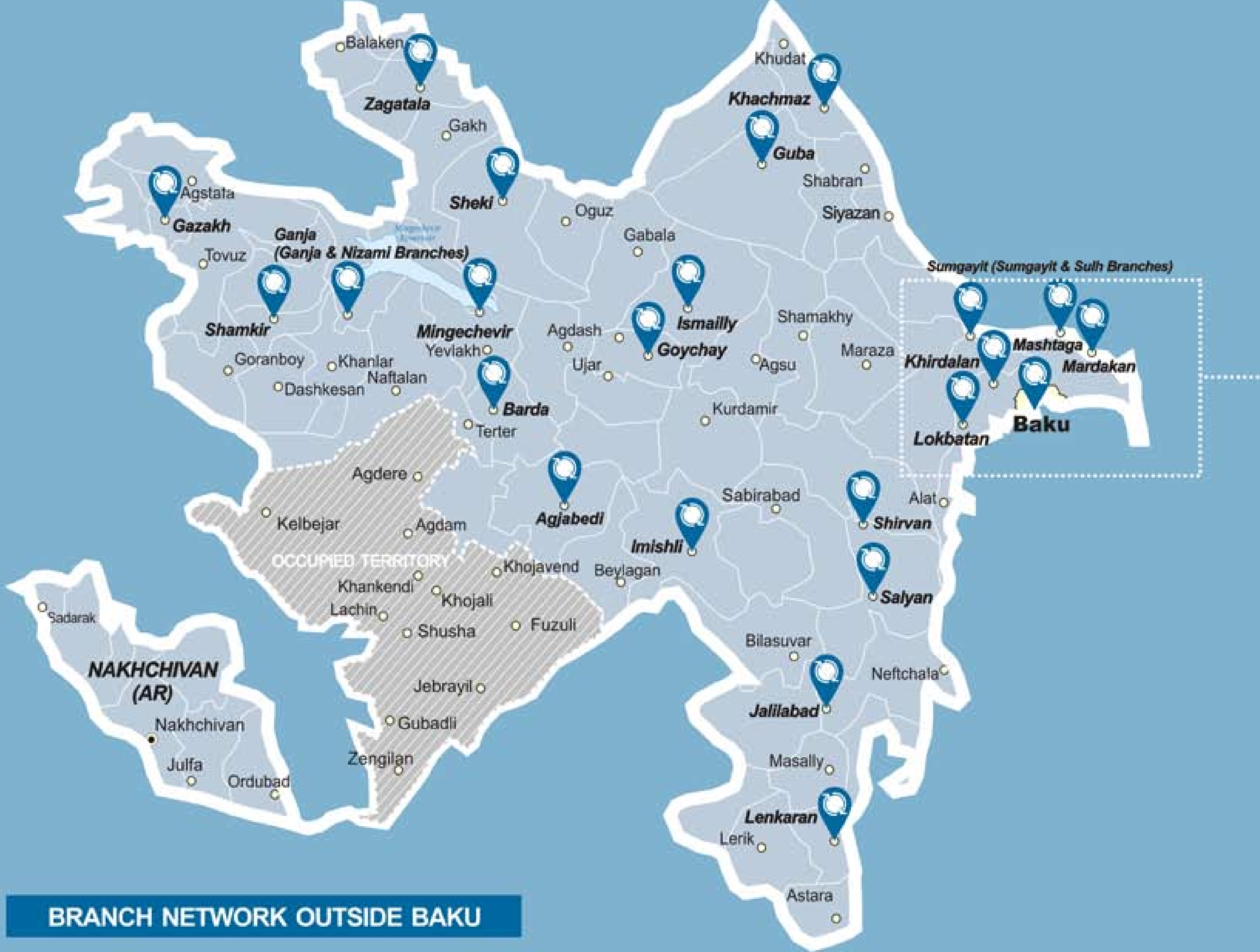
AccessBank
Your Accessible European Bank

ANNUAL REPORT 2012



BRANCH NETWORK OUTSIDE BAKU

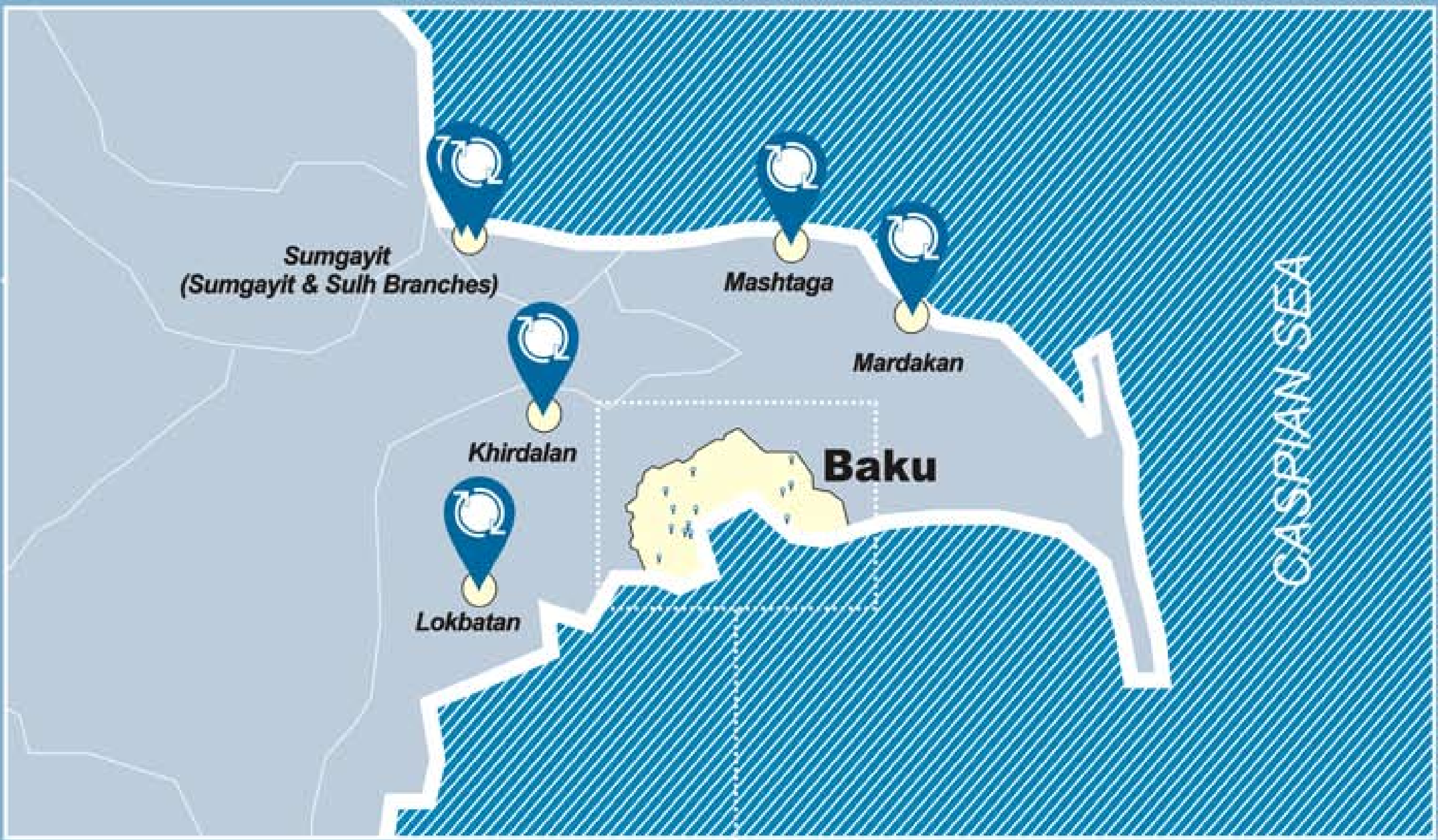
BAKU BRANCHES

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

BRANCHES OUTSIDE BAKU

Agjabedi – 17, H.Aslanov Ave.
Barda – 8A, I. Gayibov St.
Ganja – 32, Abbaszade St.
Ganja, Nizami Branch – 110, Khatai Ave.
Gazakh – H. Aliyev Ave.
Goychay – 96, H. Aliyev Ave.
Guba – 196A, H. Aliyev Ave.
Imishli – 144, H. Aliyev Ave.
Ismailly – 100, H. Aliyev Ave.
Jalilabad – H. Aliyev Ave.
Khachmaz – 215, N. Narimanov Ave.
Khirdalan – H.Z. Tagiyev St, Block 27.
Lenkaran – H. Aslanov Ave.
Lokbatan – 2C, N. Narimanov st.
Mardakan – 2a, Esenin St.
Mashtaga – 20A, H. Heybatov St.
Mingechevir – 98a, U. Hajibeyov St.
Salyan – Y. Gasimov St.
Shamkir – 24, H. Aslanov St.
Sheki – 17, M.A. Rasulzade St.
Shirvan – 1T, H. Aliyev Ave.
Sumgayit – 50a, Sh. Badalbeyli St, 9 m/d.
Sumgayit, Sulh Branch – 9/11, Sulh St, 1 m/d.
Zagatala – 29/1, F. Amirov St.

BRANCH NETWORK ABSHERON



BRANCH NETWORK BAKU

Our Shareholders

Contents

2012 KEY FINANCIAL HIGHLIGHTS

TOTAL ASSETS
USD 656 million
up 35% from 2011

TOTAL LOAN PORTFOLIO
USD 525 million
up 39% from 2011

MICRO LOAN PORTFOLIO
USD 240 million
up 31% from 2011

SME LOAN PORTFOLIO
USD 223 million
up 44% from 2011

RETAIL LOAN PORTFOLIO
USD 53 million
up 65% from 2011

PROFIT BEFORE TAX
USD 25.9 million
up 14% from 2011

NET PROFIT
USD 20.2 million

RETURN ON AVERAGE EQUITY (ROAE)
USD 18.6%

CAPITAL ADEQUACY
23.5%

PORTFOLIO AT RISK (>30 DAYS)
0.63%

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.

AccessBank focuses on micro and small businesses because this sector is vital for the development and diversification of Azerbaijan's economy. While many micro and small businesses operate profitably and their flexibility helps them absorb economic shocks, their growth is often limited by a lack of access to appropriate financial services. AccessBank has been created to help close this gap: to provide access to the right services for the micro and small business community as a whole, including the households who form part of this community, and to create a more inclusive financial system. AccessBank's dedicated products and risk management technology, specifically developed to serve these sectors, allow the Bank to do this efficiently and profitably, which in turn facilitates the Bank's long-term sustainability, expansion and results in maximum impact.

AccessBank's shareholders are united in their commitment to long-term development, enabling AccessBank to invest extensively in increasing outreach without focusing on 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.

Chairman's Statement

In many respects, 2012 proved to be a challenging year for the global economy. Fiscal austerity and weak consumer confidence led Europe into a recession, while the US economy is still in the process of recovering from the crisis years, struggling with high public debt levels. Most of the CIS countries have been affected negatively by this global economic environment. The banking sectors in those countries are consolidating and many banks show weak growth.

However, thanks to the successful attempts of the government and the Central Bank, the negative impacts of the global economic downturn on Azerbaijan remained at a minimum level in 2012. Despite a significant decline in oil extraction, non-oil sector growth was high and annual inflation decreased while the Azerbaijani Manat remained strong. The Central Bank continued its efforts to strengthen the banking sector with new alignments to Basel III standards and with the introduction of new capital requirements.

A model for best practice in microfinance and a reliable partner

This operating environment contributed to the success of the microfinance industry and of AccessBank in particular. Today more than 30 microfinance institutions operate countrywide with 469,000 active borrowers and an outstanding portfolio of USD 811 million.

AccessBank is by far the market leader. Nearly 30% of the outstanding loans are under the Bank's portfolio. But the more important fact is that AccessBank has become a driving force and a model for best practice in microfinance in the country and a reliable partner for its clients, with its commitment to responsible and transparent banking practices.

Contributing to the creation of new businesses and employment

At the closing of its first decade, AccessBank has achieved remarkable growth, with total assets of USD 656 million and a loan portfolio exceeding USD 500 million, by extending loans through its extensive branch network to more than 120,000 clients in various sectors, including manufacturing, services, construction and agriculture. Through these loans, AccessBank has contributed significantly to the diversification of the Azerbaijani economy and to the creation of new businesses and employment.

The rating and the recognition that the Bank has received from reputable international organisations in recent years are the most concrete evidence of this success. AccessBank is currently the highest rated bank in Azerbaijan.

The management and the staff of AccessBank should be proud of these accomplishments. I would like to thank the Bank's management and staff for their dedication and the results achieved, not only in 2012, but throughout the last 10 years.

Orhan Aytemiz
Chairman of the Supervisory Board

CEO Statement

In 2012 Azerbaijan's banking sector grew at a strong pace. Lending volumes surged in all major business segments, supported by a rising deposit base. At the same time, banks are increasingly focused on adapting modern banking technologies and are converging to the standards of more developed markets. Key factors for any bank operating in this environment are a clear strategic focus, the ability to manage growth, investment in modern banking technology, as well as a long-term perspective to serve its customers. We at AccessBank act accordingly.

Dynamic growth in all business segments
In 2012, AccessBank developed dynamically across all major client segments. The Bank's lending volume to micro and SME businesses, as well as to salaried individuals increased significantly. We succeeded in attracting around 30,000 new customers in the micro and SME segment which is a further substantial increase in our large customer base. At the same time, we were able to maintain the excellent quality of the loan portfolio. This was a major achievement since higher lending volumes triggered rising indebtedness and multi-borrowing in parts of the population. The Bank successfully coped with this challenge by firmly applying its sound banking principles and by enhancing risk management.

Further broadening the product range
In addition to the growth in business volume, the Bank continued in 2012 to work on broadening its product range in order to be in a position to offer multiple products to clients. We completed the development of credit cards which are now available to our customers. The cooperation with local insurance companies was substantially enhanced so that we can offer clients a variety of insurance products in our branches. In the area of corporate services, we further developed the trade finance section in order to serve our corporate clients with specific trade-related products which will gain in importance, given the increasing integration of the country in international trade flows.

