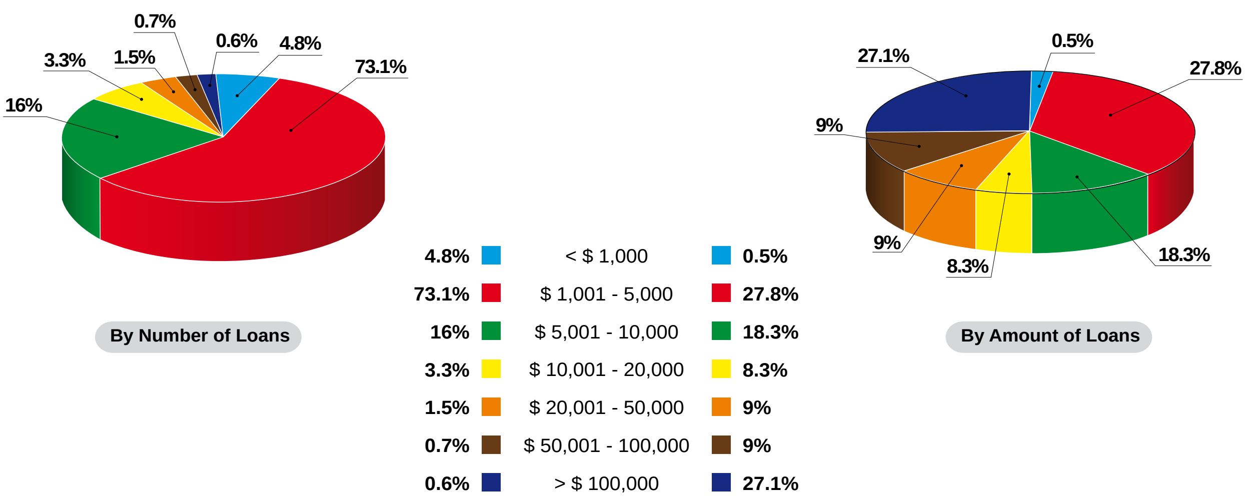
Micro Loans, ranging from USD 100 – USD 10,000, slightly decreased during 2011, down 1% or USD 2 million during the year to USD 157 million (77,500 loans). The Micro segment continues to dominate both in terms of number of loans – 94% of business loans were below USD 10,000 and 78% were below USD 5,000 – and in terms of amount, making up 47% of the total business portfolio. A total of 76,000 Micro Loans for USD 234 million were disbursed in 2011 – almost 60% more than 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 0.96% at year-end, with 425 micro loans for USD 1.2m written-off in 2011.

The most significant growth in relative terms was posted in the Trust Loan segment, ranging from USD 10,001 to USD 20,000. The outstanding portfolio increased by 40% during the year to USD 26 million (2,500 loans), with 1,851 Trust Loans for USD 28 million disbursed during the year. This segment was differentiated in 2008 to further improve efficiency by applying Micro Lending technology and speed to larger loans. Risk for both the Bank and clients was reduced by the increase in the proportion of Micro and Trust Loans disbursed in the local currency. Indeed, 92% of Micro and Trust Loans (71,421 of 77,793) disbursed in 2011 were provided in AZN, up from 85% in 2010, and 64% in 2008.

The SME portfolio (loans over USD 20,000) grew by 15% or USD 20 million in 2011 to USD 155 million, with a total of 1,730 loans for USD 147 million disbursed during the year (average loan size of USD 84,774). The SME Portfolio at Risk > 30 days finished the year at 0.66%, with 25 loans for USD 588,231 written-off during the year.

The diversification of AccessBank's loan portfolio across economic sectors continued to improve in 2011. Reflecting the structure of the

BREAKDOWN OF OUTSTANDING BUSINESS PORTFOLIO BY LOAN SIZE AT DISBURSEMENT AS OF 31 DEC 2011



ACCESSBANK FINANCING AGRICULTURE

While AccessBank has always financed agriculture, until 2007, the Bank lacked a dedicated product for this sector. As a result, agriculture accounted for only 1.3% of our business portfolio at the start of 2007, while we estimated that agricultural income contributed to the budgets of 40% of Azerbaijan's households (although most have multiple income sources). Furthermore, agriculture was largely ignored by Azerbaijan's financial sector and we saw opportunity. But we also recognised that we needed a dedicated product, appropriate to the needs of agriculture, and launched the Agro Loan product in mid-2007. Our standard Micro Loan product looked only at current cash-flow, and agricultural households often need financing for planting or harvesting when income levels are lower or there may even be no income. So for the Agro Loan product we developed a methodology and templates to analyse future cash-flow to determine debt-servicing capacity. We also introduced flexible draw-down and repayment schedules to match the fluctuating income streams of agricultural activities – our existing product had equal monthly instalments; and expanded acceptable collateral to include livestock, agricultural machinery and equipment, fish and future crops. Lastly, we provided training to our loan officers in analysing and understanding agriculture.

The Agro Loan product has proved to be extremely successful. In AccessBank's regional branches, more than half of all business loans are now disbursed under this product. By the end of 2011 the Agro Loan portfolio had reached USD 53 million / 31,000 loans, with an average loan size of only USD 2,538, and a total of USD 235 million / 101,000 loans disbursed under the product. AccessBank has now become Azerbaijan's leading investor in agriculture and financing for Primary Agriculture now accounts for 15.7% of our total business portfolio in terms of amount, and 37.9% of our business client base (from 1.3% and 5% respectively in January 2007).

BUSINESS REVIEW

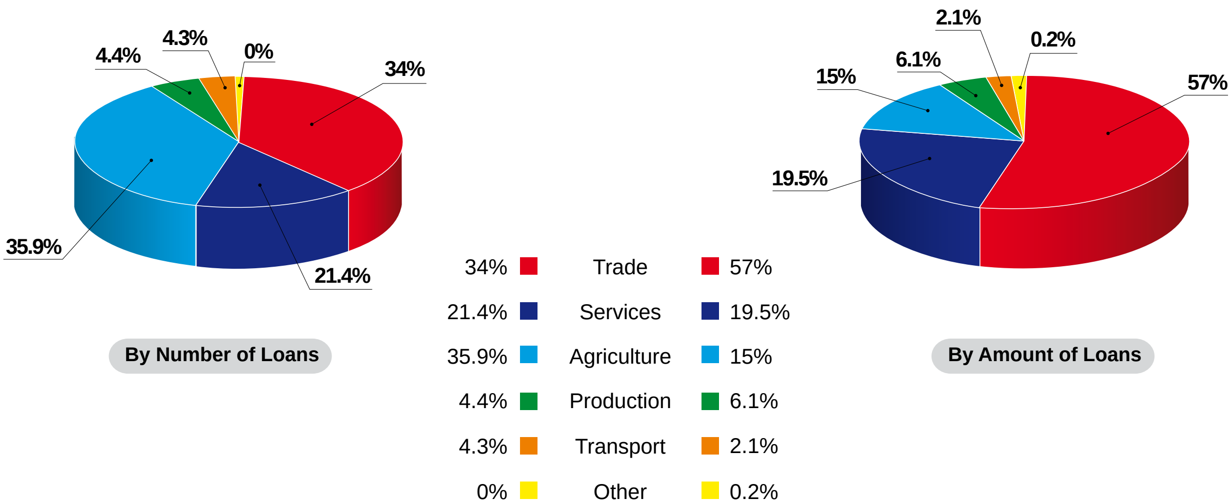
economy and microfinance in general, the wholesale and retail trade segment continued to claim the largest share, with 57% of the outstanding business loan portfolio in terms of amount at year-end. This was followed by services (19.5%) and agriculture (15.0%). Despite the high figure for trade, this 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 mainly absorbed by the service sector, which recorded almost 2% growth in 2011 from 17.6% in 2010. In terms of number of loans, the agricultural sector now accounts for a much higher share - over 35% of the total business portfolio, 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, more than half of all business loans are now disbursed under this product. By year-end the Agro Loan product portfolio had reached USD 53 million with an average disbursal of only USD 2,540. Quality also remains excellent with Portfolio at Risk of 1.02%, having improved over the year from the 2010-end figure of 1.37%, with harvests generally being favourable in 2011. The total portfolio for the Agro Loan product is higher than that reported specifically for the primary agricultural sector, 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 its strategic objective of expanding and diversifying AccessBank's funding base for core, micro and small business lending activities.

BREAKDOWN OF OUTSTANDING BUSINESS PORTFOLIO BY SECTOR AS OF 31 DEC 2011



Retail Banking and Operations

DEPOSITS AND CURRENT ACCOUNTS

After very strong growth in 2009 and 2010, when total deposits increased almost six-fold to USD 152 million from USD 26 million, in 2011 the Bank focused on lowering the cost and diversification of the deposit portfolio. Interest rates were reduced and large deposits were discouraged, with the highest interest rates offered to smaller individual depositors. Growth of 18% was still achieved and total deposits increased to USD 179 million (220,594 accounts). The share of Total Assets financed by deposits has now increased to 38% at 2011-end, compared to 33% at 2010-end and 11% at 2008-end.

ACCOUNT TURNOVER

Account turnover increased by 10% in 2011 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 255 million, cash turnover increased 12% to USD 939 million in 2011 from USD 835 million in 2010. 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.

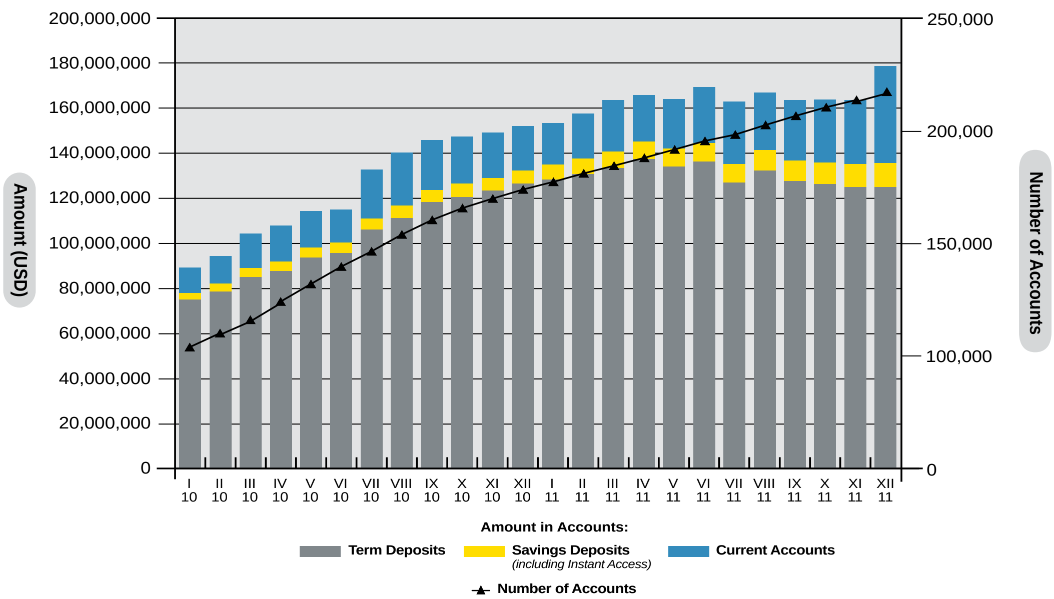
MONEY TRANSFER SYSTEMS

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, Contact and Zolotaya Korona – the last five being oriented to the CIS where the majority of Azerbaijani migrant workers seek employment. The total number of transactions via these systems grew by 4% to 39,173 in 2011, while the total amount transferred increased by 5% to USD 23 million.

VISA CARDS

AccessBank introduced Visa debit cards not only as a convenience product for our clients, but also 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

DEVELOPMENT OF DEPOSIT ACCOUNTS IN 2010-2011



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. 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. In 2011, AccessBank focused on rationalising its Visa debit card client portfolio to eliminate unused cards. As a result the total number of cards decreased by 4% to 18,706 from 19,519 at 2010-end, but the total volume of transactions increased by 25% to USD 52 million. Similarly, the number of Salary Projects was reduced to 54 with 8,746 cards by 2011-end, compared with 126 projects with 10,000 cards at 2010-end.

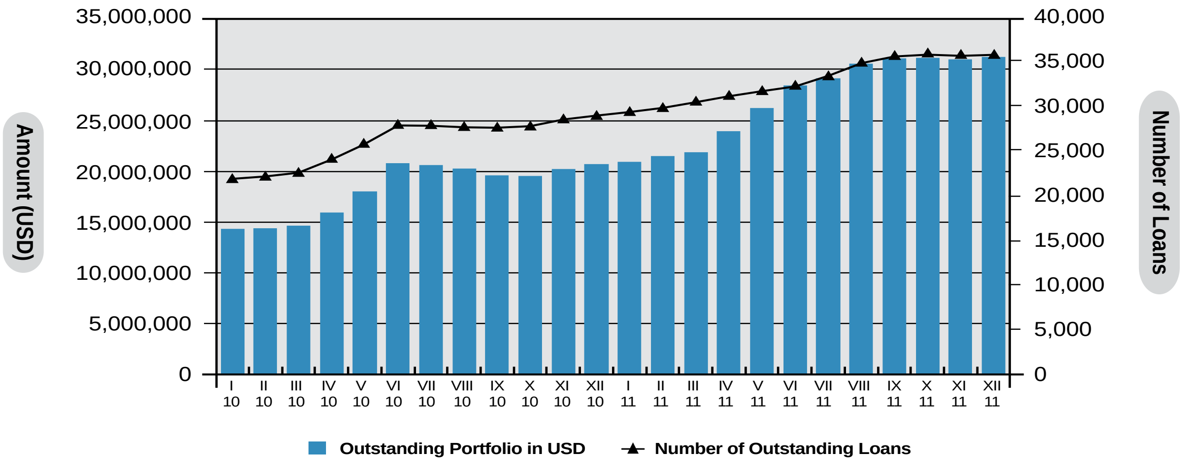
RETAIL LENDING

AccessBank's Retail lending serves three strategic objectives: it fulfils our mission of providing financial services to low and middle income households; it helps AccessBank develop a retail client base for attracting deposits; and it strengthens links with SME and corporate clients by providing financing to their customers and employees. AccessBank's range of Retail Loan products includes: 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 2011 AccessBank expanded its range of Retail Loan Products with Mortgage Loans for financing purchase, construction and refurbishment of housing. By year-end, the Mortgage Loan portfolio was still small at 43 loans for an outstanding balance of USD 1.0m, as management was still testing and fine-tuning product policies and procedures, but we anticipate that the Mortgage Loan portfolio will grow rapidly in the future.

In 2011 the Retail Loan portfolio increased by 48% ending the year at USD 31.7 million (36,232 loans). However, this growth was from a low starting point and the Retail Loan portfolio remains a relatively small proportion of the total portfolio at 8.4%.

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 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

RETAIL CREDIT DEVELOPMENT (OUTSTANDING PORTFOLIO IN USD) IN 2010-2011



Football lesson for schoolchildren on newly-built field

Match between Azerbaijan and Georgia at U-17 Caspian Cup

Winners of football tournament held for orphans

Mobile soccer pitch set up in Mingechevir city

standing at 0.27% at year-end, with only 91 Retail Loans for USD 71,000 written off in 2011.

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. In 2011 activities included: organizing football competitions for schools, girls and orphanages; sponsoring the U-17 Caspian Cup international football tournament; and working with AFFA to create promotional materials for the men's national team that were made available around Baku and in the regional districts. Other marketing activities continue to include: television, billboard and bus advertisements; localised promotions for branches and community outreach events; and support of AccessBank's Call Centre, which is fielding more than 550 calls per day.

REFINANCING

In 2011 AccessBank obtained a total of USD 45.3 million in new refinancing and rolled-over a further USD 17 million – significantly more than the USD 25.5 million received in 2010, but still less than the USD 81 million in 2008. Total outstanding borrowed funds were further reduced in 2011 to USD 184 million, from USD 200 million at 2010-end and USD 219 million in 2009, as the total share of assets funded by deposits continued to increase, ending the year at 38%, from 33% at 2010-end. With the share of assets financed by international borrowings reducing also to 38%, from 43% at 2010-end, parity between deposits and international refinancing was reached. Management then took the decision to maintain this parity to continue diversification in the Bank's funding structure to minimise funding risk.

Transactions during the year included: a USD 20 million loan from FMO; a USD 7.5 million loan from the Microfinance Enhancement Facility; a USD 7.5 million loan from responsAbility SICAV; a new USD 4 million from DWM Income Funds SCA – SICAV SIF denominated in AZN; and a drawdown of the first tranche of USD 7.5 million from a USD 15 million loan from the European Fund for Southeast Europe (EFSE). Additionally AZN denominated loans of USD 5 million from Minlam Microfinance Offshore Master Fund and USD 7 million from DWM/SNS Institutional Microfinance Fund, and another USD 5 million loan from Triodos SICAV II – Triodos Microfinance Fund were rolled over in 2011.

AccessBank continues to enjoy strong relationships with a wide pool of international refinancing partners and is confident that funding requirements in 2012 and beyond will be met without difficulties. This position is reinforced by the continuing annual reconfirmation of AccessBank's 'BB+ – Outlook Stable' Long-Term Issuer Default Rating by Fitch Ratings, the highest rating in the Azerbaijani financial sector.

INFRASTRUCTURE

In 2011, AccessBank opened one new branch in the regional town of Imishli, bringing the total number of branches to 29, although three other branches in Guba, Mashtaga and Sumgait were nearing completion and opened in early 2012. In addition, the Sumgait Branch was relocated to new larger premises. AccessBank now serves 14 main cities and towns of Azerbaijan and covers over 90% of the population with a branch in their own or an adjacent region. Work has also begun on the refurbishment of a business centre purchased for the Bank's future Head Office in central Baku. This will allow the Bank to consolidate all its Head Office staff in one location and is expected to meet the Bank's Head Office needs for the next twenty years. Refurbishment of the building will be one of the two major infrastructure projects in 2012, the second, which is also already underway and will continue through the next two years, is the migration of the Bank's core banking software to Temenos T24. These will be major investments for the Bank, 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. 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 dedicated middle managers responsible for supervising and controlling each business area. The branch teams are supported both by their Branch Managers 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.

Day-to-day risk management is complemented by the Risk Management Department and Risk, ALCO and IT committees, reporting quarterly to the Supervisory Board. These review risks on a bank-wide or global level, as well as investigating specific risk aspects. Since its creation in 2008 the Risk Management Department has grown to ten staff, responsible for reviewing all exposures over USD 100,000, undertaking selective portfolio reviews, assisting with problem loan recovery, 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 positions 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 'Our Success Helping Clients Succeed' above). 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 desktop PCs, contributing 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 2011-end, the Audit Department numbered eleven full-time staff who audit each branch and Head Office department at least annually. The work of the department is led and supported by the Audit Committee which reports directly to both the Supervisory Board and the General Assembly of Shareholders.

The technical development of Risk Management in the bank is also supported by risk and audit specialists from LFS' Head Office in Berlin.

OUTLOOK

The economic stability prevalent in 2011 is expected to persist through 2012 and beyond, especially as the outlook for oil prices remains strong. Nevertheless, credit risk continues to challenge the banking sector especially as competition in the Financial Sector is intensifying, leading to many clients obtaining loans from multiple lenders and escalating risk of over-indebtedness.

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 helped AccessBank to both diversify its funding and to increase its local currency resources, facilitating growth in AZN lending which reduces currency risk for both clients and the Bank. 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 2012 and the medium term. The intensifying competition in the Financial Sector is also expected to drive contraction in interest rates, which will reduce AccessBank's interest margins and profitability. Management has anticipated this and believes that the contraction in margins will be partially offset by lower refinancing costs as net interest rates on new local deposits and international borrowings are now significantly lower than the maturing deposits and borrowings they are replacing.

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 2012 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 2012 may bring.

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 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 four times in 2011, with 100% of the shares represented by physically present individuals at three of the meetings, with EBRD missing one of the meetings. The General Assembly appoints the members of the Supervisory and Management Boards, and Audit, Risk, ALCO and IT Committees, as well as determining the remuneration of the Supervisory Board and Audit Committee members. Other responsibilities include the approval of the external auditor and the audited financial statements, creation of reserves, extraordinary audits and branch openings and closures. Further powers include all actions regarding the shares of the Bank, including distribution of profit, increases in charter capital, issuance, listing or sale of shares to any party.

SUPERVISORY BOARD – The Supervisory Board of AccessBank is appointed 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. In 2011, Mr Michael Jainzik resigned from the Board and his position as Chair, due to his relocation to Namibia, which made it impracticable for him to remain on AccessBank's Board. His position as Chair was taken over by Mr Orhan Aytemiz, who has been a member of the Board since the Bank's inception. At the same time the Board welcomed a new member, Ms Eva Witt, who is also KfW's Director for Eastern Europe, Caucasus and Central Asia and was previously on the Board of AccessHolding, and thus has a deep knowledge and understanding of the region and AccessBank. The remaining three members of the Supervisory Board are Mr Syed Aftab Ahmed, Mr Thomas Engelhardt and Ms Victoria Miles (see facing page). The Supervisory Board met four times in person in 2011, three times with all five Supervisory Board members physically attending, and once with Ms Witt absent due to scheduling conflicts.

While the membership of the Supervisory Board has changed over the years, three of the

AccessBank Supervisory Board

From left to right:

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 untill 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 continues 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.

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

Mr ORHAN AYTEMIZ, *Chairman*
Member of AccessBank's Supervisory Board since its inception (June 2002) and Chair since September 2011. Mr Aytemiz is a Director in BSTDB's Project Finance group (since 1999), based in Thessaloniki, Greece, 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 from Eastern Michigan University and with a BSc in Business Administration from Middle East Technical University. He is Turkish and is fluent in Turkish, English and Greek.

Ms VICTORIA MILES
Member of AccessBank's Supervisory Board since February 2010. Ms Miles joined JPMorgan in 2000 and now heads Emerging Markets credit trading strategy. She previously worked for 10 years in fixed income research at JPMorgan, latterly as Co-Head of the Global Emerging Market Corporate Research team, as well as Head of Strategy for CEEMEA Corporate Research and the Senior 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.

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. Mr Engelhardt joined LFS in 1996, where he was responsible for the establishment and organisation of AccessBank and is now Chairman of AccessHolding's Management Board and a Managing Director of LFS Financial Systems. Previously he worked on MSME and downscaling projects with LFS in Uzbekistan, Azerbaijan and Bosnia and Herzegovina. Mr Engelhardt graduated from the Free University of Berlin with an MSc in Economics and a BA in Slavic Studies. Mr Engelhardt is German, fluent in German, English and Russian.

CORPORATE GOVERNANCE, ORGANISATION AND STAFF

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 and AccessBank thus benefits from a Board that has a deep understanding of the Bank, the region, microfinance and banking.

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

MANAGEMENT BOARD – Day-to-day business is directed by the five-member Management Board, chaired by the General Manager 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 Administration, Security and IT. And Mr Elshan Hajiyev, the Finance Director, is responsible for Accounting, Financial Control and Treasury. 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 2011 did not exceed 35% 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: Mr Sohrab Farhadov, Chairman – who received his MA in Economics at Bowling Green State University and has since worked in audit and financial control in Azerbaijan; Christopher Falco – a Senior Banker at the European Bank for Reconstruction and Development, with extensive experience in banking and MSME consulting, and Ms Alexandra Weichesmiller – an international audit specialist with LFS Financial Systems and previously a Senior Auditor with Ernst & Young. In the final quarter of 2011, Ms Weichesmiller went on maternity leave and will be replaced during her absence by Christoph Diehl – an international Banking Specialist also with LFS Financial Systems.