Strong recognition by international partners
The strong performance of AccessBank is well acknowledged by our international partners. We further extended our cooperation with international financial institutions and investment funds, for whom we represent an attractive and eligible partner, to support the development of micro, small and medium businesses in Azerbaijan. In the last year, we raised more than USD 153 million in long-term funding from international lenders to support the Bank's growth. We are proud that AccessBank maintains a BB+ rating, and continues to be the highest rated financial institution in the country. Last year the Bank again won prestigious awards from Euromoney and The Banker, which is further recognition of the success of the AccessBank team.

Committed to pursuing our mission
AccessBank is firmly committed to pursuing its mission of being a leading provider of financial services to micro, small and medium-sized businesses in the country. We will continue to apply the highest standards of sound banking and client protection. Extending outreach to the regions of the country is an important element in our strategy. In the last year, we opened three new regional branches in areas where banking penetration is relatively low. In the first quarter of 2013, we opened another three new branches in rural areas. Based on the strong representation in the regions, the Bank has significantly increased lending to agricultural businesses, thereby contributing to the development of the rural economy.
Our large customer base gives us a strong platform to continue our focused expansion. I am convinced that the AccessBank team is well positioned to further promote the Bank in its successful development.

Michael Hoffmann
Chief Executive Officer

Shareholders

Black Sea Trade and Development Bank (20% shareholding in AccessBank)

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 cooperation among its shareholder countries. (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 and the Southern and Eastern Mediterranean. With the ability and willingness to bear risk on behalf of its clients the Bank helps their countries in the region to become open market economies. (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. The Bank helps developing countries achieve sustainable growth by financing investment, providing advisory services to business and governments, and mobilizing capital in the international financial markets. (www.ifc.org)

KfW (20%)

As a promotional bank, KfW supports change and encourages forward looking ideas in Germany, Europe and throughout the world. Its priority areas of activity include poverty reduction and economic development, good governance, education and health care and protection of the climate and environment. (www.kfw.de)

Access Microfinance Holding AG (16.53%)

AccessHolding is a strategic investor in the microfinance industry owned by an international group of private and public investors (EIB, CDC, FMO, IFC, KfW, Omidyar Tufts, LFS). The Holding 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 specializing 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. LFS has created AccessHolding as the holding company for a growing network of commercial microfinance banks under the AccessBank brand. (www.lfs-consulting.de)

AccessBank History

2002	■ Founded on 29 October as the Micro Finance Bank of Azerbaijan by BSTDB, EBRD, IFC, KfW and LFS;
2003	■ First refinancing loan received from EBRD (USD 5 million);
2004	■ Current accounts and money transfer systems introduced;
2005	■ Term deposits and international SWIFT, Western Union and Privat Money transfer services introduced; ■ First regional branch opened in Ganja;
2006	■ Retail business developed with introduction of additional deposit and money transfer products, retail lending, debit cards, ATMs, and joining the Visa network;
2007	■ AccessHolding joins as a new shareholder; ■ Dedicated agro loan product launched; ■ AccessBank's total assets and loan portfolio grow beyond USD 100 million;
2008	■ Micro Finance Bank of Azerbaijan renamed AccessBank to create a stronger and more distinct brand; ■ BB+ (outlook stable) rating received from Fitch Ratings and maintained to date – the highest rating in Azerbaijan's financial sector;
2009	■ AccessBank 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; ■ The number of branches reaches 23 of which nine were established in the regions;
2010	■ Euromoney for the first time names AccessBank the 'Best Bank in Azerbaijan' in its annual 'Awards for Excellence'; ■ Standard & Poor's rating agency ranks AccessBank the most transparent bank in Azerbaijan; ■ First dividend of AZN 5 million distributed to shareholders;
2011	■ First awards from The Banker 'Bank of the Year in Azerbaijan' and Global Finance 'Best Emerging Market Bank in Azerbaijan'; ■ Launch of mortgage lending to retail clients;
2012	■ AccessBank's total assets and total loan portfolio grow beyond USD 500 million; ■ AccessBank starts offering credit cards and insurance products to its clients.

Our Awards

'Best Bank in Azerbaijan'
2010 Euromoney
Awards for Excellence

'Best Bank in Azerbaijan'
2011 Euromoney
Awards for Excellence

'Best Bank in Azerbaijan'
2012 Euromoney
Awards for Excellence

'Bank of the Year 2011'
The Banker

'Bank of the Year 2012'
The Banker

'Best Emerging Market
Bank Azerbaijan'
2011 Global Finance

'Best Emerging Market
Bank Azerbaijan'
2013 Global Finance

In recent years, AccessBank has been consistently recognised by reputable financial publications for its outstanding results and achievements. In 2012, Euromoney declared AccessBank the 'Best Bank in Azerbaijan' for the third year in a row. The finance journal The Banker named AccessBank 'Bank of the Year in Azerbaijan' in 2011 and 2012. Also, Global Finance declared AccessBank the 'Best Bank in Azerbaijan' in 2011 and 2013 – the award was received after the reporting period. These awards reflect the dedication of the Bank to serve the best interests of its clients and shareholders.

Azerbaijan at a glance

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

MACROECONOMY

Azerbaijan is the third-largest oil producing country in the former Soviet Union and has experienced rapid economic growth over the last decade. The opening of the Baku-Tbilisi-Ceyhan oil pipeline in 2005 provided a direct export route with access to European markets and triggered sustained high economic growth in the following years. The 1,768-km pipeline is owned by a consortium of leading international energy companies including BP, Statoil, Chevron, SOCAR and Total. The revenues from oil and gas production are directed to the State Oil Fund of the Republic of Azerbaijan (SOFAZ), which makes transfers to the state budget, invests in socio-economic and infrastructure projects and preserves wealth for future generations. SOFAZ holds assets of USD 34 billion or 50% of GDP, which comfortably exceeds the expenditures of the current annual state budget.

As a result of the strong economic growth in Azerbaijan in recent years, the country's GDP per capita, measured in purchasing power parity, has reached USD 11,356 which is considerably higher than in neighbouring CIS countries. Real GDP growth reached 2.2% in 2012, boosted by a 9.7% growth in non-oil GDP. The non-oil economy has become increasingly important as oil production has been stagnant over the last three years. Oil production from the large Azeri-Chirag-Guneshli oil field reached its peak already some years ago and is expected now to gradually decline. In order to counterbalance the slowly declining oil production the Azerbaijani government is currently working jointly with leading international energy companies on exploring and extending development of new gas fields. Full-field development of the major Shah Deniz deposit should be completed by 2020.

Based on its rich oil resources Azerbaijan has traditionally generated a substantial trade surplus, which amounted to USD 14.3 billion in 2012. As a result, currency reserves reached the level of USD 11.7 billion, which covers 14 months of the economy's imports. The stable and strong revenue stream from exports has been a key factor for the stability of the exchange rate of the Azerbaijani Manat (AZN), which has remained stable, fluctuating within a narrow band against the US Dollar for more than five years. In 2012, Azerbaijan had its sovereign debt rating increased to investment grade by Moody's (Baa3), matching the investment grade ratings it received earlier from Fitch and S&P (BBB-). Azerbaijan stands out as the only CIS country other than Russia and Kazakhstan with a long-term foreign currency rating at investment grade level. Inflation has been constantly decreasing during recent years, reaching 1.8% in 2012 (7.9% in 2011).

BANKING SECTOR

The Azerbaijani banking sector is comprised of 43 banks with USD 22.5 billion in total assets, USD 13.6 billion in total loans, and USD 9.8 billion in total deposits. Total assets increased by 26.5% in 2012, while total loans and deposits increased by 20.7% and 15.5%, respectively.

In 2012, total banking assets increased to 33% of GDP (28% in 2011), the total loan portfolio of Azerbaijani banks reached 20% of GDP (18% in 2011), and deposits increased to the level of 14% of GDP (13% in 2011). The level of penetration of banking services in Azerbaijan's economy is still significantly lower than in other CIS countries such as Russia, Ukraine, Georgia and Kazakhstan, which all show ratios of above 50%. This indicates that there is still significant potential for further growth in the Azerbaijani banking sector.

In summer 2012, the Central Bank of Azerbaijan decided to increase the minimum capital requirement for banks operating in Azerbaijan from AZN 10 million to AZN 50 million. This measure is expected to trigger a consolidation process in the banking sector in the coming years.

Financial Results

AcessBank's total assets increased by 35% in 2012, ending the year at USD 656 million compared with USD 488 million at 2011-end. The USD 168 million increase in total assets was mainly driven by a USD 147 million increase in the loan portfolio. The growth was refinanced by a USD 117 million increase in external borrowings (up 63% to USD 304 million from USD 187 million at 2011-end), deposit growth of USD 28 million (up 16% to USD 207 million from USD 179 million at 2011-end) and profit (USD 20 million). Capital adequacy remained extremely strong, ending the year at 23.5% (Total) and 22% (Tier 1) – comfortably above the Central Bank's regulatory norm of 12% and 6% respectively.

Post-tax profit for 2012 reached USD 20 million compared to USD 22 million in 2011. While the profitability indicators of 2012 are slightly lower than in the previous year, this is due to the fact that in 2012 the Bank paid a 20% tax on the gross profit for the first time after a three-year tax holiday. Therefore, the 2012 result, when adjusted for the tax impact, shows an increase in the net profit figure. At the end of the year, the shareholders decided that the Bank would pay a dividend of AZN 6.4 million out of its 2012 net profit in January 2013.

Our Customers

89,000
MICRO CUSTOMERS

AccessBank is the leading micro-finance bank in Azerbaijan with a total micro loan portfolio of USD 240 million. A special focus is on agricultural lending to small farmers in rural areas, which has reached USD 80 million with 40,000 clients.

2,200
SME CUSTOMERS

AccessBank offers small and medium-sized corporates a range of customized loan products and banking services through its country wide branch network. The products and services are specifically designed for small companies and entrepreneurs.

33,000
RETAIL CUSTOMERS

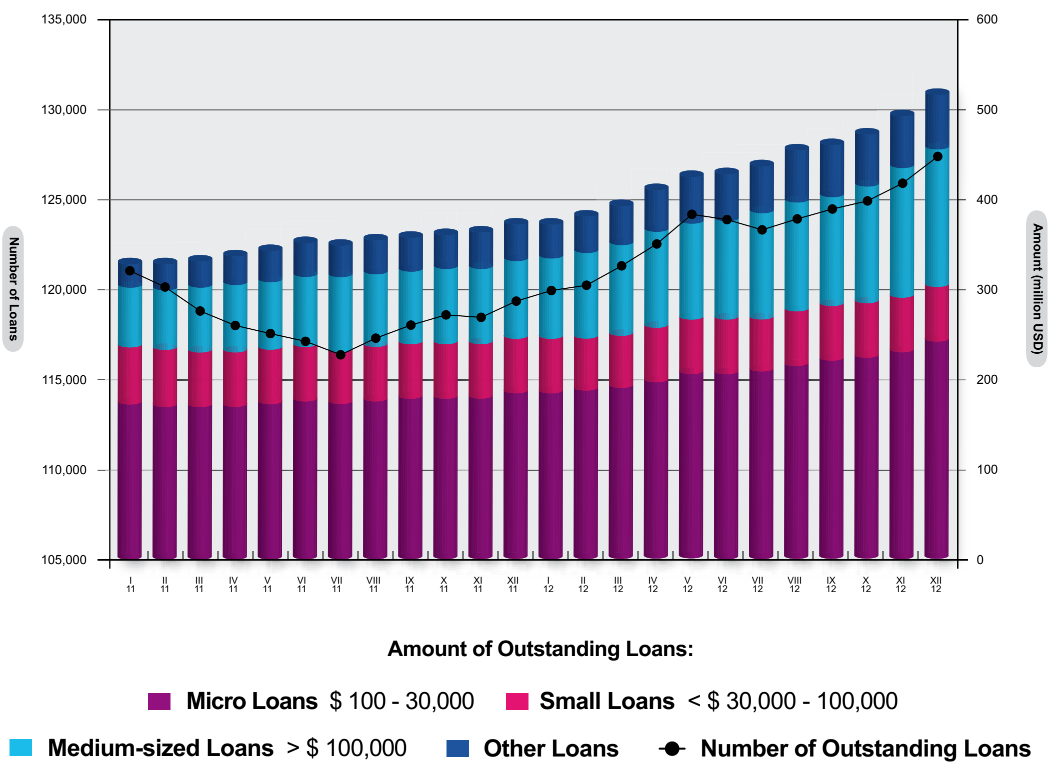
AccessBank provides a broad range of retail loan products and banking services to private individuals throughout the country. These include products and services for everyday finances, savings, loans, cards and insurance.

Loan Portfolio Development

AccessBank's total outstanding loan portfolio increased by 39% in 2012, reaching USD 525 million from USD 378 million at 2011-end (loan principal balance). A total of 129,000 loans for USD 628 million were disbursed in 2012 (compared with 120,000 loans for USD 470 million in 2011), with an average loan size of USD 4,871. Total cumulated disbursals from AccessBank since its inception in 2002 reached USD 2.4 billion to more than 312,000 clients. Portfolio quality remained excellent, with Portfolio at Risk > 30 days improving over the year to 0.63%, compared with 0.76% at 2011-end. This exceptionally low level of arrears reflects AccessBank's commitment to responsible lending and avoidance of client over-indebtedness.

AccessBank's total outstanding loan portfolio grew by USD 147 million in 2012, breaking through the USD 500 million threshold – a milestone in the development of the Bank.