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 Treasury Manager.

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

From left to right:

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 AccessBank, Mr Hajiyev worked for HSBC Bank in Baku as a Financial Control Supervisor for six years, the Industrial Investment Bank of Azerbaijan in Baku and Menatep Bank in Moscow. He has a Master's Degree in Economics of Road 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.

Mr ANAR GASANOV,
Retail & Operations Director
Joined AccessBank in 2002 as a Micro Loan Officer. Promoted to Senior Loan Officer then to the SME Department. In 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 Retail Business. In 2007 Mr Gasanov was appointed to the Management Board as the Director of Retail Banking and Operations. Mr Gasanov obtained a Diploma in Finance from Istanbul University, a Master's Degree in Finance from Azerbaijan State Economic University, and a Diploma in Banking from the American Banking Association Stonier Graduate School of Banking at the University of Pennsylvania. He is Azeri and is fluent in Azerbaijani, Turkish, Russian and English.

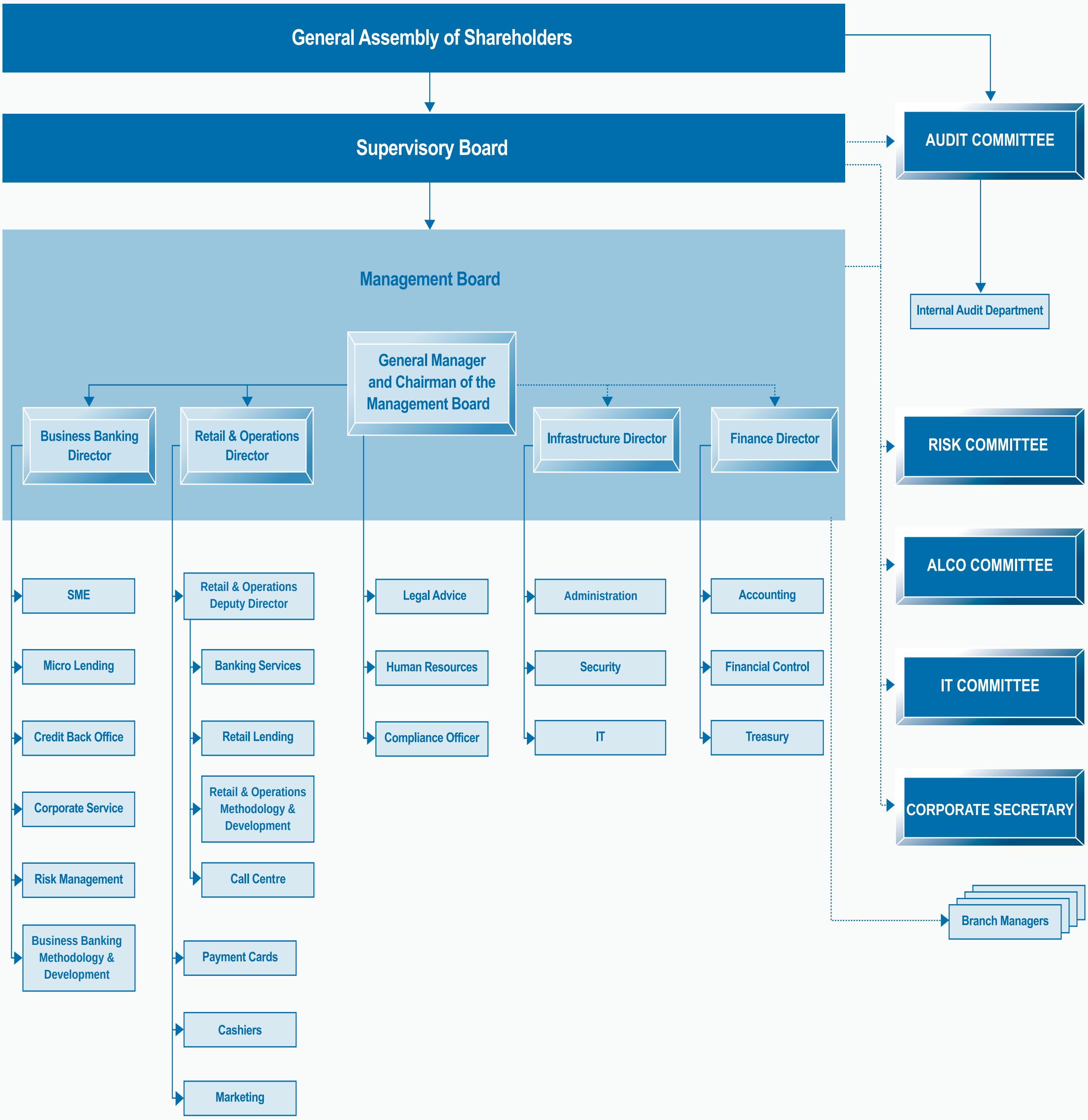
Dr ANDREW POSPIELOVSKY,
General Manager and Chairman of the Management Board
Joined AccessBank in 2006 as General Manager and Chairman of the Management Board, and is responsible for the day-to-day management of the Bank. Prior to joining AccessBank, Dr Pospielovsky worked on numerous MSME projects throughout 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.

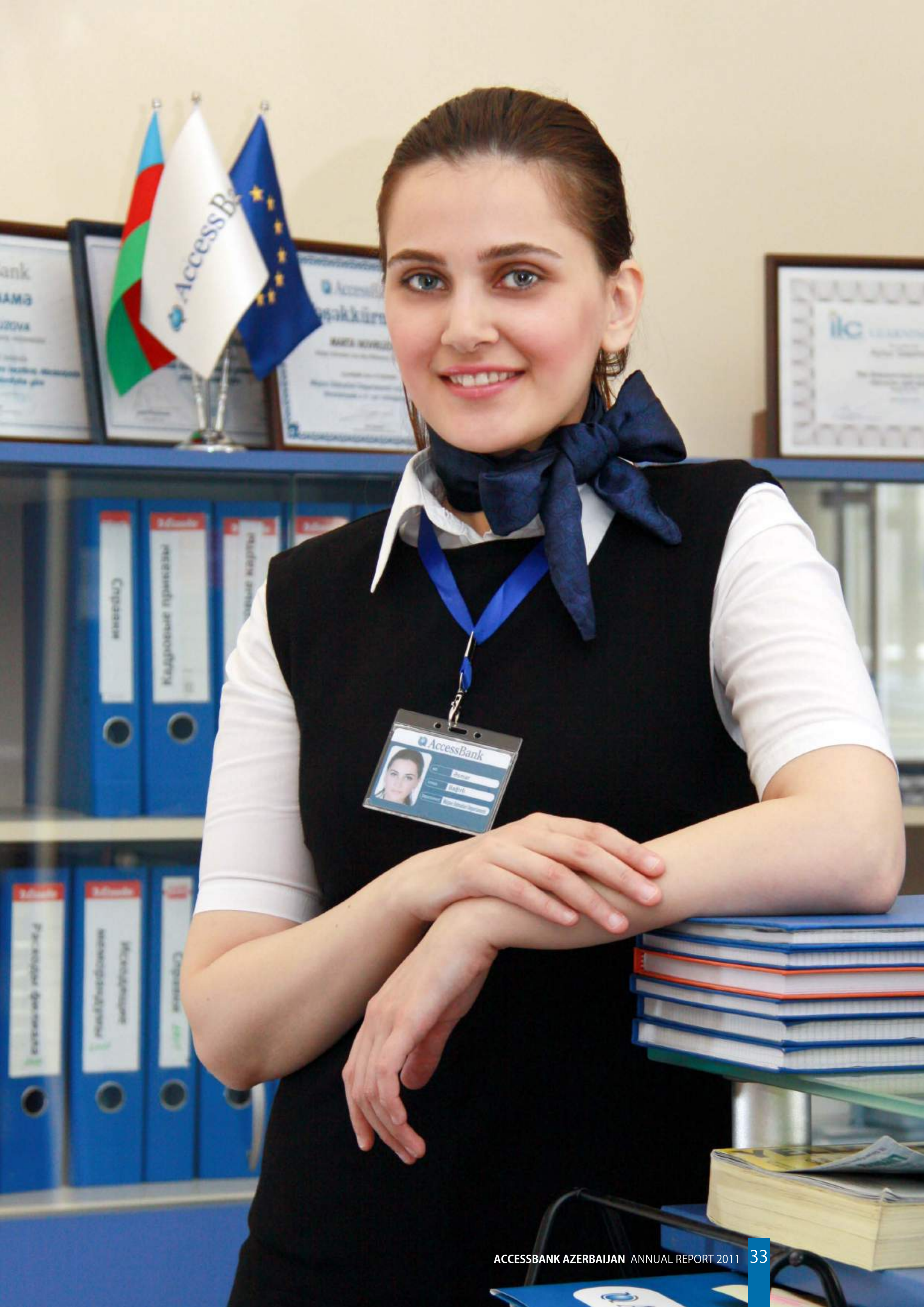
Mr RUFAT ISMAYILOV,
Infrastructure Director
Joined AccessBank in 2002 as a Micro Loan Officer. Promoted to Senior Loan Officer, then to Central Branch Manager and Administration Manager, before joining the Management Board in 2006, with responsibility for the Bank's Infrastructure. Mr Ismayilov has a Master's Degree in Finance from the Azerbaijan State Economic University and also serves on the supervisory board of the Azerbaijan Micro-Finance Association (AMFA). He is Azeri and is fluent in Azerbaijani, Russian and English.

Mr SHAKIR RAGIMOV,
Business Banking Director
Joined AccessBank in 2002 as a Micro Loan Officer. Promoted to Senior Loan Officer, then in 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. Mr Ragimov has a Master's Degree in Business Administration and Finance from the Azerbaijan State Economic University. He is also currently enrolled in University of Warwick's MBA by Distance Learning program. He is Azeri and is fluent in Azerbaijani, Russian and English.

CORPORATE GOVERNANCE, ORGANISATION AND STAFF

Organisational Chart





SOCIAL, ENVIRONMENTAL AND ETHICAL CORPORATE RESPONSIBILITY

Adherence to high ethical standards and responsible banking have 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, religion or disability. 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, train and support women and disabled people to pursue professional careers in the Bank. Women make up 37% of the total workforce of the Bank and 26% of the management, and the bank has provided professional employment for 13 disabled staff.

The transparent, clean and unbureaucratic financial services provided by AccessBank 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, Ac-

1 AccessBank employees celebrate the Novruz holiday with children at a boarding school in Salyan

2 Bird house and tree-planting project in Sumgayit.

3 Business strategy training held for women in Mingechevir.

cessBank 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 services 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 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 11.2 million (USD 14.2 million) in taxes and social insurance payments in 2011 (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 'AccessBank – Building Inclusive Communities' below).

AccessBank strives to live up to the Global Compact's environmental standards, 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 environmentally hazardous activities, AccessBank not only protects the eco-system of Azerbaijan, but also sets an example as a leader in the local banking industry. This list has been prepared in accordance with the strict requirements of the Bank's shareholders, and appraisal of environmental risk is part of standard lending procedures. A summary of AccessBank's activities in this area is compiled in an annual Environmental Report. 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 does more than just play an important role in the economic development of local communities across Azerbaijan. The Bank also supports, sponsors and encourages staff to become involved in charitable and community projects that both benefit and promote the evolution of inclusive local communities.
Examples of such projects in 2011 include: sponsoring the Girls Leading Our World (GLOW) summer camp for schoolgirls from the regions of Azerbaijan; organizing a Girls' Football Camp with AFFA and the United States Peace Corps; distributing food packages for the Novruz holidays to refugee and disadvantaged families; providing a business workshop for women planning to start a new business; planting trees together with children with limited eyesight, purchasing Braille books, and financing eye operations; work-skills training for disabled youth; organizing a blood donation drive; organising an art exhibition of works produced by disabled people; as well as material support for and organisation of numerous 'day-trips' and 'celebrations' for residents of orphanages and homes for the disabled and pensioners.

AccessBank Closed Joint Stock Company

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

31 December 2011

CONTENTS

INDEPENDENT AUDITOR'S REPORT

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

1 We have audited the accompanying financial statements of the AccessBank CJSC (the "Bank") which comprise the statement of financial position as of 31 December 2011 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

2 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

3 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.

4 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.

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

Opinion

6 In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as of 31 December 2011, 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
7 May 2012

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 2011	31 December 2010
Assets			
Cash and cash equivalents	7	32,415	57,805
Mandatory cash balances with the Central Bank of Azerbaijan Republic ("CBAR")		6,253	371
Investment securities available for sale	10	8,040	40
Investment securities held to maturity	11	5,004	-
Due from other banks	8	2,364	7,023
Loans and advances to customers	9	291,700	266,185
Investment properties		-	21,708
Property, plant and equipment	12	31,127	9,382
Intangible assets	12	4,115	1,615
Deferred income tax asset		-	51
Other financial assets	13	481	527
Other assets	14	2,066	1,316
Total assets		**383,565**	**366,023**
Liabilities			
Customer accounts	15	146,920	126,671
Other borrowed funds	16	138,618	153,692
Current income tax liability	24	300	130
Other financial liabilities		626	626
Deferred income tax liability	24	314	-
Other liabilities	17	3,390	2,269
Subordinated debt	18	8,074	8,180
Total liabilities		**298,242**	**291,568**
EQUITY			
Share capital	19	67,800	41,800
Retained earnings		17,523	32,655
Total equity		**85,323**	**74,455**
Total liabilities and equity		**383,565**	**366,023**

Approved for issue and signed on behalf of the Management Board on 27 April 2012.

At 31 December 2011, the prevailing exchange rates were USD 1 = AZN 0.7865 and EUR 1 = AZN 1.0178 (31 December 2010: USD 1 = AZN 0.7979 and EUR 1 = AZN 1.056), refer to Note 3.

Dr. Andrew Pospielovsky
Chairman of the Management Board

Azərbaycan Respublikası "AccessBank" QSC AccessBank

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

In thousands of Azerbaijani Manats	Note	2011	2010
Interest income	20	84,842	87,703
Interest expense	20	(25,489)	(25,589)
Net interest income		59,353	**62,114**
Provision for loan impairment	9	(1,383)	(2,067)
Net interest income after provision for loan impairment		**57,970**	**60,047**
Fee and commission income	21	1,223	1,129
Fee and commission expense	21	(230)	(175)
Gains less losses from foreign currency dealing		474	749
Foreign exchange (loss)/ gain, net		(509)	75
Other operating income	22	1,095	78
Impairment reversal/(loss) on property, plant and equipment		257	(257)
Administrative and other operating expenses	23	(42,347)	(35,397)
Profit before tax		**17,933**	26,249
Income tax expense	24	(665)	(79)
Profit for the year		**17,268**	**26,170**
Other comprehensive income for the year		-	-
Total comprehensive income for the year		**17,268**	**26,170**
Earnings per share for profit attributable to the equity holders of the Bank, basic and diluted (expressed in AZN per share)	25	**0.86**	**1.31**

In thousands of Azerbaijani Manats	Share capital	Retained earnings	Total
Balance at 31 December 2009	**20,000**	**33,285**	**53,285**
Increase in share capital	21,800	(21,800)	-
Dividend declared and paid	-	(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**
Increase in share capital	26,000	(26,000)	-
Dividend declared and paid	-	(6,400)	(6,400)
Total recognised profit for the year attributable to ordinary shareholders	-	17,268	17,268
Balance at 31 December 2011	**67,800**	**17,523**	**85,323**

In thousands of Azerbaijani Manats	Note	2011	2010
Cash flows from operating activities			
Interest received		84,928	87,573
Interest paid		(25,312)	(22,207)
Fees and commissions received		1,223	1,129
Fees and commissions paid		(230)	(175)
Net income received from foreign currency dealing		474	749
Other operating income received		1,095	78
Staff costs paid		(25,770)	(20,761)
Administrative and other operating expenses paid		(12,754)	(11,696)
Income tax paid		(130)	-
Cash flows from operating activities before changes in operating assets and liabilities		**23,524**	**34,690**
Net increase in mandatory cash balances with the CBAR		(5,882)	(118)
Net decrease in due from other banks		4,663	2,658
Net increase in loans and advances to customers		(26,988)	(34,294)
Net increase in other financial assets and other assets		(706)	(576)
Net decrease in due to other banks		-	(3,005)
Net increase in customer accounts		19,300	58,525
Net increase in other financial liabilities		-	95
Net increase in other liabilities		1,123	181
Net cash generated from operating activities		**15,034**	**58,156**
Cash flows from investing activities			
Acquisition of investment securities available for sale		(8,000)	-
Acquisition of investment securities held to maturity		(5,004)	-
Acquisition of investment property		-	(21,708)
Acquisition of property and equipment		(3,060)	(4,400)
Acquisition of intangible assets		(3,043)	(179)
Net cash used in investing activities		**(19,107)**	**(26,287)**
Cash flows from financing activities			
Proceeds from other borrowed funds		87,254	26,203
Repayment of other borrowed funds		(101,662)	(41,909)
Dividend paid		(6,400)	(5,000)
Net cash used in financing activities		**(20,808)**	**(20,706)**
Effect of exchange rate changes on cash and cash equivalents		**(509)**	**75**
Net (decrease)/increase in cash and cash equivalents		**(25,390)**	**11,238**
Cash and cash equivalents at the beginning of the year	7	57,805	46,567
Cash and cash equivalents at the end of the year	7	32,415	**57,805**

1 Introduction

These financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2011 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 per client.

The Bank has thirty branches within the Republic of Azerbaijan. (31 December 2010: twenty eight 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 procedures for 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.

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.

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.

3 Summary of Significant Accounting Policies (continued)

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.

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 reliability 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.

3 Summary of Significant Accounting Policies (continued)

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

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

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

Impairment losses are always recognised through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

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

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

3 Summary of Significant Accounting Policies (continued)

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.

Investment securities held to maturity. This classification includes quoted non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank has both the intention and ability to hold to maturity. An investment is not classified as a held-to-maturity investment if the Bank has the right to require that the issuer repay or redeem the investment before its maturity, because paying for such a feature is inconsistent with expressing an intention to hold the asset until maturity. Management determines the classification of investment securities held to maturity at their initial recognition and reassesses the appropriateness of that classification at the end of each reporting period. Investment securities held to maturity are carried at amortised cost.

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.

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. Non-recoverable VAT is capitalised to the cost of non-current assets

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.

3 Summary of Significant Accounting Policies (continued)

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	10-20 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.

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

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 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 lives 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.

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.

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.

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

Share capital. Ordinary shares are 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. As of 31 December 2011 and 31 December 2010 the Bank had only ordinary shares.

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

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

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

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

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

3 Summary of Significant Accounting Policies (continued)

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 2011, the principal exchange rates were USD 1 = AZN 0.7865 and EUR 1 = AZN 1.0178 (31 December 2010: USD 1 = AZN 0.7979 and EUR 1 = AZN 1.0560).

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

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

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

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

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

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

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

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 32.

Classification of the partially leased out building. Premise acquired by the Bank in financial year 2010 has been previously classified as "Investment Property" at amortised cost with reference to relevant clause in IAS 40. IAS 40 requires 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. In 2011 the Bank has changed its intention to use the main portion of the premise with carrying value of AZN 20,779 as at 31 December 2011 for internal administrative purposes. The premise has been prospectively reclassified as Property Equipment and Intangible Assets in the Statement of Financial Position. The reclassification has no effect on financial position, results of operations and equity in any of the prior periods.

5 Adoption of New or Revised Standards and Interpretations

The following new standards and interpretations became effective for the Bank from 1 January 2011:

***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. As a result of the revised standard, the Bank now also discloses contractual commitments to purchase and sell goods or services to its related parties

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 the 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 1 was amended to clarify the requirements for the presentation and content of the statement of changes in equity; 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 above amendments resulted in additional or revised disclosures, but had no material impact on measurement or recognition of transactions and balances reported in these financial statements. The financial effect of collateral required to be disclosed by the amendments to IFRS 7 is presented in these financial statements by disclosing collateral values separately for (i) those financial assets where collateral and other credit enhancements are equal to, or exceed, carrying value of the asset ("over-collateralised assets") and (ii) those financial assets where collateral and other credit enhancements are less than the carrying value of the asset ("under-collateralised assets").

Other revised standards and interpretations effective for the current period. IFRIC 19 "Extinguishing financial liabilities with equity instruments", amendments to IAS 32 on classification of rights issues, clarifications in IFRIC 14 "IAS 19 - The limit on a defined benefit asset, minimum funding requirements and their interaction" relating to prepayments of minimum funding requirements and amendments to IFRS 1 "First-time adoption of IFRS", did not have any impact on these 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 2012 or later, and which the Bank has not early adopted.

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 payments of principal and interest only (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 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

IFRS 10, Consolidated Financial Statements (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), replaces all of the guidance on control and consolidation in IAS 27 "Consolidated and separate financial statements" and SIC-12 "Consolidation - special purpose entities". IFRS 10 changes the definition of control so that the same criteria are applied to all entities to determine control. This definition is supported by extensive application guidance.

IFRS 11, Joint Arrangements, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), replaces IAS 31 "Interests in Joint Ventures" and SIC-13 "Jointly Controlled Entities—Non-Monetary Contributions by Ventures". Changes in the definitions have reduced the number of types of joint arrangements to two: joint operations and joint ventures. The existing policy choice of proportionate consolidation for jointly controlled entities has been eliminated. Equity accounting is mandatory for participants in joint ventures.

IFRS 12, Disclosure of Interest in Other Entities, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. It replaces the disclosure requirements currently found in IAS 28 "Investments in associates". IFRS 12 requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. To meet these objectives, the new standard requires disclosures in a number of areas, including significant judgements and assumptions made in determining whether an entity controls, jointly controls, or significantly influences its interests in other entities, extended disclosures on share of non-controlling interests in group activities and cash flows, summarised financial information of subsidiaries with material non-controlling interests, and detailed disclosures of interests in unconsolidated structured entities.

6 New Accounting Pronouncements (continued)

IFRS 13, Fair value measurement, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), aims to improve consistency and reduce complexity by providing a revised definition of fair value, and a single source of fair value measurement and disclosure requirements for use across IFRSs.

IAS 27, Separate Financial Statements, (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013), was changed and its objective is now to prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. The guidance on control and consolidated financial statements was replaced by IFRS 10, Consolidated Financial Statements.

IAS 28, Investments in Associates and Joint Ventures, (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013). The amendment of IAS 28 resulted from the Board's project on joint ventures. When discussing that project, the Board decided to incorporate the accounting for joint ventures using the equity method into IAS 28 because this method is applicable to both joint ventures and associates. With this exception, other guidance remained unchanged

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 balance sheet. 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

Amendments to IAS 1, Presentation of Financial Statements (issued June 2011, effective for annual periods beginning on or after 1 July 2012), changes the disclosure of items presented in other comprehensive income. The amendments require entities to separate items presented in other comprehensive income into two groups, based on whether or not they may be reclassified to profit or loss in the future. The suggested title used by IAS 1 has changed to 'statement of profit or loss and other comprehensive income'. The Bank expects the amended standard to change presentation of its financial statements, but have no impact on measurement of transactions and balances.