DEVELOPMENT OF TOTAL LOAN PORTFOLIO 2011-2012



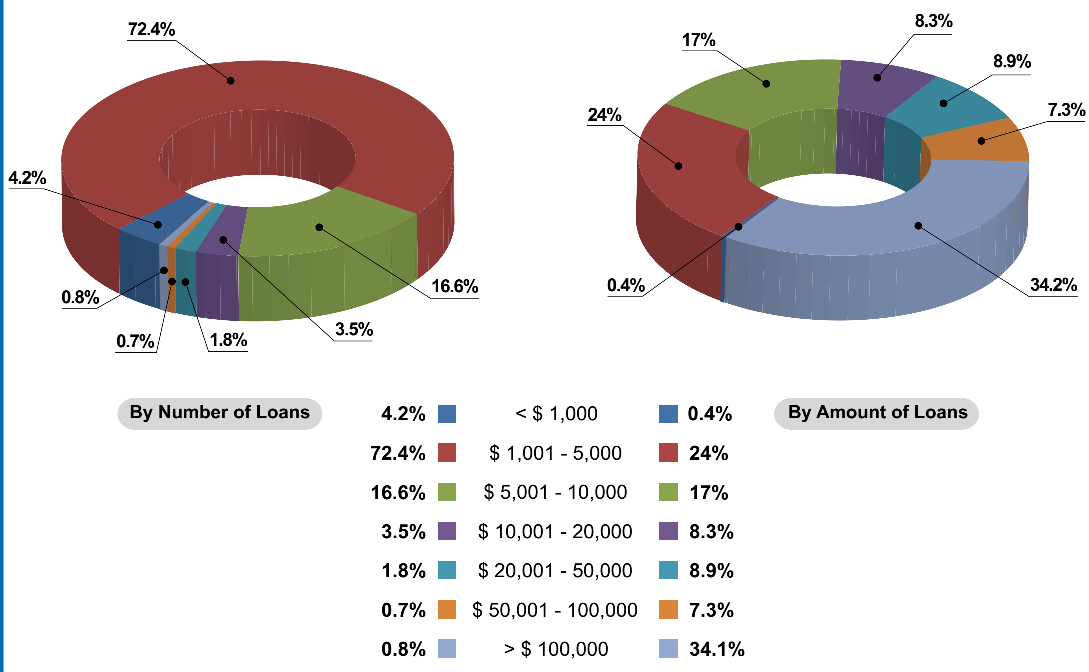
Business Banking

BUSINESS PORTFOLIO DEVELOPMENT

The outstanding business loan portfolio increased by 37% in 2012 to end the year at USD 463 million, compared to USD 338 million at 2011-end. In total, 91,311 business loans for USD 541 million were disbursed in 2012, compared to 79,523 loans for USD 409m in 2011. The average size for all business loans disbursed in 2012 was USD 5,922, with 33% of all business loans being disbursed to first-time clients.

Micro loans increased during 2012, up 31% or USD 56 million during the year to USD 240 million. The micro segment continues to dominate both in terms of number of loans – 97% of business loans – and in terms of total amount, making up 52% of the total business portfolio. During 2012, a total of 89,479 micro loans for USD 335 million were disbursed, which is 63% higher than the total amount of disbursed loans to SME clients, 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 0.48% at year-end. In terms of currency denomination, 93% of micro loans disbursed in 2012 were provided in Manats (AZN), around the same level as in 2011 (92%), while this figure was 85% in 2010 and 64% in 2008.

BREAKDOWN OF OUTSTANDING BUSINESS PORTFOLIO BY LOAN SIZE IN 2012



The SME portfolio grew by 44% or USD 68 million in 2012 to USD 223 million. USD 206 million was disbursed during the year with an average loan size of USD 112,176. The SME Portfolio at Risk > 30 days finished the year at 0.94%.

In terms of diversification of AccessBank's loan portfolio across economic sectors, the wholesale and retail trade segment continued to claim the largest share, with 50.8% of the outstanding business loan portfolio in terms of amount at year-end, thereby reflecting the structure of the economy and the focus of micro-businesses in general. This was followed by services (23.2%) and agriculture (17.2%). Despite the high figure for trade, this number has continuously decreased over the years from 73% at 2006-end, indicating that the Bank has succeeded in diversifying the loan portfolio across the sectors during recent years. 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 growth in exposure to the service sector. In terms of number of loans, the agricultural sector now accounts for a much higher share – exceeding 40% of the total business portfolio.

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 portfolio reached USD 80 million with an average loan disbursal amount of USD 2,822. The quality of the agro loan portfolio remains excellent with Portfolio at Risk > 30 days of 0.37%, having improved over the year from the 2011-end figure of 1.02%, in which the favourable weather conditions for the harvest in 2012 also played a role. The Bank's exposure to the agricultural sector is even higher than the reported figure, since there is significant indirect exposure in the trade and services sector for financing agriculture-related businesses, e.g. clients selling seed and fertilizers or veterinary services, which are classified under the trade and services sectors respectively.

TRADE FINANCE

As AccessBank's clients develop, their needs for financial services are becoming more complex. The Corporate Services Department was created to meet this demand and to deliver to clients specialized products such as documentary operations and trade financing. Key products are guarantees, counter-guarantees and letters of credit. In addition, the Bank supports its customers with stand-by letters of credit, pre-export and post-import financing, as well as with ECA covered financing. AccessBank is a participant in the Trade Facilitation Programme of the EBRD (European Bank for Reconstruction and Development) and the ADB (Asian Development Bank). This provides the Bank with the opportunity to cooperate with more than 700 financial institutions worldwide which also participate as confirming banks in these trade facilitation programmes.

Azerbaijan is becoming increasingly integrated into the world of international trade. The Bank has, therefore, further developed its trade finance products in order to serve the evolving needs of our corporate clients.

As a result of the dynamic development of the Azerbaijani economy and the progressing integration into international trade flows, local entrepreneurs are getting increasingly interested in trade finance products. The Bank's trade finance managers are in frequent contact with SME clients, providing advice and consultancy about the most suitable products in the area of documentary operations and trade finance to serve the clients' best interest.

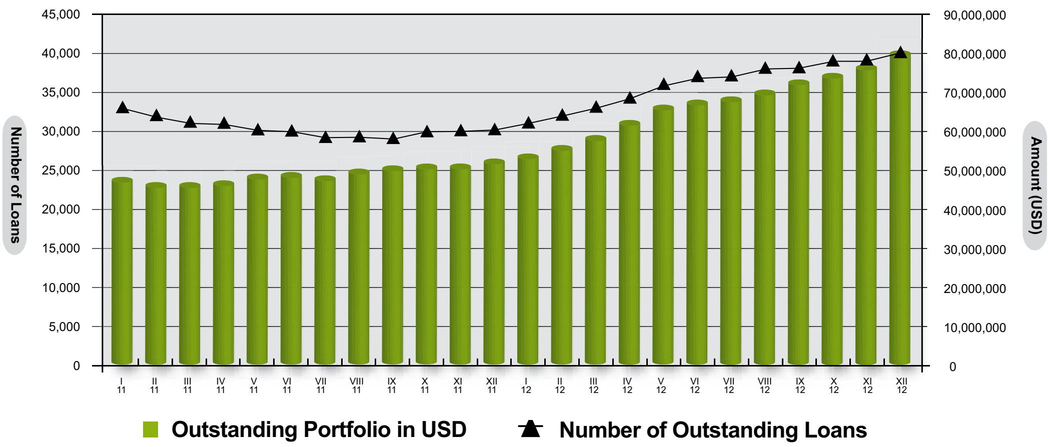
Expanding in the Regions with a Focus on Agro Lending

AccessBank has become Azerbaijan's leading bank for lending to agricultural businesses, whereby primary agriculture now accounts for 17.2% of the Bank's total business portfolio in terms of amount, and 42.9% of our business client base.

The extensive network of 37 branches, of which 23 are located outside Baku, allows the Bank to reach its rural customers and to focus on providing appropriately targeted products. In AccessBank's regional branches, more than half of all business loans are now disbursed under this product.

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

DEVELOPMENT OF AGRO LOAN PORTFOLIO 2011-2012



Retail Banking and Operations

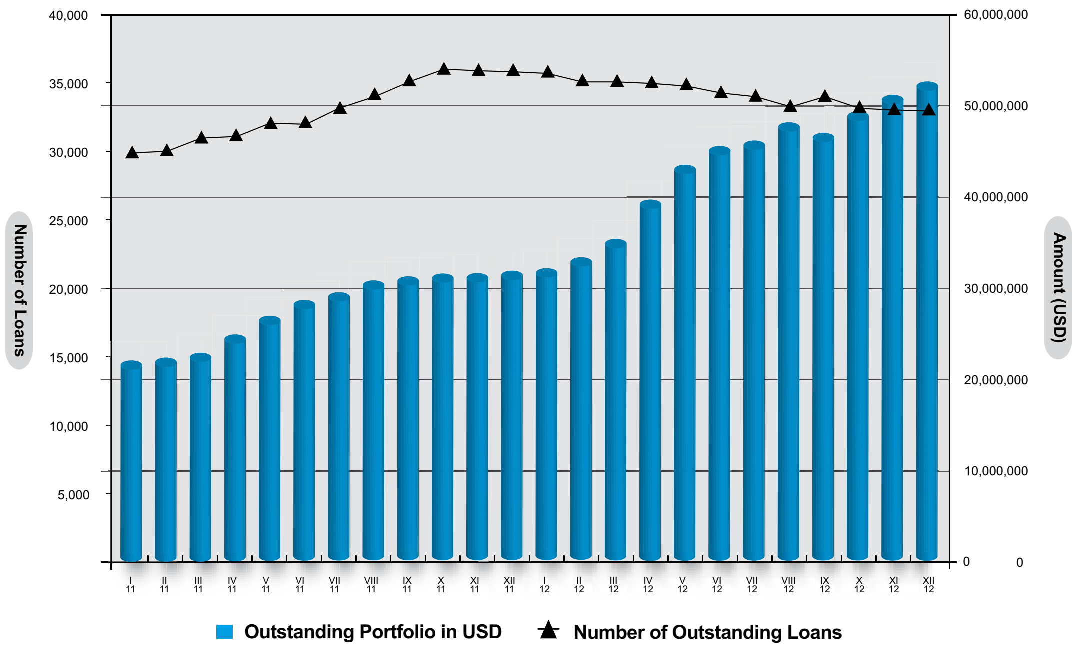
RETAIL LENDING

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: cash loans to individuals in selected stable professions; deposit loans – loans secured by a deposit that allow clients to obtain short-term financing without having to break their long-term deposits; partner loans – providing financing to the customers of retailers of core household goods and car loans.

Mortgage lending was launched in June 2011 and developed dynamically during 2012. The main objective for the mortgage loan product is to fulfil AccessBank's mission of providing access to essential financial services for middle-income households – to help middle-income households improve their housing. The loan can be disbursed to the borrower in several tranches and the borrower must prove that the proceeds are used for the intended purpose. In 2012, the mortgage portfolio grew by USD 6.7 million with 279 outstanding loans, increasing its share of the retail lending portfolio from 3.2% in 2011 to 14.6% in 2012. At the end of 2012, the mortgage product was offered to clients in three Baku-based branches by specialized mortgage loan officers and a further rollout of the product to more branches, including regional, is planned for 2013.

In 2012 the total Retail Loan portfolio increased by 65%, ending the year at USD 52.5 million. How-

RETAIL LENDING DEVELOPMENT 2011-2012



ever, the share of the retail loan portfolio in the Bank's total loan portfolio remains relatively small at around 10%.

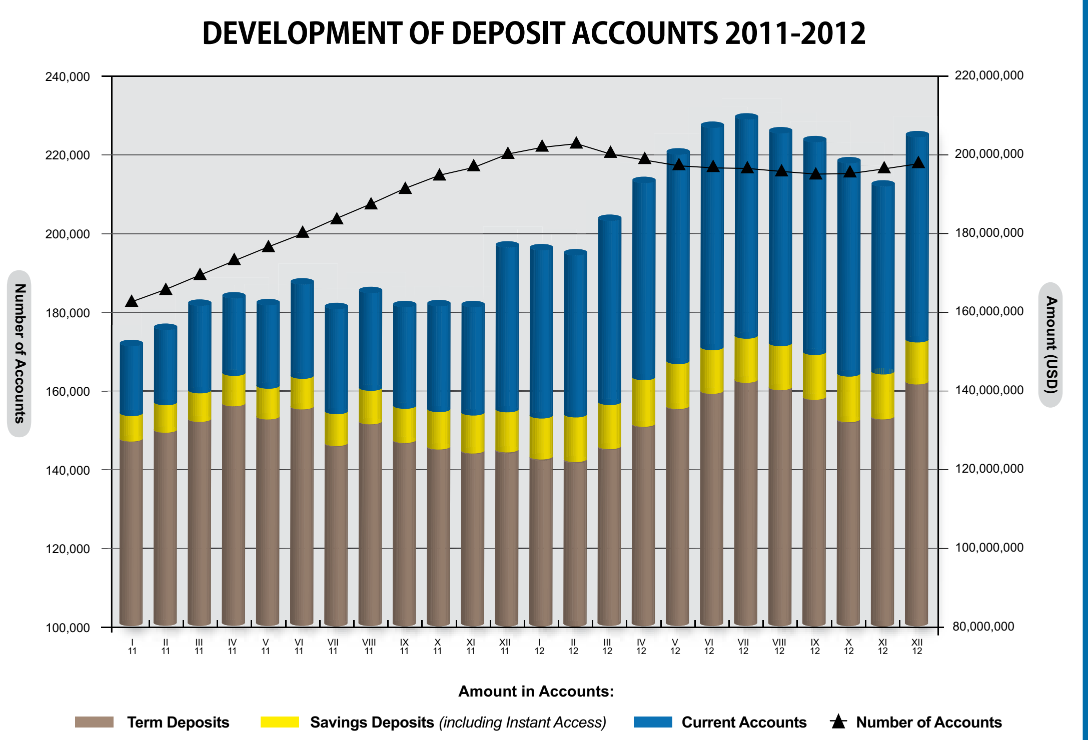
AccessBank is committed to developing retail lending responsibly to ensure that clients are not overburdened with debt. The clearest proof of AccessBank's responsible lending is its very low arrears rate, with the PAR > 30 days rate standing at 0.16% at year-end.