Amended IAS 19, Employee Benefits (issued in June 2011, effective for periods beginning on or after 1 January 2013), makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits. The standard requires recognition of all changes in the net defined benefit liability (asset) when they occur, as follows: (i) service cost and net interest in profit or loss; and (ii) remeasurements in other comprehensive income..

Disclosures—Offsetting Financial Assets and Financial Liabilities - Amendments to IFRS 7 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2013). The amendment requires disclosures that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off

Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2014). The amendment added application guidance to IAS 32 to address inconsistencies identified in applying some of the offsetting criteria. This includes clarifying the meaning of 'currently has a legally enforceable right of set-off' and that some gross settlement systems may be considered equivalent to net settlement

Other revised standards and interpretations: The amendments to IFRS 1 "First-time adoption of IFRS", relating to severe hyperinflation and eliminating references to fixed dates for certain exceptions and exemptions, will not have any impact on these financial statements. The amendment to IAS 12 "Income taxes", which introduces a rebuttable presumption that an investment property carried at fair value is recovered entirely through sale, will not have any impact on these financial statements. IFRIC 20, Stripping Costs in the Production Phase of a Surface Mine, considers when and how to account for the benefits arising from the stripping activity in mining industry.

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

7 Cash and Cash Equivalents

In thousands of Azerbaijani Manats	31 December 2011	31 December 2010
Cash on hand	16,201	20,935
Cash balances with the CBAR (other than mandatory reserve deposits)	1,353	28,001
Mandatory cash balance with CBAR	6,253	371
Correspondent accounts and overnight placements with other banks:		
- Other countries	12,279	5,329
- Republic of Azerbaijan	2,582	3,540
Total cash and cash equivalents	38,668	58,176

The growth of the amount of mandatory reserve held with CBAR in 2011 as compared with 2010 is due to the growth of the balance of customer accounts in 2011 as well as the following change in the rules for setting the amount of these reserves adopted by CBAR in the course of the year 2011.As of 31 December 2010 this amount was set at 0.5% of average balances of customer accounts and other borrowed funds in all currencies during the reporting month. As of 31 December 2011 this amount was set at 2% of average balances of customer accounts and other borrowed funds in local currency and 3% of average balances of customer accounts and other borrowed funds in foreign currencies during the reporting month.

The credit quality of cash and cash equivalents balances may be summarised as follows at 31 December 2011:

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	1,353	-	1,353
- Rated Azerbaijani banks:		-	-
Moody's/B2 with a stable outlook	-	56	56
Fitch/B with a stable outlook	-	14	14
Moody's/Ba2 with a negative outlook	-	26	26
Fitch/B with a negative outlook	-	22	22
- Other unrated Azerbaijani banks	-	2,464	2,464
- OECD banks	-	11,496	11,496
- Non-OECD banks	-	783	783
Total cash and cash equivalents, excluding cash on hand	**1,353**	**14,861**	**16,214**

The most recently published international ratings for the Republic of Azerbaijan are BBB-/Positive (Fitch Ratings - issued on 18 May 2011), Ba2/Positive (Moody's investors' Service - issued on 9 March 2011) and BB+/Positive/B (Standard Poor's - issued on 9 November 2011).

Interest rate analysis of cash and cash equivalents is disclosed in Note 27.

7 New Accounting Pronouncements (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**

8 Due from Other Banks

In thousands of Azerbaijani Manats	31 December 2011	31 December 2010
Short-term placements with banks	2,364	7,023
Total due from other banks	**2,364**	**7,023**

On 24 December 2011 the Bank signed a deposit agreement with AccessBank Tanzania LTD for the amount of USD 3,000 thousand with a maturity date on 23 April 2012.The deposit bears market interest rate. The outstanding amount of this deposit on 31 December 2011 is USD 3,000 thousand or AZN 2,359 thousand.

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.

Both deposits as at 31 December 2010 were closed during 2011.

An analysis by credit quality of amounts due from other banks outstanding at 31 December 2011 is as follows:

In thousands of Azerbaijani Manats	Short-term placements with other banks
Neither past due nor impaired	
- Unrated banks:	2,364
Total due from other banks	**2,364**

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 2011 or 31 December 2010.

Amounts due from other banks are not collateralised. 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**

Interest rate analysis of due from other banks is disclosed in Note 27. Refer to Note 30 for the estimated fair value of each class of amounts due from other banks. Information on related party balances is disclosed in Note 32.

9 Loans and Advances to Customers

In thousands of Azerbaijani Manats	31 December 2011	31 December 2010
Micro loans (up to AZN 16,000)	145,236	142,718
Small and medium enterprises loans ("SME loans" – over AZN 16,000)	122,704	108,477
Retail loans to salaried individuals	25,229	17,275
Staff loans	6,347	5,350
Less: Provision for loan impairment	(7,816)	(7,635)
Total loans and advances to customers	**291,700**	**266,185**

The movements in the provision for loan impairment during 2011 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 2011	**3,977**	3,115	435	108	**7,635**
Provision for impairment during the year	720	564	79	20	1,383
Amounts written-off during the year as uncollectible	(1,011)	(473)	(56)	-	(1,540)
Recovery of previously written-off loans	95	236	7	-	338
Provision for loan impairment at 31 December 2011	3,781	3,442	465	128	7,816

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

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

	31 December 2011		31 December 2010	
In thousands of Azerbaijani Manats	Amount	%	Amount	%
Trade	152,932	51.1	146,339	53.4
Service	52,142	17.4	44,054	16.1
Agriculture	40,070	13.4	37,124	13.6
Household	31,635	10.6	22,707	8.3
Manufacturing	17,005	5.7	16,882	6.2
Transportation	5,732	1.8	6,714	2.4
Total loans and advances to customers (before impairment)	**299,516**	**100**	**273,820**	**100**

9 Loans and Advances to Customers (continued)

At 31 December 2011, the Bank had 14 borrowers (31 December 2010: 14 borrowers) with aggregated loan amounts above AZN 500 thousand per each client. The total aggregate amount of these loans was AZN 12,339 thousand (31 December 2010: AZN 10,672 thousand) or 4.1% (31 December 2010: 3.9%) 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 2011 was the outstanding amount of loan to a local company in the amount of AZN 1,544 thousand (31 December 2010: AZN 1,099 thousand).

Information about collateral at 31 December 2011 is as follows:

In thousands of Azerbaijani Manats	**Micro loans**	**SME loans**	**Retail loans to salaried individuals**	**Staff loans**	**Total**
Unsecured loans	-	-	16,979	687	**17,666**
Loans collateralised by:					
- real estate	12,798	102,287	872	5,579	**121,536**
- vehicle	1,684	1,207	634	24	**3,549**
- inventory and equipment	130,655	17,787	5,041	18	**153,501**
- other assets	99	1,423	1,703	39	**3,264**
Total loans and advances to customers	**145,236**	**122,704**	**25,229**	**6,347**	**299,516**

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	-	-	8,568	707	**9,275**
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	726	59	**1,630**
Total loans and advances to customers	**142,718**	**108,477**	**17,275**	**5,350**	**273,820**

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 2011 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	**143,430**	**120,231**	**25,144**	**6,343**	**295,148**
Past due but not impaired					
- less than 7 days overdue and/or restructured loans	344	1,602	4	-	**1,950**
Total past due but not impaired	**344**	**1,602**	**4**	**-**	**1,950**
Loans individually determined to be impaired (gross)					
- 8 to 30 days overdue and/or restructured loans	67	54	11	-	**132**
- 30 to 90 days overdue and/or restructured loans	135	96	22	-	**253**
- over 90 days overdue and/or restructured loans	1,260	721	48	4	**2,033**
Total individually impaired loans (gross)	**1,462**	**871**	**81**	**4**	**2,418**
Gross carrying value of loans	**145,236**	**122,704**	**25,229**	**6,347**	**299,516**
Less impairment provisions	**(3,781)**	**(3,442)**	**(465)**	**(128)**	**(7,816)**
Total loans and advances to customers	**141,455**	**119,262**	**24,764**	**6,219**	**291,700**

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**

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 reliability 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 2011 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	626	4,561	-	5,187
- vehicle	10	41	6	57
- inventory and equipment	1,758	1,865	12	3,635
Fair value of collateral - individually impaired loans				
- real estate	606	2,125	1	2,732
- vehicle	46	-	6	52
- inventory and equipment	4,817	1,238	95	6,150
Total	**7,863**	9,830	**120**	**17,813**

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
- 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**

Refer to Note 30 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 27. Information on related party balances is disclosed in Note 32.

10 Investment Securities Available for Sale

In thousands of Azerbaijani Manats	2011	2010
CBAR bonds	8,000	-
Equity investments	40	40
Total securities	8,040	40
Corporate shares	-	-
Total investment securities available for sale	**8,040**	**40**

The Bank holds the debt securities issued by the CBAR with a value of AZN 7,996 thousand at 31 December 2011 (31 December 2010: AZN nil). These are notes issued by the Central Bank as a monetary policy tool intended to regulate money supply available in circulation.

11 Investment Securities Held to Maturity

In thousands of Azerbaijani Manats	2011	2010
Securities Purchased under REPO Agreements in National Currency	5,004	-
Total investment securities held to maturity	**5,004**	-

At 31 December 2011, included in investment securities held to maturity are securities pledged under sale and repurchase agreements the carrying value of which is AZN 5,004 thousand (31 December 2010: nil). These are government securities that are held for one day after which they are sold back. The outstanding amount as at 31 December 2011 was sold back on the first working day of financial year 2012. Based on the conditions of such agreements, which are signed with the Central Bank, an income is earned on these securities upon maturity.

12 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 2010	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 1 January 2010	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 (Note 23)	(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
Additions	854	955	45	1,222	3,076	3,043	6,119
Disposals	(114)	(36)	-	(468)	(618)	(152)	(770)
Transfers	-	15	-	(15)	-	-	-
Reclassification from investment property	-	-	-	21,708	21,708	-	21,708
Reversal of previouly recognised impairment	-	-	-	257	257	-	257
Accumulated depreciation / amortisation of disposals	110	25	-	467	602	152	754
Depreciation / amortisation charge (Note 23)	(473)	(1,013)	(107)	(1,687)	(3,280)	(543)	(3,823)
Carrying amount at 31 December 2011	1,346	2,300	187	27,294	31,127	4,115	35,242
Cost at 31 December 2011	2,779	5,734	550	29,794	38,857	5,617	44,474
Accumulated depreciation / amortisation	(1,433)	(3,434)	(363)	(2,500)	(7,730)	(1,502)	(9,232)
Carrying amount at 31 December 2011	1,346	2,300	187	27,294	31,127	4,115	35,242

Reclassification from investment property. Premise acquired by the Bank in financial year 2010 and classified as “Investment Property” at amortised cost was reclassified to Property in the Statement of Financial Position in financial year 2011. The reclassification has no effect on financial position, results of operations and equity in any of the prior periods.

13 Other Financial Assets

In thousands of Azerbaijani Manats	31 December 2011	31 December 2010
Settlements with plastic cards	162	83
Settlements with money transfer systems	131	126
Other	188	318
Total other financial assets	**481**	**527**

Analysis by credit quality of other financial assets outstanding at 31 December 2011 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	131	162	188	**481**
Total neither past due nor impaired	**131**	**162**	**188**	**481**

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**

The primary factors that the Bank considers in determining whether the other financial asset is impaired are its overdue status and reliability of related collateral, if any.

Refer to Note 30 for the disclosure of the fair value of each class of other financial assets.

14 Other Assets

In thousands of Azerbaijani Manats	31 December 2011	31 December 2010
Advances for purchase of intangible assets and equipment	1,137	496
Prepayments for operating lease agreement	409	102
Prepaid expenses	250	356
Other	270	362
Total other assets	**2,066**	**1,316**
Current	929	820
Non-current	1,137	496

15 Customer Accounts

In thousands of Azerbaijani Manats	31 December 2011	31 December 2010
Public organisations		
- Term deposits	-	6,173
Other legal entities		
- Current/settlement accounts	12,174	5,027
- Term deposits	21,133	26,228
Individuals		
- Current/demand accounts	21,820	10,649
- Term deposits	91,793	78,594
Total customer accounts	**146,920**	**126,671**

Economic sector concentrations within customer accounts are as follows:

	31 December 2011		31 December 2010	
In thousands of Azerbaijani Manats	Amount	%	Amount	%
Individuals	113,613	77.3	89,243	70.5
Insurance and other financial services	29,515	20.1	28,217	22.3
Trade, services, manufacturing	3,792	2.6	3,038	2.4
Public organisations	-	-	6,173	4.8
Total customer accounts	**146,920**	**100**	**126,671**	**100**

At 31 December 2011, the Bank had 108 active customers (31 December 2010: 97 customers) with balances above AZN 150 thousand per each customer. The aggregate balance of these customers was AZN 60,498 thousand (31 December 2010: AZN 59,737 thousand) or 31% (31 December 2010: 47%) of total customer accounts.

Refer to Note 30 for the disclosure of the fair value of each class of customer accounts. Interest rate analysis of customer accounts is disclosed in Note 27. Information on related party balances is disclosed in Note 32.

16 Other Borrowed Funds

In thousands of Azerbaijani Manats	31 December 2011	31 December 2010
(FMO - syndicated) Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V.	15,646	-
Kreditanstalt fur Wiederaufbau	11,717	18,291
Developing World Markets Securitizations S.A. - MFBA BOND 1	10,156	20,568
International Finance Corporation	10,129	12,263
Pettelaar Effectenbewaarbedrijf N.V.	10,042	10,078
Global Microfinance Facility	7,996	8,112
Blue Orchard Loan for Development	6,342	9,636
Microfinance Enhancement Facility – Cyrano	5,980	6,018
Microfinance Enhancement Facility S.A. S.I.C.A.V-SIF, Cyrano Pool, Luxemburg	5,936	-
European Fund for Southeast Europe	5,901	-
European Bank for Reconstruction and Development	5,883	20,698
Bank im Bistum Essen	5,629	5,697
DWM INCOME FUNDS S.C.A.—S.I.C.A.V SIF	5,560	2,404
responsAbility S.I.C.A.V.	4,947	-
OPEC Fund for International Development	4,376	5,310
Triodos Custody B.V. (custodian of Triodos Fair Share Fund)	4,316	8,341
MINLAM Microfinance Offshore Master Fund LP	4,113	4,124
Triodos S.I.C.A.V. II - Triodos MicroFinance Fund	3,933	-
Impulse Microfinance Investment Fund	3,600	3,645
Swiss Investment Fund for Emerging Markets	2,408	3,663
VDK Spaarbank N.V.	2,360	2,389
Black Sea Trade and Development Bank	1,060	1,789
Vantage Mutual Fund	298	288
OikoCredit Ecumenical Development Cooperative Society U.A.	290	882
Developing World Markets Securitizations S.A. – SNS Microfinance Fund	-	1,604
Dexia Micro Credit Fund	-	2,876
Microfinance Loan Obligations S.A. - Compartment Local	-	2,450
Dual Return Find S.I.C.A.V.	-	1,251
Finethic Microfinance Fund	-	798
Asian Development Bank	-	517
Total other borrowed funds	**138,618**	**153,692**

On 24 December 2010 the Bank signed a loan agreement with Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V. in the amount of USD 20,000 thousand. Loan was received in two equal tranches of USD 10,000 each on 28 March 2011 and 23 August 2011. Principal amount is to be repaid in 4 semi-annual instalments by 9 December 2013. Interest is paid in semi-annual instalments starting from 9 June 2011. At 31 December 2011, the balance of borrowing from Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V. was AZN 15,646 thousand (USD: 12,306 thousand).

On 26 August 2011 the Bank signed an amendment to the loan agreement originally signed with Minlam Microfinance Offshore Master Fund LP on 15 August 2008 for the amount of Manat equivalent to USD 5,000 thousand, extending the term of the loan agreement from 26 August 2011 to 26 August 2013.

On 30 August 2011 the Bank signed an amendment to the loan agreement originally signed with Triodos S.I.C.A.V. II - Triodos MicroFinance Fund on 1 September 2009 for the amount of USD 5,000 thousand extending the term of the loan agreement from 1 October 2011 to 1 October 2014.

On 3 October 2011 the Bank signed a loan agreement with Microfinance Enhancement Facility S.A. S.I.C.A.V. - SIF in the amount of USD 7,500 thousand. Principal amount is to be repaid on 16 October 2014. Interest is paid in semi-annual instalments starting from 31 January 2012. At 31 December 2011, the balance of borrowing from Microfinance Enhancement Facility S.A. S.I.C.A.V. - SIF was AZN 5,936 thousand (USD: 4,669 thousand).

16 Other Borrowed Funds (continued)

On 22 November 2011 the Bank signed a loan agreement with responsAbility S.I.C.A.V. (Lux) in the amount of USD 7,500 thousand. By 31 December 2011 the Bank has utilised USD 6,250 thousand of this facility. Principal amount is to be repaid on 22 November 2014. Interest is paid in semi-annual instalments starting from 22 May 2012. At 31 December 2011, the balance of borrowing from responsAbility S.I.C.A.V. (Lux) was AZN 4,947 thousand (USD: 3,891 thousand).

On 1 December 2011 the Bank signed an amendment to the loan agreement originally signed with Pettelaar Effectenbewaarbedrijf N.V. on 13 November 2007 for the amount of Manat equivalent to USD 5,000 thousand extending the term of the loan agreement from 6 December 2011 to 6 March 2014.

On 1 December 2011 the Bank signed an amendment to the loan agreement originally signed with Pettelaar Effectenbewaarbedrijf N.V. on 1 December 2009 for the amount of Manat equivalent to USD 2,000 thousand extending the term of the loan agreement from 18 December 2011 to 18 March 2014.

On 12 December 2011 the Bank signed a loan agreement with the European Fund for Southeast Europe S.A., S.I.C.A.V.-SIF in the amount of USD 7,500 thousand. Principal amount is to be repaid in 7 semi-annual instalments by 15 December 2016. Interest is paid in semi-annual instalments starting from 15 June 2012. At 31 December 2011, the balance of borrowing from the European Fund for Southeast Europe S.A., S.I.C.A.V.-SIF was AZN 5,901 thousand (USD: 4,641 thousand).

On 23 December 2011 the Bank signed a loan agreement with DWM INCOME FUNDS S.C.A.—S.I.C.A.V. SIF in the amount of Manat equivalent to USD 4,000 thousand. Principal amount is to be repaid in 2 equal installments on 28 December 2013 and 28 March 2014. Interest is paid in quarterly installments starting from 29 February 2012. At 31 December 2011, the balance of this borrowing from DWM INCOME FUNDS S.C.A.—S.I.C.A.V. SIF was AZN 3,149 thousand included in the total debt to this institution of AZN 5,560 thousand (USD:2,477 thousand).

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

The Bank is obliged to comply with certain financial covenants stipulated by the aforementioned borrowing agreements. At 31 December 2011, management believes that the Bank was in compliance with those covenants.

Refer to Note 30 for disclosure of the fair value of each class of other borrowed funds. Interest rate analysis of other borrowed funds is disclosed in Note 27. Information on related party balances is disclosed in Note 32.

17 Other Liabilities

Other liabilities comprise the following:

In thousands of Azerbaijani Manats	31 December 2011	31 December 2010
Accrued staff cost	3,179	2,140
Other	211	129
Total other liabilities	**3,390**	**2,269**

Refer to Note 30 for disclosure of the fair value of each class of other liabilities.

18 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 2011, management believes that the Bank was in compliance with those covenants. At 31 December 2011, the balance of the borrowing under this facility was USD 10,266 thousand or AZN 8,074 thousand (31 December 2010: USD 10,252 thousand or AZN 8,180 thousand).

Refer to Note 30 for the disclosure of the fair value of subordinated debt. Interest rate analysis of subordinated debt is disclosed in Note 27.

19 Share Capital

In thousands of Azerbaijani Manats except for number of shares	Number of outstanding shares	Nominal value of ordinary shares	Total
At 1 January 2010	**20,000**	**20,000**	**20,000**
Increase in nominal value of shares	-	21,800	21,800
At 1 January 2011	**20,000**	**41,800**	**41,800**
Increase in nominal value of shares	-	26,000	26,000
At 31 December 2011	**20,000**	**67,800**	**67,800**

The total authorised number of shares is 20,000 thousand shares (31 December 2010: 20,000 thousand) with a par value of AZN 3.39 per share (31 December 2010: AZN 2.09 per share). All issued ordinary shares are fully paid. Each share carries one vote. The Bank did not issue any new shares in the year ended 31 December 2011. However, AZN 26,000 thousand (2010: AZN 21,800 thousand) were transferred from retained earnings to Share Capital, which increased the nominal value of the shares. Subsequent increase of AZN 17,200 thousand of share capital after reporting period is disclosed in Note 33.

As at 31 December 2011 and 2010, the following shareholders owned the issued shares of the Bank:

Shareholders	31 December 2011, % of shareholding	31 December 2010, % 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**

20 Interest Income and Expense

In thousands of Azerbaijani Manats	2011	2010
Interest income		
Loans and advances to customers	84,418	86,861
Due from other banks	320	815
Investment securities available for sale	80	27
Investment securities held to maturity	24	-
Total interest income	**84,842**	**87,703**
Interest expense		
Customer accounts	12,780	10,491
Other borrowed funds	11,789	14,163
Subordinated debt	920	935
Total interest expense	**25,489**	**25,589**
Net interest income	**59,353**	**62,114**

21 Fee and Commission Income and Expense

In thousands of Azerbaijani Manats	2011	2010
Fee and commission income		
- Settlement transactions	358	351
- Commission from plastic cards	283	253
- Commission income on purchase or sale of foreign currency	254	185
- Cash collection	250	280
- Guarantees issued	45	35
- Other	33	25
Total fee and commission income	**1,223**	**1,129**
Fee and commission expense		
- Plastic cards	151	101
- Settlement transactions	59	57
- Cash transactions	-	2
- Other	20	15
Total fee and commission expense	**230**	**175**
Net fee and commission income	**993**	**954**

22 Other Operating Income

In thousands of Azerbaijani Manats	2011	2010
Rental income	1,094	68
Other	1	10
Total other operating income	**1,095**	**78**

AZN 1,094 thousand (2010: AZN 68 thousand) of rental income represents income from rent of building acquired in 2010.

23 Administrative and Other Operating Expenses

In thousands of Azerbaijani Manats	Note	2011	2010
Staff costs		25,493	21,013
Depreciation of property and equipment	12	3,280	1,884
Advertising and marketing services		1,735	2,150
Printing, stationery and office supplies		1,693	1,698
Rent on office premises		1,492	1,384
Repair and maintenance		1,346	1,258
Service and membership fees		1,343	1,154
Security services		1,319	1,132
Software program support expense		894	717
Communication		797	803
Amortisation of software	12	543	558
Utilities		344	182
Deposit Insurance Fund fees		318	144
Business travel expense		278	226
Other		1,472	1,094
Total administrative and other operating expenses		**42,347**	**35,397**

Included in staff costs are social security contributions of AZN 4,135 thousand (2010: AZN 3,524 thousand).

24 Income Taxes

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

In thousands of Azerbaijani Manats	2011	2010
Current tax expense	300	130
Deferred tax	365	(51)
Income tax expense for the year	**665**	**79**

The income tax rate applicable to the majority of the Bank's income during the year ended 31 December 2011 is 20% (20% in 2010). The reconciliation between the expected and the actual taxation charge is provided below.