DEPOSITS AND CURRENT ACCOUNTS

Total deposits increased by 16% in 2012 to reach USD 207 million (218,535 accounts). The largest increase was made in Term Deposits, which grew by USD 17 million to total USD 142 million. Current Accounts increased by USD 11 million, reaching USD 54 million. Savings Deposits also grew steadily by USD 487,000 to surpass USD 11 million. As the Bank's credit portfolio grows, the Bank will continue to increase the amount of deposits to balance the total share of assets funded by international borrowings.

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, Zolotaya Korona, Blizko and Migom – the last seven being oriented to the CIS where the majority



of Azerbaijani migrant workers seek employment. In 2012, the total number of transactions via these systems grew by 267% to 104,443, while the total amount transferred increased by 280% to USD 64 million.

INSURANCE

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

The Bank further expanded its product range and started successfully offering insurance products that are designed to meet the clients' needs.

The main products demanded by clients in 2012 were automobile and property insurance policies, as well as life insurance for retail customers. The insurance products were offered to clients on a voluntary basis. During 2012, the Bank established co-operation with three local insurance companies and acted as a broker, distributing products of the three insurance partners. Monthly sales of insurance policies were initially at a volume of around USD 20,000 per month and increased during the year to reach around USD 50,000 per month by year-end. The Bank intends to further develop its cooperation with local insurance companies and to broaden the product range for its clients.

PLASTIC 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 salaries via their AccessBank debit cards, further encourage the use of current accounts by SMEs, corporate clients and their employees and strengthen they relationship with the Bank. Features of AccessBank's Visa Card include a 'multi-currency' option, i.e. the cards can be linked to Manat (AZN), USD and EUR accounts allowing the user to make purchases in any of the three currencies, both in Azerbaijan and 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 the second half of 2012, AccessBank also introduced a new credit card product. At the end of the year, 550 credit cards for an outstanding loan amount of USD 1.2 million were active.

COMMISSION INCOME

During 2012 the Bank succeeded in enhancing income generation from fees and commissions in non-lending related banking operations. Turnover of remittance payments as well as of national and international account transfers more than doubled. The business volume of currency exchange transactions also rose significantly during the year. As a result, in 2012 the Bank succeeded in increasing its net fee and commission income by about 30% compared to the previous year. The management is committed to implementing further steps to expand this important income source, which will be essential in supporting the Bank's profitability against the prevailing trend of declining interest margins.

Refinancing

In 2012, AccessBank attracted a total of USD 152.5 million in new funding from international lenders and USD 26 million in rolled-over loan facilities from existing lenders. Total outstanding borrowed funds increased to USD 303 million, from USD 184 million at 2011-end, thus increasing the total share of assets funded by international borrowings to 46%.

The Bank concluded the following transactions during 2012 with its international refinancing partners: a USD 25 million loan from EBRD; a EUR 5 million loan from Demir-Halyk Bank Holland; a USD 1 million loan from EMF Microfinance Fund AGmvK; a USD 1.5 million loan from Finethic Microfinance; a USD 30 million loan from KfW; a USD 3.5 million loan from Demir-Halyk Bank Holland; a USD 10.5 million loan from DWM/SNS Institutional Fund; a USD 3 million additional loan from Bank im Bistum Essen; a USD 3 million loan from responsAbility SICAV; two loans of USD 15 million in total from the European Fund for Southeast Europe (EFSE); a USD 10 million loan from Symbiotics; a USD 10 million loan from Microfinance Enhancement Facility (MEF/Cyrano); a USD 15 million loan from IFC; a USD 10 million loan from OPEC Fund (OFID) and a USD 10 million loan from responsAbility SICAV under first-time issued promissory notes. Additionally, a USD 7 million loan from Bank im Bistum Essen, a USD 2.5 million loan from DWM/SNS Institutional Fund, a USD 3 million loan from VDK Spaarbank, a USD 5.5 million loan from Triodos Fair Share Fund/TriodosDoen and a USD 8 million loan from Dexia MCF (BlueOrchard Debt Lux) were rolled over in 2012.

AccessBank continues to enjoy close relationships with a wide pool of international refinancing partners and has proven to be a reliable partner for international lenders. This is further substantiated 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.

Risk Management

The strength of AccessBank's risk management is reflected by the excellent portfolio quality. Nevertheless, management is not complacent, recognising that as economic growth slows and the bank increases in scale, strengthening risk management and control is a key priority and remains a continual and constant process. Credit and operational risk, the major risks faced by AccessBank, are 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 as well as 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 the Risk, ALCO and IT committees, which prepare reports for the Supervisory Board on a quarterly basis. These committees review risks on a bank-wide or global level, and investigate specific risk aspects as well. Since its creation in 2008, the Risk Management Department has grown to 11 staff, responsible for reviewing all exposures over USD 100,000, undertaking selective portfolio reviews, assisting with problem loan recovery, strategic monitoring and analysis of all aspects of risk.

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. Management of currency, liquidity and interest rate risk is then reviewed on a monthly basis by the ALCO committee and on at least a quarterly basis by the risk committee and supervisory board.

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 2012-end, the Audit Department consisted of 11 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 favourable economic environment in Azerbaijan prevalent in 2012 is expected to persist through 2013, whereby energy exports should ensure continued economic stability in the medium term.

The outlook for 2013 is favourable with regard to new opportunities for further growing the Bank's business across all segments. This holds in particular for the Bank's activities in the regions of the country. However, intensifying competition in the financial sector is expected to drive further the trend of contracting interest rates which will exert additional pressure on the Bank's interest margins. In 2012, AccessBank was able to over-compensate the negative impact of declining interest margins by strong growth in the loan portfolio and a continued reduction in refinancing costs so that profit before tax increased compared to the previous year. From today's perspective, the key factors impacting the Bank's profitability in 2013 look similar to 2012.

Furthermore, it is expected that credit risk will continue to challenge the banking sector due to intensifying competition, which leads many clients to obtain loans from multiple lenders with an increasing risk of over-indebtedness. Portfolio quality will therefore be closely monitored when pursuing further growth opportunities. In addition, a targeted gradual increase in commission income from banking operations will be essential in order to strengthen non-interest based income sources to support the Bank's profitability against the trend of declining interest margins.

Although competition in the sector has intensified in recent years, AccessBank remains the leading bank focused on serving the needs of Azerbaijan's micro and small businesses as well as low and middle income households with both dedicated products and proven risk management expertise to serve these market segments responsibly and sustainably.

Unlike non-bank microfinance institutions, AccessBank is able to offer a complete range of financial services to clients, including current and savings accounts as well as money transfer systems. AccessBank's leading reputation in the Azerbaijani banking market has been cemented by good service, reliability and visibility.

In 2012, AccessBank opened five new branches, increasing the total number of branches to 34, of which about 50% are located outside Baku and the Absheron peninsula. After the reporting period, in Q1-2013, the Bank opened another three regional branches, bringing the total number to 37. In order to further improve services for the Bank's clients in rural areas where financial services penetration is still low, the Bank intends to open new regional branches in 2013. Work is also nearing completion on the refurbishment of the business centre purchased for the Bank's future head office in central Baku. This will allow the Bank to consolidate all head office staff in one location and is expected to meet the Bank's head office needs for the next two decades. Completion of the building and moving into the new premises are scheduled for the second half of 2013. A second major project underway is the development of the Bank's new core banking software based on the Temenos 24 system. In 2012, good progress was achieved by the project team, which consists of dedicated staff both from the Bank and from our partners at LFS Financial Systems.

AccessBank enters 2013 in a robust position with high capital adequacy, excellent portfolio quality and a comprehensive pool of experienced and well-trained staff to support the Bank's further growth. The management team and staff are confident that, together with the shareholders, AccessBank will face-up to the challenges that 2013 may bring.

CORPORATE GOVERNANCE, ORGANISATION & STAFF

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

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

GENERAL ASSEMBLY OF SHAREHOLDERS – The highest decision-making body in AccessBank is the General Assembly of Shareholders (GAS), which met four times in 2012, with 100% of the shares represented by individuals at all of the meetings. The GAS appoints the members of the supervisory and management boards, and audit, risk, ALCO and IT committees, and also determines the remuneration of the supervisory board and audit committee members. Other responsibilities include the approval of the external auditor and the audited financial statements, creation of reserves, extraordinary audits and branch openings and closures. Further powers include all actions regarding the shares of the Bank, including distribution of profit, increases in charter capital, issuance, listing or sale of shares to any party.

SUPERVISORY BOARD – The Supervisory Board of AccessBank is appointed by the GAS and determines the business policy of the Bank, within the mission framework set by the GAS, and oversees and reviews the work of the management board and committees of the Bank. The Supervisory Board met five times in person in 2012, with all five Supervisory Board members physically attending.

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

AccessBank Supervisory Board

Mr Orhan Aytemiz

Chair

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.

Mr Syed Aftab Ahmed

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

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.

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. 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.

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.

CORPORATE GOVERNANCE, ORGANISATION & STAFF

None of the Supervisory Board members own shares in the Bank directly and they are remunerated for their attendance at meetings at a fixed rate determined by the GAS. 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 CEO Mr Michael Hoffmann, 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. 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 2012 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 GAS and reports directly both to the supervisory board and GAS. The Audit Committee oversees the work of the internal audit department (see risk management section) 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 was 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, 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 macroeconomic and social developments in Azerbaijan and their potential impact on the business of the Bank and makes recommendations to the Bank's 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

Mr Michael Hoffmann

CEO and Chairman of the Management Board

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

Mr Rufat Ismayilov

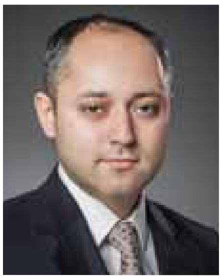
Deputy General Manager and Infrastructure Director

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

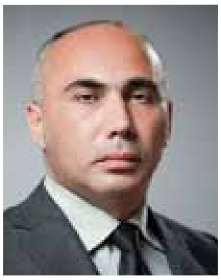
Joined AccessBank in 2002 as a Micro Loan Officer. Promoted to Senior Loan Officer, then in 2004 to the newly established SME Department, which he then headed from December 2005. In April 2008, he was promoted to head of the business banking department and became a member of the management board. Mr Ragimov has a Master's Degree in Business Administration and Finance from the Azerbaijan State Economic University. He is also currently enrolled in the University of Warwick's MBA by distance learning programme. He 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.



Mr Elshan Hajiyev

Finance Director

Mr Hajiyev has been the Finance Director and a member of AccessBank's management board since the foundation 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 holds 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.

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.

The transparent, clean and non-bureaucratic 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, AccessBank was the lead bank in Azerbaijan in the Price Transparency Initiative organised by Micro Finance Transparency. The initiative collects and verifies actual loan cost information from microfinance organisations 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.

1


2

3

1. Football camp for girls in Mingechevir
2. 'Play Dates' - sports event with Saray Orphanage school children
3. Entertainment event for orphans organised by Babek branch staff

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 as well as within the Global Compact and includes a code of conduct providing guidance to staff on professional behaviour. AccessBank leads the sector with regard to staff training and provides additional private health insurance as well as competitive remuneration. Further to the goals of the Global Compact, AccessBank has been taking proactive measures to encourage, train and support women and the disabled to pursue professional careers in the Bank. Women make up 35% of the total workforce of the Bank and 25% of the management. The Bank has provided professional employment for 41 disabled staff.

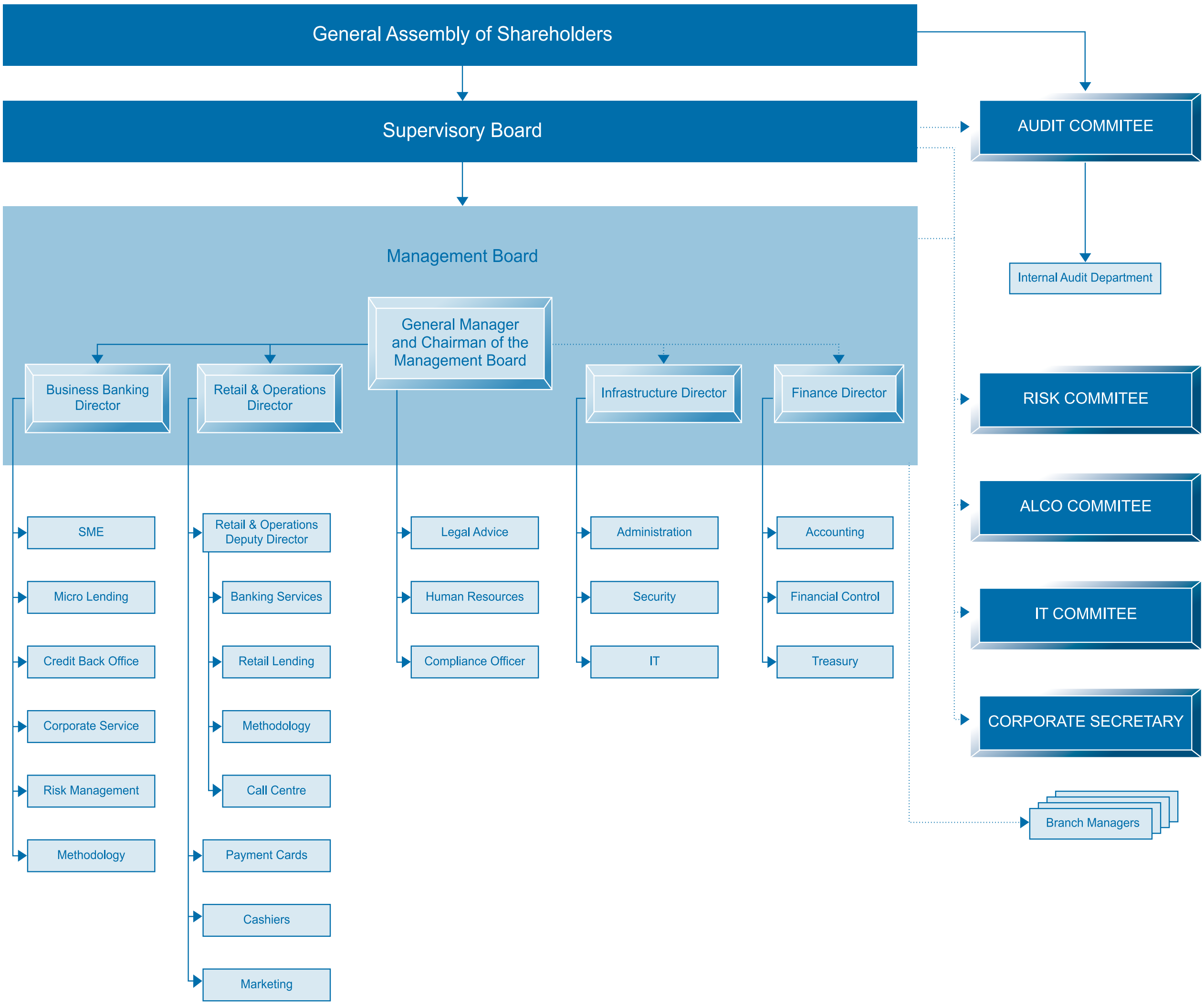
Expanding on the responsibilities to local communities and authorities, AccessBank has become an important employer in the regions. The Bank is committed to meeting all its tax and social insurance obligations and is now one of the leading tax contributors in the Azerbaijani financial sector, paying AZN 15.2 million (USD 19.4 million) in taxes and social insurance payments in 2012 (including employee income taxes).

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.

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 2012 include: sponsoring the Girls Leading Our World (GLOW) summer camp for schoolgirls from the regions of Azerbaijan; organising weeklong football camps for girls together with AFFA and the United States Peace Corps; distributing food packages for the Novruz holidays to refugee and disadvantaged families; hosting a drawing contest for children at a local orphanage; taking part in celebrating World Savings Day by holding a series of educational training sessions for school children; planting trees in a city centre; organising a football tournament for 450 students; as well as material support for and organisation of numerous day-trips and parties for residents of orphanages and homes for the disabled and pensioners.

Organisational Chart



AccessBank Closed Joint Stock Company
International Financial Reporting Standards Financial Statements and Independent Auditor's Report

31 December 2012

CONTENTS

pwc

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the AccessBank CJSC (the "Bank") which comprise the statement of financial position as of 31 December 2012 and the related statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended and notes, comprising summary of significant accounting policies and other explanatory information.

Management's Responsibility

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as of 31 December 2012, 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
6 May 2013

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 2012	31 December 2011
ASSETS			
Cash and cash equivalents	7	50,719	32,415
Mandatory cash balances with the Central Bank of Azerbaijan Republic ("CBAR")	7	9,376	6,253
Investment securities available for sale		40	8,040
Investment securities held to maturity		-	5,004
Due from other banks	8	1,306	2,364
Loans and advances to customers	9	403,988	291,700
Property and equipment	10	37,306	31,127
Intangible assets	10	7,885	4,115
Other financial assets		726	481
Other assets	11	3,923	2,066
TOTAL ASSETS		**515,269**	**383,565**
LIABILITIES			
Short-term loans from shareholders	12	7,867	-
Customer accounts	13	168,694	146,920
Other borrowed funds	14	222,510	138,618
Current income tax liability		1,466	300
Other financial liabilities	16	7,178	626
Deferred income tax liability	22	434	314
Other liabilities	15	4,287	3,390
Subordinated debt	17	8,070	8,074
TOTAL LIABILITIES		**420,506**	**298,242**
EQUITY			
Share capital	18	85,000	67,800
Retained earnings		9,763	17,523
TOTAL EQUITY		**94,763**	**85,323**
TOTAL LIABILITIES AND EQUITY		**515,269**	**383,565**

Approved for issue and signed on behalf of the Management Board on 6 May 2013.

At 31 December 2012, the prevailing exchange rates were USD 1 = AZN 0.7850 and EUR 1 = AZN 1.0377 (31 December 2011: USD 1 = AZN 0.7865 and EUR 1 = AZN 1.0178).

Mr. Michael Hoffmann
Chairman of the Management Board

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

Azərbaycan Respublikası "AccessBank" QSC AccessBank

In thousands of Azerbaijani Manats	Note	2012	2011
Interest income	19	99,361	84,842
Interest expense	19	(24,778)	(25,489)
Net interest income		**74,583**	**59,353**
Provision for loan impairment	9	(3,124)	(1,383)
Net interest income after provision for loan impairment		**71,459**	**57,970**
Fee and commission income	20	1,567	1,223
Fee and commission expense	20	(268)	(230)
Gains less losses from foreign currency dealing		371	474
Foreign exchange translation gains less losses		(176)	(509)
Other operating income		692	1,095
Impairment reversal on property and equipment		-	257
Administrative and other operating expenses	21	(53,199)	(42,347)
Profit before tax		**20,446**	**17,933**
Income tax expense	22	(4,606)	(665)
PROFIT FOR THE YEAR		**15,840**	**17,268**
Other comprehensive income for the year		**-**	**-**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**15,840**	**17,268**
Earnings per share for profit attributable to the equity holders of the Bank, basic and diluted (expressed in AZN per share)	**23**	**0.79**	**0.86**

At 31 December 2012, the prevailing exchange rates were USD 1 = AZN 0.7850 and EUR 1 = AZN 1.0377 (31 December 2011: USD 1 = AZN 0.7865 and EUR 1 = AZN 1.0178).

In thousands of Azerbaijani Manats	Share capital	Retained earnings	Total
Balance at 31 December 2010	**41,800**	**32,655**	**74,455**
Increase in share capital	26,000	(26,000)	-
Dividends 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**
Increase in share capital	17,200	(17,200)	-
Dividends declared	-	(6,400)	(6,400)
Total recognised profit for the year attributable to ordinary shareholders	-	15,840	15,840
Balance at 31 December 2012	**85,000**	**9,763**	**94,763**

In thousands of Azerbaijani Manats	Note	2012	2011
Cash flows from operating activities			
Interest received		98,004	84,928
Interest paid		(25,616)	(25,312)
Fees and commissions received		1,567	1,223
Fees and commissions paid		(268)	(230)
Income received from foreign currency dealing		371	474
Other operating income received		692	1,095
Staff costs paid		(31,769)	(25,770)
Administrative and other operating expenses paid		(15,948)	(12,754)
Income tax paid		(3,303)	(130)
Cash flows from operating activities before changes in operating assets and liabilities		**23,730**	**23,524**
Net increase in mandatory cash balances with the CBAR		(3,123)	(5,882)
Net decrease in due from other banks		1,064	4,663
Net increase in loans and advances to customers		(114,061)	(26,988)
Net increase in other financial assets and other assets		(313)	(706)
Net increase in short-term loans from shareholders		7,850	-
Net increase in customer accounts		22,432	19,300
Net increase in other financial liabilities and other liabilities		53	1,123
Net cash (used in)/generated from operating activities		**(62,368)**	**15,034**
Cash flows from investing activities			
Redemption/(acquisition) of investment securities available for sale		8,000	(8,000)
Redemption/(acquisition) of investment securities held to maturity		5,004	(5,004)
Acquisition of property and equipment		(10,142)	(3,060)
Acquisition of intangible assets		(6,098)	(3,043)
Net cash used in investing activities		**(3,236)**	**(19,107)**
Cash flows from financing activities			
Proceeds from other borrowed funds		133,205	87,254
Repayment of other borrowed funds		(49,121)	(101,662)
Dividends paid		-	(6,400)
Net cash generated from/(used in) financing activities		**84,084**	**(20,808)**
Effect of exchange rate changes on cash and cash equivalents		**(176)**	**(509)**
Net increase/(decrease) in cash and cash equivalents		**18,304**	**(25,390)**
Cash and cash equivalents at the beginning of the year	7	32,415	57,805
Cash and cash equivalents at the end of the year	**7**	**50,719**	**32,415**

1 Introduction

These financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2012 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 banking operations within the Republic of Azerbaijan, with a focus on serving micro and small business customers.

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

The Bank has thirty four branches within the Republic of Azerbaijan (31 December 2011: thirty branches).

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

176 B.Safaroglu Street,
Baku AZ1095,
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 recognized 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.

3 Summary of Significant Accounting Policies (continued)

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

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

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

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

Property and Equipment. Property 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.

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	4 years
Furniture and office equipment	4 to 5 years
Motor vehicles	4 years
Premises and leasehold improvement	5 to 20 years

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

3 Summary of Significant Accounting Policies (continued)

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

Acquired computer software licences 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.

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.

Short-term loans from shareholders. Amounts of short-term loans from shareholders are recorded when money or other short-term assets are advanced to the Bank by counterparty institutions. The non-derivative liability is carried at amortised cost. If the Bank purchases its own debt, the liability is removed from the statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains or losses arising from early retirement of debt.

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

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

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

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

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

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

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.

3 Summary of Significant Accounting Policies (continued)

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 2012 and 31 December 2011 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.

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

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

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

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

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

3 Summary of Significant Accounting Policies (continued)

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

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 2012, the prevailing exchange rates were USD 1 = AZN 0.7850 and EUR 1 = AZN 1.0377 (31 December 2011: USD 1 = AZN 0.7865 and EUR 1 = AZN 1.0178).

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 protection 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.

4 Critical Accounting Estimates and Judgements in Applying Accounting Policies

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

Impairment losses on loans and advances. The Bank regularly reviews its loan portfolios to assess impairment. In determining whether an impairment loss should be recorded in profit or loss for the year, the Bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Initial recognition of related party transactions. In the normal course of business the Bank enters into transactions with its related parties. IAS 39 requires initial recognition of financial instruments based on their fair values. Judgement is applied in determining if transactions are priced at market or non-market interest rates where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis. Terms and conditions of related party balances are disclosed in Note 30.

4 Critical Accounting Estimates and Judgements in Applying Accounting Policies (continued)

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 for internal administrative purposes. The premise has been prospectively reclassified as Property and Equipment in the Statement of Financial Position. In 2012 Bank still considers the building as premise for internal use. 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 2012:

"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. The standard requires these new disclosures to be presented in a separate note. This standard does not have a material impact on these financial statements.

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, did not have any impact on these financial statements. The amendment to IAS 12 "Income taxes", which introduced a rebuttable presumption that an investment property carried at fair value is recovered entirely through sale, did not have a material 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 2013 or later, and which the Bank has not early adopted.

IFRS 9 "Financial Instruments Part 1: Classification and Measurement". IFRS 9, issued in November 2010, 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 and in December 2011 to (i) change its effective date to annual periods beginning on or after 1 January 2015 and (ii) add transition disclosures. 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.

6 New Accounting Pronouncements (continued)

- 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 2015, 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 Venturers". 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 Interests 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 judgments 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, summarized financial information of subsidiaries with material non-controlling interests, and detailed disclosures of interests in unconsolidated structured entities.

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.

6 New Accounting Pronouncements (continued)

Amendments to IAS 1 "Presentation of Financial Statements" (issued in 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.

Improvements to International Financial Reporting Standards (issued in May 2012 and effective for annual periods beginning 1 January 2013). The improvements consist of changes to five standards. IFRS 1 was amended to (i) clarify that an entity that resumes preparing its IFRS financial statements may either repeatedly apply IFRS 1 or apply all IFRSs retrospectively as if it had never stopped applying them, and (ii) to add an exemption from applying IAS 23 "Borrowing costs", retrospectively by first-time adopters. IAS 1 was amended to clarify that explanatory notes are not required to support the third balance sheet presented at the beginning of the preceding period when it is provided because it was materially impacted by a retrospective restatement, changes in accounting policies or reclassifications for presentation purposes, while explanatory notes will be required when an entity voluntarily decides to provide additional comparative statements. IAS 16 was amended to clarify that servicing equipment that is used for more than one period is classified as property, plant and equipment rather than inventory. IAS 32 was amended to clarify that certain tax consequences of distributions to owners should be accounted for in the income statement as was always required by IAS 12. IAS 34 was amended to bring its requirements in line with IFRS 8. IAS 34 will require disclosure of a measure of total assets and liabilities for an operating segment only if such information is regularly provided to chief operating decision maker and there has been a material change in those measures since the last annual financial statements.

Transition Guidance Amendments to IFRS 10, IFRS 11 and IFRS 12 (issued in June 2012 and effective for annual periods beginning 1 January 2013). The amendments clarify the transition guidance in IFRS 10 "Consolidated Financial Statements". Entities adopting IFRS 10 should assess control at the first day of the annual period in which IFRS 10 is adopted, and if the consolidation conclusion under IFRS 10 differs from IAS 27 and SIC 12, the immediately preceding comparative period (that is, year 2012 for a calendar year-end entity that adopts IFRS 10 in 2013) is restated, unless impracticable. The amendments also provide additional transition relief in IFRS 10, IFRS 11 "Joint Arrangements" and IFRS 12 "Disclosure of Interests in Other Entities", by limiting the requirement to provide adjusted comparative information only for the immediately preceding comparative period. Further, the amendments will remove the requirement to present comparative information for disclosures related to unconsolidated structured entities for periods before IFRS 12 is first applied.

6 New Accounting Pronouncements (continued)

Amendments to IFRS 1 "First-time adoption of International Financial Reporting Standards - Government Loans" (issued in March 2012 and effective for annual periods beginning 1 January 2013). The amendments, dealing with loans received from governments at a below market rate of interest, give first-time adopters of IFRSs relief from full retrospective application of IFRSs when accounting for these loans on transition. This will give first-time adopters the same relief as existing preparers.

Other revised standards and interpretations: 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. The interpretation will not have an impact on the Bank's financial statements.