In thousands of Azerbaijani Manats	2011	2010
Profit before tax	**17,933**	**26,249**
Theoretical tax charge at statutory rate (20%)	3,587	5,250
Tax effect of permanent differences	358	29
Reversal of previous year deferred tax asset	51	-
Other permanent differences	109	-
Current income tax liability not accrued due to three-year tax holiday on capitalised profit	(3,440)	(5,200)
Income tax charge for the year	**665**	**79**

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 17,200 thousand of 2011 profit to registered share capital (2010: AZN 26,000 thousand) management accrued AZN 300 in current income tax liability for the remaining portion of profit which will not be transferred to registered share capital.

24 Income Taxes (continued)

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 2011	Credited to profit or loss	31 December 2011
Tax effect of deductible temporary differences			
Property, equipment and intangible assets	51	(553)	(502)
Loan provisions	-	190	190
Other assets	-	84	84
Other liabilities	-	(86)	(86)
Net deferred tax asset/(liability)	**51**	**(365)**	**(314)**

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

25 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	2011	2010
Profit for the year attributable to ordinary shareholders	17,268	26,170
Weighted average number of ordinary shares in issue (thousands)	20,000	20,000
Basic and diluted profit per ordinary share	**0.86**	**1.31**

26 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 above AZN 8 thousand and up to 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 individuals and attracted deposits and bank transaction business; and
- Staff Loans – Loans issued to employees of the Bank.

26 Segment Information (continued)

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.

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 2011 and 31 December 2010 is set out below:

In thousands of Azerbaijani Manats	Micro	SME	Retail	Total
Year ended 31 December 2011				
External revenues:				
- Interest income	49,354	25,621	9,300	84,275
- Fee and commission income	-	-	1,223	1,223
- Other operating income	-	-	1	1
- Gains less losses from foreign currency dealing	-	-	474	474
Revenue from external customers	**49,354**	**25,621**	**10,998**	**85,973**
External expenses:				
- Interest expense	12,375	10,433	2,681	25,489
- Fee and commission expense	-	-	230	230
- Provision for loan impairment	720	564	99	1,383
Expense from external customers	**13,095**	**10,997**	**3,010**	**27,102**
Adjusted profit before non-segment income administrative and other expense and income tax	**36,259**	**14,624**	**7,988**	**58,871**
Total assets reported	**141,455**	**119,261**	**30,984**	**291,700**
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	-	-	10	10
- Gains less losses from foreign currency dealing	-	-	749	749
Revenue from external customers	**54,393**	**25,601**	**8,519**	**88,513**
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**	**6,076**	**60,682**
Total assets reported	**138,741**	**105,362**	**22,082**	**266,185**

26 Segment Information (continued)

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

In thousands of Azerbaijani Manats	Year ended 31 December 2011	Year ended 31 December 2010
Adjusted profit before non-segment income, administrative and other expense and income tax	58,871	60,682
Non-segment interest income	567	1,078
Impairment reversal/(loss) on property, plant and	257	(257)
Foreign exchange (loss)/gain, net	(509)	75
Non-segment other operating income	1,094	68
Administrative and other operating expenses	(42,347)	(35,397)
Profit before income tax	**17,933**	**26,249**

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

In thousands of Azerbaijani Manats	31 December 2011	31 December 2010
Total segment assets (loans and advances to customers)	**291,700**	**266,185**
Cash and cash equivalents	32,415	57,805
Property, plant and equipment	31,127	9,382
Investment securities available for sale	8,040	40
Mandatory cash balances with CBAR	6,253	371
Investment securities held to maturity	5,004	-
Intangible assets	4,115	1,615
Due from other banks	2,364	7,023
Other assets	2,066	1,316
Other financial assets	481	527
Investment properties	-	21,708
Deferred income tax asset	-	51
Total assets per statement of financial position	**383,565**	**366,023**

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.

27 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.

27 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 organizational risk	Supervisory Board	Management Board

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

The Bank's maximum exposure to credit risk is reflected in the carrying amounts of financial assets on the 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 29. 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.

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.

27 Financial Risk Management (continued)

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

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

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

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

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

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

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

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

	At 31 December 2011			At 31 December 2010		
In thousands of Azerbaijani Manats	**Monetary financial assets**	**Monetary financial liabilities**	**Net position**	**Monetary financial assets**	**Monetary financial liabilities**	**Net Position**
Azerbaijani Manats	163,602	114,791	48,811	140,882	96,661	44,221
US Dollars	175,677	175,674	3	188,068	188,177	(109)
Euros	6,557	3,773	2,784	2,902	4,315	(1,413)
Other	421	-	421	99	16	83
Total	**346,257**	**294,238**	**52,019**	**331,951**	**289,169**	**42,782**

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 2011	At 31 December 2010
In thousands of Azerbaijani Manats	**Impact on profit or loss**	**Impact on profit or loss**
US Dollar strengthening by 10%	-	(11)
US Dollar weakening by 10%	-	11
Euro strengthening by 10%	279	(141)
Euro weakening by 10%	(279)	141

27 Financial Risk Management (continued)

All investment securities available for sale as at 31 December 2011 and 31 December 2010 were denominated in AZN, therefore, any reasonable possible change in exchange rates would not have any impact on the Bank's 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 re-pricing that may be undertaken.

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 2011					
Total financial assets	67,597	102,680	87,026	88,954	**346,257**
Total financial liabilities	45,305	68,144	82,251	98,538	**294,238**
Net interest sensitivity gap at 31 December 2011	**22,292**	**34,536**	**4,775**	**(9,584)**	**52,019**
31 December 2010					
Total financial assets	79,395	104,466	80,908	67,182	**331,951**
Total financial liabilities	20,593	79,876	71,983	116,717	**289,169**
Net interest sensitivity gap at 31 December 2010	**58,802**	**24,590**	**8,925**	**(49,535)**	**42,782**

At 31 December 2011, if interest rates at that date had been 100 basis points lower (2010: 100 basis points lower) with all other variables held constant, profit for the year would have been AZN 594 thousand (2010: AZN 621 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 (2010: 100 basis points higher), with all other variables held constant, profit would have been AZN 594 thousand (2010: AZN 621 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.

27 Financial Risk Management (continued)

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 2011			31 December 2010		
In % p.a.	AZN	USD	EUR	AZN	USD	EUR
Assets						
Due from other banks	-	9.0	-	9.6	-	-
Loans and advances to customers	31.5	22.7	13.5	34.6	26.4	15.0
Investment securities available for sale	2.2	-	-	-	-	-
Investment securities held to maturity	0.5	-	-	-	-	-
Liabilities						
Term deposits	8.8	10.3	4.4	12.1	13.1	8.0
Other borrowed funds	9.5	7.6	-	11.1	8.1	-
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.

Geographical risk concentrations. The geographical concentration of the Bank's financial assets and liabilities at 31 December 2011 is set out below:

In thousands of Azerbaijani Manats	Azerbaijan	OECD	Non-OECD	Total
Assets				
Cash and cash equivalents	20,136	11,444	835	32,415
Mandatory cash balances with the CBAR	6,253	-		6,253
Due from other banks	-	-	2,364	2,364
Loans and advances to customers	291,700	-	-	291,700
Investment securities available for sale	8,040	-	-	8,040
Investment securities held to maturity	5,004	-	-	5,004
Other financial assets	-	351	130	481
Total financial assets	331,133	11,795	3,329	**346,257**
Liabilities				
Customer accounts	146,920	-	-	146,920
Other borrowed funds	-	126,330	12,288	138,618
Other financial liabilities	390	219	17	626
Subordinated debt	-	8,074	-	8,074
Total financial liabilities	147,310	134,623	12,305	294,238
Net position	183,823	(122,828)	(8,976)	52,019
Credit related commitments	1,508	-	-	1,508

27 Financial Risk Management (continued)

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	470	134	22	626
Subordinated debt	-	8,180	-	8,180
Total financial liabilities	**127,141**	**149,253**	**12,775**	**289,169**
Net position	**199,076**	**(143,922)**	**(12,372)**	**42,782**
Credit related commitments	796	-	-	**796**

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 drawdown. 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.

27 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 145% at 31 December 2011, 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 2011 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 2011 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	32,415	-	-	-	-	32,415
Mandatory reserves with the CBAR	-	-	-	-	6,253	6,253
Due from other banks	-	-	2,364	-		2,364
Loans and advances to customers	21,893	102,680	84,662	81,736	729	291,700
Investment securities available for sale	8,000	-	-	-	40	8,040
Investment securities held to maturity	5,004	-	-	-		5,004
Other financial assets	285	-	-	-	196	481
Total	**67,597**	**102,680**	**87,026**	**81,736**	**7,218**	**346,257**
Liabilities						
Customer accounts	44,825	36,222	50,733	18,146	-	149,926
Other borrowed funds	-	29,374	37,361	89,106	-	155,841
Other financial liabilities	626	-	-	-	-	626
Subordinated debt	-	449	449	10,765	-	11,663
Financial guarantees	-	-	1,508	-	-	1,508
Total potential future payments for financial obligations	**45,451**	**66,045**	**90,051**	**118,017**	**-**	**319,564**
Liquidity gap arising from financial instruments	**22,146**	**36,635**	**(3,025)**	**(36,281)**	**7,218**	
Cumulative liquidity gap	**22,146**	**58,781**	**55,756**	**19,475**	**26,693**	

27 Financial Risk Management (continued)

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	-	3,023	4,000	-	-	**7,023**
Loans and advances to customers	21,334	101,443	76,908	66,244	256	**266,185**
Investment securities available for sale	-	-	-	-	40	**40**
Other financial assets	256	-	-	-	271	**527**
Total	**79,395**	**104,466**	**80,908**	**66,244**	**938**	**331,951**
Liabilities						
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	626	-	-	-	-	**626**
Subordinated debt	-	454	454	10,906	-	**11,814**
Financial guarantees	293	399	52	52	-	**796**
Total potential future payments for	**20,979**	**61,503**	**86,729**	**150,077**	**-**	**319,288**
Liquidity gap arising from financial	**58,416**	**42,963**	**(5,821)**	**(83,833)**	**938**	
Cumulative liquidity gap	**58,416**	**101,379**	**95,558**	**11,725**	**12,663**	

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.

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 2011						
Financial assets	67,597	102,680	87,026	81,736	7,218	346,257
Financial liabilities	45,305	65,024	83,206	100,703	-	294,238
Net liquidity gap based on expected	**22,292**	**37,656**	**3,820**	**(18,967)**	**7,218**	**52,019**
At 31 December 2010						
Financial assets	79,395	104,466	80,908	66,244	938	331,951
Financial liabilities	20,593	60,026	80,293	128,257	-	289,169
Net liquidity gap based on expected	**58,802**	**44,440**	**615**	**(62,013)**	**938**	**42,782**

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 reliability.

27 Financial Risk Management (continued)

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.

28 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 2011	31 December 2010
Net assets calculated based on CBAR rules	68,055	48,285
Less investments	(40)	(40)
Less intangible assets	(4,115)	(1,568)
Plus statutory profit for the year	17,532	26,372
Plus general provision for impairment	4,045	3,984
Plus subordinated debt	4,819	6,518
Total regulatory capital	**90,296**	**83,551**
Total capital adequacy ratio	**27.71%**	**28.2%**

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	2011	2010
Tier 1 capital		
Share capital	67,800	41,800
Retained earnings	17,523	32,655
Total tier 1 capital	85,323	**74,455**
Tier 2 capital		
Provision on risk weighted assets	4,073	3,757
Subordinated debt	4,819	6,518
Less: investments in financial institutions	(40)	(40)
Total tier 2 capital	8,852	**10,235**
Total capital	**94,175**	**84,690**
Total capital adequacy ratio	**28.90%**	**28.2%**

The Bank complied with all externally imposed capital requirements throughout the year ended 31 December 2011.

29 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 2011 no provision for potential tax liabilities was recorded.