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 and Mandatory Cash Balances with CBAR

In thousands of Azerbaijani Manats	31 December 2012	31 December 2011
Cash on hand	20,322	16,201
Cash balances with the CBAR (other than mandatory reserve deposits)	1,959	1,353
Mandatory cash balance with CBAR	9,376	6,253
Correspondent accounts and overnight placements with other banks:		
- OECD countries	22,610	11,444
- Non-OECD countries, excluding Republic of Azerbaijan	1,263	835
- Republic of Azerbaijan	4,565	2,582
Total cash and cash equivalents and mandatory cash balances with CBAR	**60,095**	**38,668**

The growth of the amount of mandatory reserves held with the CBAR in as at 31 December 2012 in comparison with 31 December 2011 is due to the growth of the balance of customer accounts and other borrowed funds, which represent the benchmark for mandatory reserves calculation, as well as a change in the rules for calculation of the mandatory reserves. According to the change in the rules, the mandatory reserves are calculated as 3% 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 (2011: 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).

7 Cash and Cash Equivalents and Mandatory Cash Balances with CBAR (continued)

The credit quality of cash and cash equivalents balances may be summarised as follows at 31 December 2012:

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	1,959	-	1,959
- Rated Azerbaijani banks:			
Fitch BBB with a stable outlook	-	11	11
Moody's Ba2 with a positive outlook	-	7	7
Fitch B+ with a stable outlook	-	4	4
Fitch B with a stable outlook	-	8	8
Moody's B2 with a stable outlook	-	4	4
			-
- Other unrated Azerbaijani banks	-	4,531	4,531
- OECD banks	-	22,610	22,610
- Non-OECD banks	-	1,263	1,263
Total cash and cash equivalents, excluding cash on hand and mandatory cash balances with CBAR	**1,959**	**28,438**	**30,397**

The most recently published international ratings for the Republic of Azerbaijan are BBB-/Positive (Fitch Ratings - issued on 11 May 2012), Baa3/Positive (Moody's investors' Service - issued on 19 April 2012) and BBB-/Positive/B (Standard & Poor's - issued on 20 February 2012).

Liquidity and currency analysis of cash and cash equivalents is disclosed in Note 25.

None of cash and cash equivalent balances were collateralised during 2012 and 2011.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	-	11,444	11,444
- Non-OECD banks	-	835	835
Total cash and cash equivalents, excluding cash on hand and mandatory cash balances with CBAR	**1,353**	**14,861**	**16,214**

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

8 Due from Other Banks

In thousands of Azerbaijani Manats	**31 December 2012**	**31 December 2011**
Short-term placements with banks	1,306	2,364
Total due from other banks	**1,306**	**2,364**

On 16 October 2012, the Bank signed a loan agreement with AccessBank Tajikistan JSC for the amount of USD 1,200 thousand with a maturity date on 4 February 2013. The loan bears market interest rate. The outstanding amount of this loan on 31 December 2012 is USD 1,200 thousand or AZN 942 thousand.

On 20 December 2012, the Bank signed a loan agreement with AB Bank Zambia Limited for the amount of USD 200 thousand with a maturity date on 20 March 2013. The loan bears market interest rate. The outstanding amount of this loan on 31 December 2012 is USD 200 thousand or AZN 157 thousand.

On 28 December 2012, the Bank signed a loan agreement with AB Bank Zambia Limited for the amount of USD 250 thousand with a maturity date on 28 March 2013. The loan bears market interest rate. The outstanding amount of this loan on 31 December 2012 is USD 250 thousand or AZN 196 thousand.

An analysis by credit quality of amounts due from other banks outstanding at 31 December 2012 is as follows:

In thousands of Azerbaijani Manats	**Short-term placements with other banks**
Neither past due nor impaired	
- Unrated banks:	1,306
Total due from other banks	**1,306**

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 2012 and 31 December 2011.

None of short term placements with banks were collateralised at 31 December 2012 and 31 December 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**

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

9 Loans and Advances to Customers

In thousands of Azerbaijani Manats	31 December 2012	31 December 2011
Micro loans	189,173	145,236
Small and medium enterprises loans	176,306	122,704
Retail loans to salaried individuals	41,664	25,229
Staff loans	7,236	6,347
Less: Provision for loan impairment	(10,391)	(7,816)
Total loans and advances to customers	**403,988**	**291,700**

The definitions of Micro loans, Small and medium enterprises loans, Retail loans to salaried individuals and Staff loans are provided in note 24.

The movements in the provision for loan impairment during 2012 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 2012	**3,781**	**3,442**	**465**	**128**	**7,816**
Provision for impairment during the year	1,162	1,666	283	13	3,124
Amounts written-off during the year as uncollectible	(475)	(389)	(40)	-	(904)
Recovery of previously written-off loans	118	224	13	-	355
Provision for loan impairment at 31 December 2012	**4,586**	**4,943**	**721**	**141**	**10,391**

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**

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

	31 December 2012		31 December 2011	
In thousands of Azerbaijani Manats	Amount	%	Amount	%
Trade	185,764	44.9	152,932	51.1
Service	84,580	20.4	52,142	17.4
Agriculture	62,712	15.1	40,070	13.4
Household	48,900	11.8	31,635	10.6
Manufacturing	24,636	5.9	17,005	5.7
Transportation	7,787	1.9	5,732	1.8
Total loans and advances to customers (before impairment)	**414,379**	**100**	**299,516**	**100**

9 Loans and Advances to Customers (continued)

At 31 December 2012, the Bank had 54 borrowers (31 December 2011: 14 borrowers) with aggregated loan amounts above AZN 500 thousand per each client. The total aggregate amount of these loans was AZN 57,351 thousand (31 December 2011: AZN 12,339 thousand) or 13.8% (31 December 2011: 4.1%) of the gross loan portfolio. The Bank is concentrated in agricultural, micro and small business lending. The largest loan exposure to a single customer as at 31 December 2012 was the outstanding amount of loan to a local company in the amount of AZN 2,919 thousand (31 December 2011: AZN 1,544 thousand).

Information about collateral at 31 December 2012 is as follows:

In thousands of Azerbaijani Manats	**Micro loans**	**SME loans**	**Retail loans to salaried individuals**	**Staff loans**	**Total**
Unsecured loans	6,130	102	27,538	660	34,430
Loans collateralised by:					
-cash deposits	1,687	2,008	2,537	78	6,310
- real estate	21,981	170,814	6,088	6,451	205,334
- vehicle	3,273	2,300	1,083	23	6,679
- inventory and equipment	156,073	754	3,483	4	160,314
- other assets	28	328	935	21	1,312
Total loans and advances to customers	**189,172**	**176,306**	**41,664**	**7,237**	**414,379**

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	20	53	17,542	709	18,324
Loans collateralised by:					
-cash deposits	8,263	1,385	1,548	54	11,250
- real estate	14,403	118,402	821	5,510	139,136
- vehicle	2,057	1,299	635	44	4,035
- inventory and equipment	120,456	1,351	4,446	3	126,256
- other assets	37	214	237	27	515
Total loans and advances to customers	**145,236**	**122,704**	**25,229**	**6,347**	**299,516**

Other assets pledged as collateral mainly include furniture, fixture and household appliances. The carrying value of loans where a loan is secured by a number of collaterals, was allocated based on liquidity of the assets taken as collateral.

9 Loans and Advances to Customers (continued)

An analysis by credit quality of loans outstanding at 31 December 2012 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	**188,184**	**174,472**	**41,578**	**7,234**	**411,468**
Past due but not impaired					
- less than 7 days overdue and/or restructured loans	29	25	5	2	1
Total past due but not impaired	**29**	**25**	**5**	**2**	**61**
Loans individually determined to be impaired (gross)					
- 8 to 30 days overdue and/or restructured loans	46	157	16	-	219
- 30 to 90 days overdue and/or restructured loans	120	187	21	-	328
- over 90 days overdue and/or restructured loans	794	1,465	44	-	2,303
Total individually impaired loans (gross)	**960**	**1,809**	**81**	**-**	**2,850**
Gross carrying value of loans	**189,173**	**176,306**	**41,664**	**7,236**	**414,379**
Less impairment provisions	**(4,586)**	**(4,943)**	**(721)**	**(141)**	**(10,391)**
Total loans and advances to customers	**184,587**	**171,363**	**40,943**	**7,095**	**403,988**

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**

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 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 amount and type of collateral required depends on an assessment of the credit risk of the counterparty. The main types of collateral obtained are the following:

- cash deposits
- real estate
- vehicle
- inventory and equipment
- other assets

The financial effect of collateral is presented by disclosing collateral values separately for (i) those assets where collateral and other credit enhancements are equal to or exceed carrying value of the asset ("over-collateralised assets") and (ii) those assets where collateral and other credit enhancements are less than the carrying value of the asset ("under-collateralised assets").

The effect of collateral at 31 December 2012:

	Over-collateralised assets		Under-collateralised assets	
In thousands of Azerbaijani Manats	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
Micro loans	169,906	294,867	19,267	7,931
Small and medium enterprises loans	174,315	373,729	1,991	1,816
Retail loans to salaried individuals	12,634	28,465	29,030	949
Staff loans	6,458	13,234	778	117
Total	**363,313**	**710,295**	**51,066**	**10,813**

The effect of collateral at 31 December 2011:

	Over-collateralised assets		Under-collateralised assets	
In thousands of Azerbaijani Manats	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
Micro loans	144,581	271,488	655	387
Small and medium enterprises loans	122,579	297,398	125	62
Retail loans to salaried individuals	6,780	19,232	18,449	523
Staff loans	5,393	11,902	954	219
Total	**279,333**	**600,020**	**20,183**	**1,191**

The effect of collateral is determined by comparison of fair value of collateral to gross loans and advances outstanding at the reporting date.

Refer to Note 28 for the estimated fair value of each class of loans and advances to customers. Information on related party balances is disclosed in Note 30.

10 Property, Equipment and Intangible Assets

In thousands of Azerbaijani Manats	Computers	Furniture and office equipment	Motor vehicles	Premises and leasehold improvement	Total property and equipment	Computer software licences	Total
Cost at 1 January 2011	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 1 January 2011	**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 previously recognised impairment	-	-	-	257	257	-	257
Accumulated depreciation / amortisation of disposals	110	25	-	467	602	152	754
Depreciation / amortisation charge (Note 21)	(473)	(1,013)	-	(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**
Additions	2,316	1,623	114	6,089	10,142	4,310	14,452
Disposals	(78)	(15)	-	(186)	(279)	-	(279)
Accumulated depreciation / amortisation of disposals	78	14	-	166	258	-	258
Depreciation / amortisation charge (Note 21)	(616)	(1,191)	(100)	(2,035)	(3,942)	(540)	(4,482)
Carrying amount at 31 December 2012	**3,046**	**2,731**	**201**	**31,328**	**37,306**	**7,885**	**45,191**
Cost at 31 December 2012	5,017	7,342	664	35,697	48,720	9,927	58,647
Accumulated depreciation / amortisation	(1,971)	(4,611)	(463)	(4,369)	(11,414)	(2,042)	(13,456)
Carrying amount at 31 December 2012	**3,046**	**2,731**	**201**	**31,328**	**37,306**	**7,885**	**45,191**

The Bank is currently working on the implementation of a new IT banking software based on the Temenos system which will replace the existing MBS banking software. In addition, the Bank is currently implementing the project of refurbishing the Natavan office building to serve as the Bank's future new head office.

11 Other Assets

In thousands of Azerbaijani Manats	31 December 2012	31 December 2011
Advances for purchase of intangible assets and equipment	2,925	1,137
Prepayments for operating lease agreement	533	409
Amounts in transit	84	250
Other	381	270
Total other assets	**3,923**	**2,066**
Current	998	929
Non-current	2,925	1,137

12 Short-Term Loans from Shareholders

In thousands of Azerbaijani Manats	31 December 2012	31 December 2011
Short-term loans from shareholders	7,867	-
Total short-term loans from shareholders	**7,867**	**-**

Short-term loans from shareholders comprises of short term loan from one of the shareholders, Access Microfinance Holding AG.

Refer to Note 28 for the disclosure of the fair value of each class of amounts of short-term loans from shareholders. Information on related party balances is disclosed in Note 30.

13 Customer Accounts

In thousands of Azerbaijani Manats	31 December 2012	31 December 2011
Legal entities		
- Current/settlement accounts	16,102	12,174
- Term deposits	31,756	21,133
Individuals		
- Current/demand accounts	26,646	21,820
- Term deposits	94,190	91,793
Total customer accounts	**168,694**	**146,920**

Economic sector concentrations within customer accounts are as follows:

	31 December 2012		31 December 2011	
In thousands of Azerbaijani Manats	Amount	%	Amount	%
Individuals	120,836	71.7	113,613	77.3
Insurance and other financial services	42,048	24.9	29,515	20.1
Trade, services, manufacturing	5,810	3.4	3,792	2.6
Total customer accounts	**168,694**	**100**	**146,920**	**100**

At 31 December 2012, the Bank had 130 active customers (31 December 2011: 108 customers) with balances above AZN 150 thousand per each customer. The aggregate balance of these customers was AZN 79,914 thousand (31 December 2011: AZN 60,498 thousand) or 47% (31 December 2011: 47%) of total customer accounts. Refer to Note 28 for the disclosure of the fair value of each class of customer accounts. Information on related party balances is disclosed in Note 30.