Capital expenditure commitments. As at 31 December 2011, the Bank had capital expenditure commitments of EUR 725 thousand for purchase of banking computer software license and EUR 553 thousand for payment of the service of implementation of the above software.

Operating lease commitments. As at 31 December 2011, the Bank had no commitments under non-cancellable lease agreements.

Compliance with covenants. As at 31 December 2011 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 2011 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:

In thousands of Azerbaijani Manats	**31 December 2011**	**31 December 2010**
Undrawn credit lines to customers	832	48
Guarantees issued	676	748
Total credit related commitments and credit lines	**1,508**	**796**

The credit related commitments were denominated in Azerbaijani Manats at 31 December 2011. The future undiscounted cash flows from credit related commitments are equal to AZN 45 thousand (31 December 2010: AZN 10 thousand) as at 31 December 2011.

30 Fair Value of Financial Instruments

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

At 31 December 2011, 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 2011	31 December 2010
Investment securities held to maturity		
REPO with CBAR	0.5 % p.a.	-
Due from other banks		
Short-term placements with other banks	9% p.a.	9% to 10% p.a.
Loans and advances to customers		
Loans to customers – SME and micro loans	12% to 36% p.a.	12% 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.	1% to 20% p.a.
Other borrowed funds		
- Term borrowings from companies/government agencies	3.4% to 11% p.a.	3.5% to 12% p.a.
Subordinated debt		
- Subordinated debt	11% p.a.	11% p.a.

31 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

The following table provides a reconciliation of classes of financial assets with these measurement categories as of 31 December 2011:

In thousands of Azerbaijani Manats	Loans and receivables	Investment securities available for sale (through equity)	Investment securities held to maturity	Total
Assets				
Cash and cash equivalents	32,415	-	-	32,415
Mandatory cash balances with the CBAR	6,253	-	-	6,253
Investments securities available for sale		8,040	-	8,040
Investments securities held to maturity		-	5,004	5,004
Due from other banks				
- Short-term placements with other banks	2,364	-	-	2,364
Loans and advances to customers				
- Micro loans	141,455	-	-	141,455
- SME loans	119,262	-	-	119,262
- Retail loans to salaried individuals	24,764	-	-	24,764
- Staff loans	6,219	-	-	6,219
Other financial assets	481	-	-	481
TOTAL FINANCIAL ASSETS	**333,213**	8,040	5,004	**346,257**
NON-FINANCIAL ASSETS	37,308	-	-	37,308
TOTAL ASSETS	**370,521**	8,040	5,004	**383,565**

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

32 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 2011, 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	-	-	336
Due from banks	-	2,364	-
Current accounts	-	-	34
Term deposits	-	-	757
Other borrowed funds	34,723	-	-

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	-	-

The income and expense items with related parties for the year ended 31 December 2011 were as follows:

In thousands of Azerbaijani Manats	Shareholders	Key management personnel
Interest income	-	44
Interest expense	3,278	86
Payment for management and software support	1,316	-

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	-

Key management compensation is presented below:

	31 December 2011		31 December 2010	
In thousands of Azerbaijani Manats	Expense	Accrued liability	Expense	Accrued liability
Short-term benefits:				
- Salaries and performance bonuses	981	256	762	222
Total	**981**	**256**	**762**	**222**

33 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 2011 the Bank increased its share capital from AZN 67,800 thousand to AZN 85,000 thousand, by utilizing AZN 17,200 thousand of its statutory taxable profit for the year ended 31 December 2011. The nominal value of the shares increased from AZN 3.39 to 4.25. There was no change in the distribution or number of shares. The new share certificates were issued on 6 March 2012 and registered by the State Securities Committee on 14 March 2012.

The Bank has subsequently repaid AZN 14,095 thousand of the principal amount and AZN 3,737 thousand interest totaling AZN 17,832 thousand on its Other Borrowed Funds Additional refinancing repayments.

On 18 November 2011, the Bank signed a loan agreement with responsAbility S.I.C.A.V (Lux) in the amount of USD 7,500 thousand. On 01 March 2012, the Bank received the remaining second tranche of USD 1,250 thousand under this agreement. Principal amounts and interests are to be repaid, in one installment on 22 November 2014 and semi-annually starting from 22 May 2012, respectively. The facility bears market interest rate.

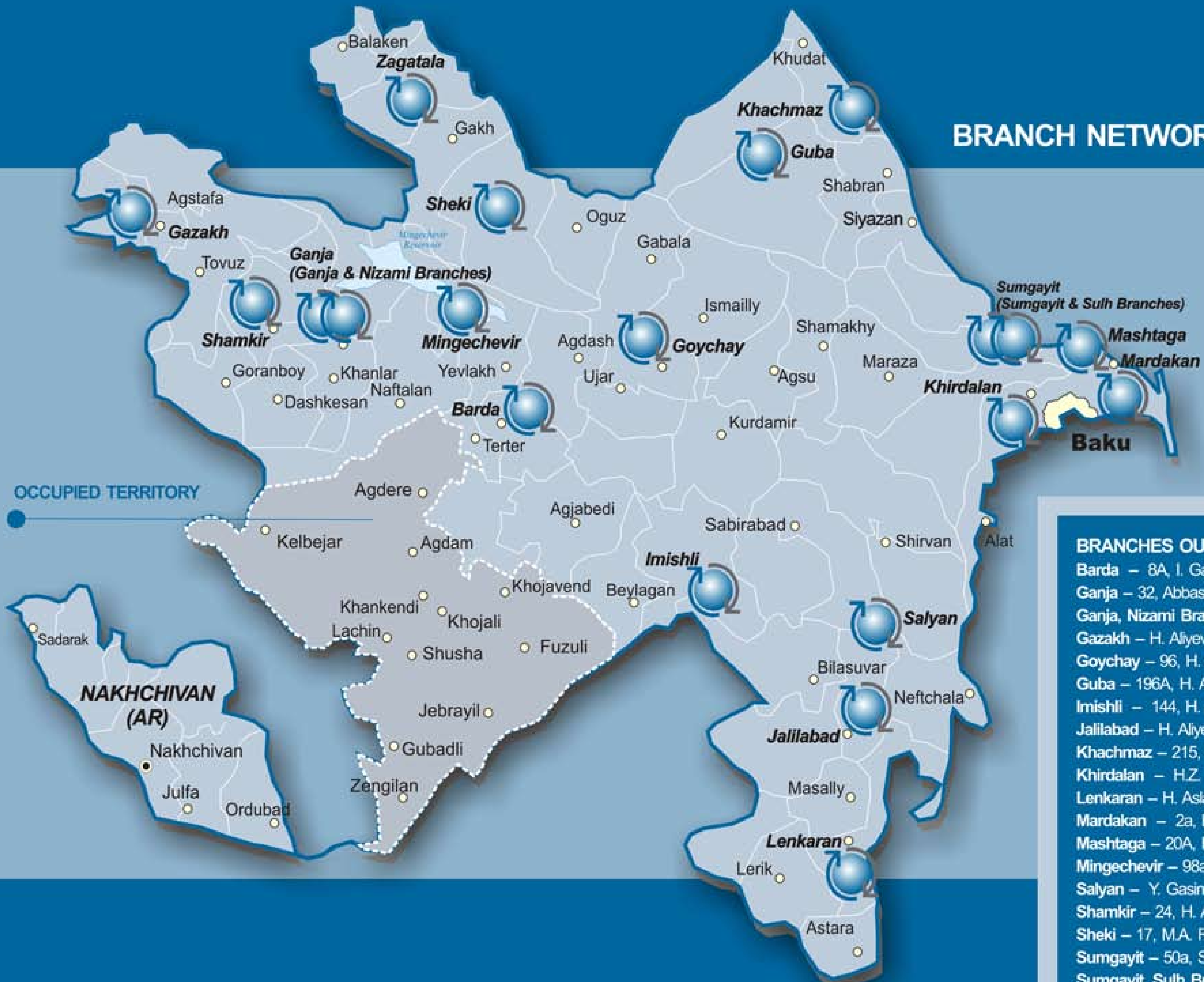
On 12 December 2011, the Bank signed a loan agreement with the European Fund for South East Europe S.A., S.I.C.A.V-SIF in the amount of USD 15,000 thousand. On 15 February 2012, the Bank received the remaining second tranche of USD 7,500 thousand under this agreement. Principal amounts and interests are to be repaid, in seven semi-annual installments starting from 15 December 2013 and semi-annually starting from 15 June 2012, respectively. The facility bears market interest rate.

On 16 April 2012 the Bank signed a loan agreement with the European Bank of Reconstruction and Development in the amount of USD 15,000 thousand. Principal amount is to be repaid in seven equal semi-annual installments starting from 11 May 2014. Interest is paid in semi-annual installments starting from 11 November 2012. The facility bears market interest rate.

On 26 April 2012 the General Assembly of Shareholders was informed that the following shareholders had given notice of their intention to sell part of their shares in AccessBank CJSC: BSTDB, EBRD, IFC, and KfW one-million-five-hundred-and-ten-thousand (1,510,000) shares each and LFS six-hundred-and-seventy-four-thousand-and-twenty-one (674,521) shares, for a total of six-million-seven-hundred-and-fourteen-thousand-five-hundred-and-twenty-one (6,714,521) shares. The offered price was AZN 6.98 (six manat and ninety-eight qepek) per share. The General Assembly of Shareholders waived AccessBank's pre-emptive right to purchase the shares offered and each of the shareholders apart from AccessHolding also waived their pre-emptive right to purchase the shares offered. Each Shareholder declared its consent and the General Assembly of Shareholders approved the purchase of all the shares offered by the Shareholders. This would result in BSTDB, EBRD, IFC and KfW reducing their shareholdings to two-million-four-hundred-and-ninety-thousand (2,490,000) shares each, or 12.45% of the total each, and LFS to twenty-thousand (20,000) shares or 0.10% of the total. AccessHolding would thereby increase its share to ten-million and twenty-thousand (10,020,000) shares of 50.10% of the total. The execution of this transaction is subject to the approval of the Central Bank of Azerbaijan Republic.

On 26 April the General Assembly of Shareholders appointed Mr Michael Hoffman as Chairman of the Management Board, subject to ratification by the Central Bank of Azerbaijan Republic, following the announcement by the current Chairman of the Management Board, Dr Andrew Pospielovsky, of his intention to resign.

BRANCH NETWORK - OUTSIDE BAKU



BRANCHES OUTSIDE BAKU

Barda – 8A, I. Gayibov St, Barda
Ganja – 32, Abbaszade St, Ganja
Ganja, Nizami Branch – 110, Khatai Ave, Ganja
Gazakh – H. Aliyev Ave, Gazakh
Goychay – 96, H. Aliyev Ave, Goychay
Guba – 196A, H. Aliyev Ave, Guba
Imishli – 144, H. Aliyev Ave, Imishli
Jalilabad – H. Aliyev Ave, Jalilabad
Khachmaz – 215, N. Narimanov Ave, Khachmaz
Khirdalan – H.Z. Tagiyev St, Block 27, Khirdalan
Lenkaran – H. Aslanov Ave, Lenkaran
Mardakan – 2a, Esenin St, Mardakan settlement
Mashtaga – 20A, H. Heybatov St, Mashtaga settlement
Mingechevir – 98a, U. Hajibeyov St, Mingechevir
Salyan – Y. Gasimov St, Salyan
Shamkir – 24, H. Aslanov St, Shamkir
Sheki – 17, M.A. Rasulzade St, Sheki
Sumgayit – 50a, Sh. Badalbeyli St, 9 m/d, Sumgayit
Sumgayit, Sulh Branch – 9/11, Sulh St, 1 m/d, Sumgayit
Zagatala – 29/1, F. Amirov St, Zagatala

BRANCH NETWORK - BAKU

BAKU BRANCHES

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

Our Shareholders

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