14 Other Borrowed Funds

In thousands of Azerbaijani Manats	31 December 2012	31 December 2011
Kreditanstalt fur Wiederaufbau	29,251	11,717
European Fund for Southeast Europe	23,458	5,901
European Bank for Reconstruction and Development	23,121	5,883
International Finance Corporation	17,732	10,129
Pettelaar Effectenbewaarbedrijf N.V.	16,243	10,042
Microfinance Enhancement Facility S.A. S.I.C.A.V-SIF, Cyrano Pool, Luxemburg	13,810	5,936
responsAbility S.I.C.A.V.	10,229	4,947
OPEC Fund for International Development	9,126	4,376
Demir-Halk Bank (Nederland) N.V.	8,026	-
Global Microfinance Facility	7,981	7,996
Bank im Bistum Essen	7,980	5,629
(FMO - syndicated) Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V.	7,836	15,646
Micro, Small and Medium Enterprises Bonds SA	7,834	-
Dexia Micro-Credit Fund (Sub-Fund Blue Orchard Debt Luxemburg)	6,267	-
Microfinance Enhancement Facility – Cyrano	5,988	5,980
responsAbility S.I.C.A.V Financial Inclusion Fund	5,925	
Triodos Custody B.V. (custodian of Triodos Fair Share Fund)	4,318	4,316
MINLAM Microfinance Offshore Master Fund LP	4,113	4,113
Triodos S.I.C.A.V. II - Triodos MicroFinance Fund	3,925	3,933
DWM Income Funds SCA - SICAB SIF	3,171	-
VDK Spaarbank N.V.	2,348	2,360
Swiss Investment Fund for Emerging Markets	1,202	2,408
Finethic Microfinance S.C.A. SICAR	1,175	-
EMF Microfinanz Fund AGMVK	784	-
Black Sea Trade and Development Bank	353	1,060
Vantage Mutual Fund	314	298
Developing World Markets Securitizations S.A. - MFBA BOND 1	-	10,156
Blue Orchard Loan for Development	-	6,342
DWM INCOME FUNDS S.C.A.—S.I.C.A.V SIF	-	5,560
Impulse Microfinance Investment Fund	-	3,600
OikoCredit Ecumenical Development Cooperative Society U.A.	-	290
Total other borrowed funds	**222,510**	**138,618**

On 16 April 2012 the Bank signed a loan agreement with the European Bank for Reconstruction and Development in the amount of USD 15,000 thousand. Principal amount is to be repaid in 7 equal semi-annual instalments starting from 11 May 2014. Interest is paid in semi-annual instalments starting from 11 November 2012. At 31 December 2012, the balance of this borrowing was AZN 11,754 thousand (USD: 14,973 thousand).

On 8 May 2012 the Bank signed a loan agreement with responsAbility SICAV (Lux) in the amount of USD 3,000 thousand. Principal amount is to be repaid on 11 May 2015. Interest is paid in semi-annual instalments starting from 10 November 2012. At 31 December 2012, the balance of this borrowing was AZN 2,375 thousand (USD: 3,025 thousand).

On 16 May 2012 the Bank signed a loan agreement with Demir-Halk Bank (Nederland) N.V. in the amount of EUR 5,000 thousand. Principal amount is to be repaid on 1 June 2013. Interest is paid in semi-annual instalments starting from 1 December 2012. At 31 December 2012, the balance of this borrowing was AZN 5,221 thousand (USD: 6,650 thousand).

On 21 May 2012 the Bank signed a loan agreement with Dexia Micro-Credit Fund (Sub-Fund BlueOrchard Debt) in the amount of USD 8,000 thousand. Principal amount is to be repaid on 24 May 2015. Interest is paid in semi-annual instalments starting from 24 November 2012. At 31 December 2012, the balance of this borrowing was AZN 6,267 thousand (USD: 7,983 thousand).

14 Other Borrowed Funds (continued)

On 6 June 2012 the Bank signed a loan agreement with EMF Microfinance Fund AGmvK in the amount of USD 1,000 thousand. Principal amount is to be repaid on 6 December 2013. Interest is paid in semi-annual instalments starting from 6 December 2012. At 31 December 2012, the balance of this borrowing was AZN 784 thousand (USD: 999 thousand).

On 6 June 2012 the Bank signed a loan agreement with Finethic Microfinance Societe en Commandite par Actions (S.C.A.) in the amount of USD 1,500 thousand. Principal amount is to be repaid on 6 December 2013. Interest is paid in semi-annual instalments starting from 6 December 2012. At 31 December 2012, the balance of this borrowing was AZN 1,175 thousand (USD: 1,497 thousand).

On 5 July 2012 the Bank signed a loan agreement with Kreditanstalt fur Wiederaufbau in the amount of USD 30,000 thousand. Principal amount is to be repaid in 8 equal semi-annual instalments starting from 30 December 2013. Interest is paid in semi-annual instalments starting from 30 December 2012. At 31 December 2012, the balance of this borrowing was AZN 23,354 thousand (USD: 29,750 thousand).

On 6 August 2012 the Bank signed a loan agreement with the European Bank for Reconstruction and Development in the amount of USD 10,000 thousand. Principal amount is to be repaid in 7 equal semi-annual instalments starting from 11 May 2014. Interest is paid in semi-annual instalments starting from 11 November 2012. At 31 December 2012, the balance of this borrowing was AZN 7,827 thousand (USD: 9,971 thousand).

On 15 August 2012 the Bank signed a loan agreement with Demir-Halk Bank (Nederland) N.V. in the amount of USD 3,500 thousand. Principal amount is to be repaid on 13 August 2013. Interest is paid in semi-annual instalments starting from 28 February 2012. At 31 December 2012, the balance of this borrowing was AZN 2,805 thousand (USD: 3,574 thousand).

On 15 August 2012 the Bank signed a loan agreement with SNS Institutional Microfinance Fund and SNS Institutional Microfinance Fund II, legally represented by Pettelaar Effectenbewaarbedrijf N.V. and SNS Asset Management N.V. in the amount of USD 10,500 thousand. Principal amount is to be repaid in 3 instalments of USD 5,000 thousand on 15 April 2014, USD 2,500 thousand on 31 July 2015 and USD 3,000 thousand on 31 August 2015. Interest is paid in semi-annual instalments starting from 31 October 2012. At 31 December 2012, the balance of this borrowing was AZN 8,265 thousand (USD: 10,528 thousand).

On 2 November 2012 the Bank signed a loan agreement with the European Fund for Southeast Europe in the amount of USD 10,000 thousand. Principal amount is to be repaid in 7 equal semi-annual instalments starting from 22 September 2013. Interest is paid in semi-annual instalments starting from 22 March 2013. At 31 December 2012, the balance of this borrowing was AZN 7,823 thousand (USD: 9,966 thousand).

On 8 November 2012 the Bank signed a loan agreement with Micro, Small and Medium Enterprises Bonds SA, acting on behalf of its Compartment 'One" in the amount of USD 10,000 thousand. Principal amount is to be repaid on 7 December 2015. Interest is paid in semi-annual instalments starting from 7 June 2013. At 31 December 2012 the balance of this borrowing was AZN 7,834 thousand (USD: 9,980 thousand).

On 3 December 2012 the Bank signed a loan agreement with Microfinance Enhancement Facility SA, SICAV-SIF, Cyrano Pool, Luxembourg in the amount of USD 10,000 thousand. Principal amount is to be repaid on 7 December 2015. Interest is paid in semi-annual instalments starting from 31 January 2013. At 31 December 2012 the balance of this borrowing was AZN 7,803 thousand (USD: 9,940 thousand).

On 11 December 2012 the Bank signed a loan agreement with OPEC Fund for International Development in the amount of USD 10,000 thousand. Principal amount is to be repaid in 9 equal semi-annual instalments starting from 28 December 2013. Interest is paid in semi-annual instalments starting from 28 June 2013. At 31 December 2012, the balance of this borrowing was AZN 7,813 thousand (USD: 9,954 thousand).

14 Other Borrowed Funds (continued)

On 12 December 2012 the Bank signed a loan agreement with International Finance Corporation in the amount of USD 15,000 thousand. Principal amount is to be repaid in 10 equal semi-annual instalments starting from 15 June 2013. Interest is paid in semi-annual instalments starting from 15 June 2013. At 31 December 2012, the balance of this borrowing was AZN 11,653 thousand (USD: 14,845 thousand).

On 17 December 2012 the Bank signed Securities Sale and Purchase Agreements with Credit Suisse Microfinance Fund Management Company (acting in its own name for the investment fund responsAbility Global Microfinance Fund), responsAbility S.I.C.A.V. (Lux) acting for its sub-funds responsAbility S.I.C.A.V. (Lux) Microfinance Leaders and responsAbility S.I.C.A.V. (Lux) Mikrofinanz-Fonds in the total amount of USD 10,000 thousand. Principal amount is to be repaid on 17 December 2015. Interest is paid in annual instalments starting from 17 December 2013. At 31 December 2012, the balance of this borrowing was AZN 7,854 thousand (USD: 10,005 thousand).

On 19 December 2012 the Bank signed a loan agreement with the European Fund for Southeast Europe in the amount of USD 5,000 thousand. Principal amount is to be repaid on 22 March 2014. Interest is paid in semi-annual instalments starting from 22 March 2013. At 31 December 2012, the balance of this borrowing was AZN 3,927 thousand (USD: 5,002 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 some aforementioned borrowing agreements. At 31 December 2012 or 2011, management believes that the Bank was in compliance with all of those covenants.

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

15 Other Liabilities

Other liabilities comprise the following:

In thousands of Azerbaijani Manats	31 December 2012	31 December 2011
Accrued staff cost (current)	4,178	3,179
Deferred income and other liabilities (current)	109	211
Total other liabilities	**4,287**	**3,390**

16 Other Financial Liabilities

Other financial liabilities comprise the following:

In thousands of Azerbaijani Manats	31 December 2012	31 December 2011
Dividends payable	6,400	-
Other accrued liabilities	778	626
Total other financial liabilities	**7,178**	**626**

Refer to Note 28 for disclosure of the fair value of each class of other financial liabilities. Information on related party balances is disclosed in Note 30.

17 Subordinated Debt

On 2 July 2007 the Bank signed a subordinated loan agreement with Deutsche Bank Aktiengesellschaft (registered in Germany) for USD 10,211 thousand. The loan bears market interest rate. Principal is to be repaid on maturity, which is 31 December 2014. Interest is paid quarterly, starting from 31 August 2007. The debt ranks after all other creditors in case of liquidation. The Bank is obliged to comply with certain financial covenants stipulated by the aforementioned loan agreement. At 31 December 2012, management believes that the Bank was in compliance with those covenants. At 31 December 2012, the balance of the borrowing under this facility was USD 10,280 thousand or AZN 8,070 thousand (31 December 2011: USD 10,266 thousand or AZN 8,074 thousand).

Refer to Note 28 for disclosure of the fair value of each class of subordinated debt. Information on related party balances is disclosed in Note 30.

18 Share Capital

In thousands of Azerbaijani Manats except for number of shares	Number of outstanding shares	Nominal value of ordinary shares	Total
At 1 January 2011	**20,000**	**41,800**	**41,800**
Increase in nominal value of shares	-	26,000	26,000
At 1 January 2012	**20,000**	**67,800**	**67,800**
Increase in nominal value of shares	-	17,200	17,200
At 31 December 2012	**20,000**	**85,000**	**85,000**

The total number of authorised shares is 20,000 thousand shares (31 December 2011: 20,000 thousand) with a par value of AZN 4.25 per share (31 December 2011: AZN 3.39 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 2012. However, AZN 17,200 thousand (2011: AZN 26,000 thousand) were transferred from retained earnings to share capital, which increased the nominal value of the shares.

As at 31 December 2012 and 2011, the following shareholders owned the issued shares of the Bank:

	31 December 2012	31 December 2011
Shareholders	**% of shareholding**	**% of shareholding**
International Finance Corporation	20.00	20.00
Black Sea Trade and Development Bank	20.00	20.00
Kreditanstalt für Wiederaufbau	20.00	20.00
European Bank for Reconstruction and Development	20.00	20.00
Access Microfinance Holding AG	16.53	16.53
LFS Financial Systems GmbH	3.47	3.47
Total	**100.0**	**100.0**

19 Interest Income and Expense

In thousands of Azerbaijani Manats	2012	2011
Interest income		
Loans and advances to customers	99,192	84,418
Due from other banks	129	320
Investment securities available for sale	40	80
Investment securities held to maturity	-	24
Total interest income	**99,361**	**84,842**
Interest expense		
Customer accounts	12,339	12,780
Other borrowed funds	11,521	11,789
Subordinated debt	918	920
Total interest expense	**24,778**	**25,489**
Net interest income	**74,583**	**59,353**

20 Fee and Commission Income and Expense

In thousands of Azerbaijani Manats	2012	2011
Fee and commission income		
- Commission from plastic cards	576	514
- Settlement transactions	364	222
- Cash collection	344	250
- Commission income on purchase or sale of foreign currency	123	100
- Guarantees issued	13	45
- Other	147	92
Total fee and commission income	**1,567**	**1,223**
Fee and commission expense		
- Plastic cards	173	151
- Settlement transactions	83	72
- Cash transactions	11	-
- Other	1	7
Total fee and commission expense	**268**	**230**
Net fee and commission income	**1,299**	**993**

21 Administrative and Other Operating Expenses

In thousands of Azerbaijani Manats	Note	2012	2011
Staff costs		32,385	25,493
Depreciation of property and equipment	10	3,942	3,280
Repair and maintenance		2,354	1,498
Advertising and marketing services		2,303	1,735
Service and membership fees		2,045	1,416
Printing, stationery and office supplies		1,532	1,693
Rent on office premises		1,494	1,492
Security services		1,357	1,319
Software program support expense		1,285	894
Communication		1,083	797
Amortisation of software	10	540	542
Deposit Insurance Fund fees		460	318
Business travel expense		384	278
Utilities		341	344
Other		1,694	1,248
Total administrative and other operating expenses		**53,199**	**42,347**

Included in staff costs are social security contributions of AZN 5,202 thousand (2011:AZN 4,135 thousand).

22 Income Taxes

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

In thousands of Azerbaijani Manats	2012	2011
Current tax expense	4,486	300
Deferred tax	120	365
Income tax expense for the year	**4,606**	**665**

The income tax rate applicable to the majority of the Bank's income during the year ended 31 December 2012 is 20% (20% in 2011). The reconciliation between the expected and the actual taxation charge is provided below.

In thousands of Azerbaijani Manats	2012	2011
Profit before tax	**20,446**	**17,933**
Theoretical tax charge at statutory rate (20%)	4,089	3,587
Tax effect of permanent differences	343	358
Reversal of previous year deferred tax asset	-	51
Other permanent differences	174	109
Current income tax liability not accrued due to three-year tax holiday on capitalised profit	-	(3,440)
Income tax charge for the year	**4,606**	**665**

22 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 2012	(Charged)/ credited to profit or loss	31 December 2012
Tax effect of deductible temporary differences			
Property, equipment and intangible assets	(502)	(17)	(519)
Loan provisions	190	(146)	44
Other assets	84	(84)	-
Other liabilities	(86)	127	41
Net deferred tax liability	**(314)**	**(120)**	**(434)**

In thousands of Azerbaijani Manats	1 January 2011	(Charged)/ 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)**

23 Earnings per Share

Basic earnings per share are calculated by dividing the profit 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	2012	2011
Profit for the year attributable to ordinary shareholders	15,840	17,268
Weighted average number of ordinary shares in issue	20,000	20,000
Basic and diluted earning per ordinary share	**0.79**	**0.86**

24 Segment Information

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

- Micro – as of 31 December 2011 included all loans in the amount up to USD 20,000 (AZN 15,730) and as of 31 December 2012 - all loans in the amount up to USD 20,000 (AZN 15,730) and partially the loans in the amount between USD 20,000 and USD 30,000 (AZN 15,700 and AZN 23,550) issued to entrepreneurs and farmers;
- SME – as of 31 December 2011 included all loans in the amount in excess of USD 20,000 (AZN15,730) and as of 31 December 2012 - partially the loans in the amount between USD 20,000 and USD 30,000 (AZN 15,700 and AZN 23,550) and all loans in the amount in excess of USD 30,000 (AZN 23,550) issued to entrepreneurs and small and medium enterprises for corporate purposes;
- Retail and Operations – Consumer loans issued to individuals and attracted deposits and bank transaction business; and
- Staff Loans – Loans issued to employees of the Bank.

For the purposes of these financial statements the Bank aggregated "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 2012 and 31 December 2011 is set out below:

In thousands of Azerbaijani Manats	Micro	SME	Retail and Operations	Total
Year ended 31 December 2012				
External revenues:				
- Interest income	56,568	28,508	14,116	99,192
- Fee and commission income	-	-	1,567	1,567
- Gains less losses from foreign currency dealing	-	-	371	371
Revenue from external customers	**56,568**	**28,508**	**16,054**	**101,130**
External expenses:				
- Interest expense	11,649	10,242	2,887	24,778
- Fee and commission expense	-	-	268	268
- Provision for loan impairment	1,162	1,666	296	3,124
Expense to external parties	**12,811**	**11,908**	**3,451**	**28,170**
Adjusted profit before non-segment income administrative and other expense and income tax	**43,757**	**16,600**	**12,603**	**72,960**
Total assets reported	**184,587**	**171,363**	**48,038**	**403,988**

24 Segment Information (continued)

In thousands of Azerbaijani Manats	Micro	SME	Retail and Operations	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 to external parties	**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**

For the purposes of segment reporting Bank treats "Gains less losses from foreign currency dealing" as external revenue.

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 2012	Year ended 31 December 2011
Adjusted profit before non-segment income, administrative and other expense and income tax	**72,960**	**58,871**
Non-segment interest income	169	567
Impairment reversal/(loss) on property and equipment	-	257
Foreign exchange (loss)/gain, net	(176)	(509)
Non-segment other operating income	692	1,094
Administrative and other operating expenses	(53,199)	(42,347)
Profit before income tax	**20,446**	**17,933**

24 Segment Information (continued)

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

In thousands of Azerbaijani Manats	31 December 2012	31 December 2011
Total segment assets (loans and advances to customers)	**403,988**	**291,700**
Cash and cash equivalents	50,719	32,415
Property and equipment	37,306	31,127
Investment securities available for sale	40	8,040
Mandatory cash balances with CBAR	9,376	6,253
Investment securities held to maturity	-	5,004
Intangible assets	7,885	4,115
Due from other banks	1,306	2,364
Other assets	3,923	2,066
Other financial assets	726	481
Total assets per statement of financial position	**515,269**	**383,565**

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.

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

25 Financial Risk Management

The Bank has exposure to financial risks which include credit, liquidity, market and operational risks. The taking of risk is integral to the Bank's business. The Bank's risk management function's aim is to achieve an appropriate balance between risk and return and to minimise potential adverse effects on the Bank's financial performance.

Risk Management Framework. The Management Board is the primary body responsible for the risk management function in the Bank. The risk management function is carried out in respect of financial risks (credit, market, and liquidity risks) and operational risks. Financial risk comprises market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The primary objectives of the financial risk management function of the Management Board are to establish risk limits and then ensure that exposure to risks stays within these limits. The Management Board is also responsible for ensuring an appropriate balance is established between risk and return, whilst minimizing any potential adverse effects on the Bank's financial performance. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures to minimise operational and legal risks.

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.

25 Financial Risk Management (continued)

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 27. The credit risk is mitigated by collateral and other credit enhancements as disclosed in Note 8.

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:

25 Financial Risk Management (continued)

For secured loans:

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

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

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

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

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

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

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

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

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

	At 31 December 2012			At 31 December 2011		
In thousands of Azerbaijani Manats	**Monetary financial assets**	**Monetary financial liabilities**	**Net position**	**Monetary financial assets**	**Monetary financial liabilities**	**Net Position**
Azerbaijani Manats	198,769	142,977	55,792	163,602	114,791	48,811
US Dollars	258,607	262,156	(3,549)	175,677	175,674	3
Euros	8,063	9,138	(1,075)	6,557	3,773	2,784
Other	716	48	668	421	-	421
Total	**466,155**	**414,319**	**51,836**	**346,257**	**294,238**	**52,019**

25 Financial Risk Management (continued)

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

In thousands of Azerbaijani Manats	At 31 December 2012 Impact on profit or loss	At 31 December 2011 Impact on profit or loss
US Dollar strengthening by 10%	(355)	-
US Dollar weakening by 10%	355	-
Euro strengthening by 10%	(108)	279
Euro weakening by 10%	108	(279)

All investment securities available for sale as at 31 December 2012 and 31 December 2011 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 2012					
Total financial assets	76,459	121,592	111,382	156,722	466,155
Total financial liabilities	64,327	120,785	90,769	138,438	414,319
Net interest sensitivity gap at 31 December 2012	**12,132**	**807**	**20,613**	**18,284**	**51,836**
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**

Change in floating interest rates would have no significant impact on the financial performance of the Bank.

25 Financial Risk Management (continued)

Geographical risk concentrations. The geographical concentration of the Bank's financial assets and liabilities at 31 December 2012 is set out below:

In thousands of Azerbaijani Manats	Azerbaijan	OECD	Non-OECD	Total
Assets				
Cash and cash equivalents	26,846	22,610	1,263	50,719
Mandatory cash balances with the CBAR	9,376	-	-	9,376
Due from other banks	-	-	1,306	1,306
Loans and advances to customers	403,988	-	-	403,988
Investment securities available for sale	40	-	-	40
Other financial assets	140	385	201	726
Total financial assets	**440,390**	**22,995**	**2,770**	**466,155**
Liabilities				
Short-term loans from shareholders	-	7,867	-	7,867
Customer accounts	168,694	-	-	168,694
Other borrowed funds	-	210,416	12,094	222,510
Other financial liabilities	6,735	346	97	7,178
Subordinated debt	-	8,070	-	8,070
Total financial liabilities	**175,429**	**226,699**	**12,191**	**414,319**
Net position	**264,961**	**(203,704)**	**(9,421)**	**51,836**
Credit related commitments	**2,934**	**-**	**-**	**2,934**

25 Financial Risk Management (continued)

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**

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 short-term loans from shareholders, corporate and retail customer deposits. The Bank invests the funds in diversified portfolios of liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

25 Financial Risk Management (continued)

The liquidity management of the Bank requires considering the level of liquid assets necessary to settle obligations as they fall due; maintaining access to a range of funding sources; maintaining funding contingency plans; and monitoring statement of financial position liquidity ratios against regulatory requirements. The Bank calculates instant liquidity ratio on a daily basis in accordance with the requirement of the CBAR. This ratio is calculated as the ratio of highly-liquid assets to liabilities payable on demand. The ratio was 82% at 31 December 2012, 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 2012 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 liabilities at 31 December 2012 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**
Liabilities						
Short-term loans from shareholders	7,867	-	-	-	-	7,867
Customer accounts	49,434	38,188	65,823	19,177	-	172,622
Other borrowed funds	-	18,917	36,326	195,711	-	250,954
Other financial liabilities	7,178	-	-	-	-	7,178
Subordinated debt	-	-	-	8,967	-	8,967
Financial guarantees	4	118	2,812	-	-	2,934
Total potential future payments for financial obligations	**64,483**	**57,223**	**104,961**	**223,855**	**-**	**450,522**

25 Financial Risk Management (continued)

The maturity analysis of financial liabilities 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
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 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 2012						
Financial assets	76,459	121,592	111,382	142,119	14,603	466,155
Financial liabilities	64,328	56,804	96,799	196,388	-	414,319
Net liquidity gap based on expected maturities	**12,131**	**64,788**	**14,583**	**(54,269)**	**14,603**	**51,836**
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 maturities	**22,292**	**37,656**	**3,820**	**(18,967)**	**7,218**	**52,019**

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.

25 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.

26 Management of Capital

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

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

In thousands of Azerbaijani Manats	**31 December 2012**	**31 December 2011**
Net assets calculated based on CBAR rules	85,323	68,055
Less investments	(40)	(40)
Less intangible assets	(7,885)	(4,115)
Plus statutory profit for the year	15,840	17,532
Plus general provision for impairment	5,679	4,045
Plus subordinated debt	3,206	4,819
Total regulatory capital	**102,123**	**90,296**
Total capital adequacy ratio	**22.48%**	**27.71%**

The Bank complied with all externally imposed capital requirements throughout the year ended 31 December 2012.

27 Contingencies and Commitments

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

Tax legislation. Tax, currency and customs legislation of the Republic of Azerbaijan are subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Bank may be challenged by the relevant tax authorities. As a result, significant additional taxes, penalties and interest may be assessed. According to the Tax Code of the Republic of Azerbaijan fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain legislative circumstances reviews may cover longer periods.

27 Contingencies and Commitments (continued)

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 2012 no provision for potential tax liabilities was recorded.

Operating lease commitments. As at 31 December 2012, the Bank had no commitments under non-cancellable lease agreements.

Compliance with covenants. As at 31 December 2012 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 2012 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 2012**	**31 December 2011**
Undrawn credit lines to customers	2,567	832
Guarantees issued	367	676
Total credit related commitments and credit lines	**2,934**	**1,508**

The credit related commitments were denominated in Azerbaijani Manats at 31 December 2012.

28 Fair Value of Financial Instruments

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

At 31 December 2012, 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.

29 Presentation of Financial Instruments by Measurement Category

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

The following table provides a reconciliation of classes of financial assets with these measurement categories as of 31 December 2012:

In thousands of Azerbaijani Manats	**Loans and receivables**	**Investment securities available for sale (through equity)**	**Total**
ASSETS			
Cash and cash equivalents	50,719	-	50,719
Mandatory cash balances with the CBAR	9,376	-	9,376
Investments securities available for sale	-	40	40
Investments securities held to maturity	-	-	-
Due from other banks			
- Short-term placements with other banks	1,306	-	1,306
Loans and advances to customers			
- Micro loans	184,587	-	184,587
- SME loans	171,363	-	171,363
- Retail loans to salaried individuals	40,943	-	40,943
- Staff loans	7,095	-	7,095
Other financial assets	726	-	726
TOTAL FINANCIAL ASSETS	**466,115**	**40**	**466,155**
NON-FINANCIAL ASSETS	**49,114**	**-**	**49,114**
TOTAL ASSETS	**515,229**	**40**	**515,269**

29 Presentation of Financial Instruments by Measurement Category (continued)

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

30 Related Party Transactions

Parties are generally considered to be related if the parties are under common control or one party has the ability to control the other party or can exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

At 31 December 2012, 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	-	-	185
Due from other banks	-	1,306	-
Short-term loans from shareholders	7,867	-	-
Current accounts	-	-	126
Term deposits	-	-	80
Other borrowed funds	70,458	23,458	-

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 other banks	-	2,364	-
Current accounts	-	-	34
Term deposits	-	-	757
Other borrowed funds	28,789	5,901	-

30 Related Party Transactions (continued)

The income and expense items with related parties for the year ended 31 December 2012 were as follows:

In thousands of Azerbaijani Manats	Shareholders	Entities under joint control	Key management personnel
Interest income	-	67	18
Interest expense	2,841	705	6
Payment for management and software support	1,470	-	-

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

In thousands of Azerbaijani Manats	Shareholders	Entities under joint control	Key management personnel
Interest income	-	-	44
Interest expense	3,278	2	86
Payment for management and software support	1,316	-	-

Key management (members of the Management Board) compensation is presented below:

	31 December 2012		31 December 2011	
In thousands of Azerbaijani Manats	Expense	Accrued liability	Expense	Accrued liability
Short-term benefits:				
- Salaries and performance bonuses	1,172	333	981	256
Total	**1,172**	**333**	**981**	**256**

31 Events after the End of the Reporting Period

The Bank has subsequently repaid AZN 6,352 thousand of the principal amount and AZN 2,314 thousand of interest amount totalling AZN 8,666 on its Other Borrowed Funds and all the amount on its Short-term loans from shareholders.

On 31 January 2013 the Bank paid to its shareholders AZN 6,400 thousand of dividend from the Bank's profit for the first half-year of 2012.

On 7 March 2013 the Bank signed a loan agreement with the European Bank for Reconstruction and Development in the amount of USD 4,172 thousand. Principal amount is to be repaid in 9 equal semi-annual instalments starting from 20 March 2014. Interest is paid in semi-annual instalments starting from 20 September 2013. The facility bears market interest rate.

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

AccessBank Azerbaijan
137, Alovsat Guliyev St
Baku, AZ 1000 Azerbaijan
Tel: (+994 12) 493 07 26
Fax: (+994 12) 493 07 96

*0151
CALL CENTER

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

www.accessbank.az