

Azerbaijan
Credit Update

AccessBank

Ratings

	Current Ratings
Foreign Currency	
Long-Term IDR	BB+
Short-Term IDR	B
Individual Support	
	D/E 3
Sovereign Risk	
Foreign-Currency Long-Term IDR	BB+
Local-Currency Long-Term IDR	BB+
Country Ceiling	BB+

Outlooks

Foreign Long-Term IDR	Stable
Sovereign Foreign Long-Term IDR	Stable
Sovereign Local Long-Term IDR	Stable

Financial Data

AccessBank	31 Dec 08	31 Dec 07
Total assets (USDm)	242.1	133.2
Total assets (AZNm)	193.9	112.6
Total equity (AZNm)	33.3	13.8
Operating profit (AZNm)	13.5	4.8
Published net income (AZNm)	10.5	3.6
Comprehensive income (AZNm)	10.5	3.6
Operating ROAA (%)	8.6	6.0
Operating ROAE (%)	54.7	48.5
Eligible capital/weighted risks (%)	18.8	13.8
Tier 1 Basel I ratio (%)	18.8	13.6

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Related Research

- *The Azerbaijani Banking System and Prudential Regulation (April 2008)*
- *Microfinance Institutions - Factors in Risk Assessment (June 2008)*
- *The Microfinance Sector: Its Success Could be its Biggest Risk (June 2008)*
- *Microfinance - Testing its Resilience to the Global Financial Crisis (January 2009)*

Rating Rationale

- The Long- and Short-Term Issuer Default Ratings (IDRs) and Support Ratings of AccessBank (AB) reflect the high likelihood of support from its international financial institution (IFI) shareholders. The Individual Rating considers the bank's relatively strong capitalisation, very low loan impairment and moderate refinancing risk.
- The loan portfolio grew very rapidly in 2008 (75% yoy), and Q109 growth remained significant (10%), albeit slower than the budgeted 2009 growth plan (68% yoy). The loan book is predominantly composed of micro-loans (up to USD20,000; 49% of the loan book by volume at end-Q109) and small business loans (up to USD100,000; 28%), while exposure to medium-size businesses (loans above USD100,000; 16%) and the retail (7%) is moderate. Portfolio-at-risk (PAR) metrics (one day and 30 days overdue) have undergone some asset quality deterioration, with one day PAR and 30-day PAR accounting for 0.8% and 0.7% of the loan book at end-Q109 (0.2% and 0.1%, respectively, at end-H108). Nevertheless, impaired loans remain low at present and are reasonably covered by reserves (loan impairment reserves/one day PAR: 3.3x at end-Q109). The high granularity and rapid amortisation of the loan book should mitigate the risk of rapid growth of impaired loans, despite the weaknesses in the operating environment. Manat devaluation could weigh on asset quality as about 70% of loans at end-Q109 were denominated in foreign currency, but has been stable in recent years.
- Foreign funding, attracted from special microfinance funds, is the main component of AB's liabilities (82% at end-Q109) and customer accounts (mainly retail deposits) constitute a moderate 16% of the non-equity base. The amortisation schedule of wholesale borrowings is well diversified by tenors and individual creditors. Short term refinancing risk is moderate. Market risks are limited. Liquidity risk is low: AB's assets and liabilities are well matched by tenors while the bank maintains a reasonable liquidity cushion (17% of assets at end-Q109).
- AB's Tier 1 and total regulatory capital ratios were 19.1% and 24.6%, respectively, at end-Q109. Capitalisation is likely to moderate in 2009 with no equity injections planned, but is to be supported by full earnings retention.

Support

- Fitch believes that AB's shareholders would have a high propensity to provide support, if needed. However, Azerbaijan's transfer/convertibility risks, as reflected in the Country Ceiling ('BB+'), could limit the extent to which AB can use this support.

Key Rating Drivers

- Any movement in the sovereign's ratings would have an impact on AB's IDR. Upside potential for the Individual Rating is limited in the current environment.

Profile

AB specialises in microfinance lending. It is owned by the development bank KfW ('AAA'; 20% stake), the European Bank for Reconstruction and Development ('AAA'; 20%), the International Finance Corporation ('AAA'; 20%), the Black Sea Trade and Development Bank (20%), Access Microfinance Holding (16.5%) and LFS Financial Systems GmbH (3.5%).

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Income Statement

	31 Dec 2008 (AZNm) Original	31 Dec 2007 (AZNm) Original	31 Dec 2006 (AZNm) Original	31 Dec 2005 (AZNm) Original
Income Statement				
Interest Income on Loans	42.2	20.8	7.7	3.6
Other Interest Income	0.3	0.1	0.0	0.0
Dividend Income	n.a.	n.a.	n.a.	n.a.
Gross Interest and Dividend Income	42.5	20.9	7.7	3.6
Interest Expense on Customer Deposits	12.5	6.6	2.4	0.8
Preferred Dividends Paid & Declared	n.a.	n.a.	n.a.	n.a.
Other Interest Expense	0.0	0.0	0.0	0.0
Total Interest Expense	12.5	6.6	2.4	0.8
Net Interest Income	30.0	14.3	5.3	2.8
Net Gains (Losses) on Trading and Derivatives	0.4	0.1	-0.1	-0.2
Net Gains (Losses) on Other Securities	n.a.	n.a.	n.a.	n.a.
Net Gains (Losses) on Assets at FV through Income Statement	n.a.	n.a.	n.a.	n.a.
Net Insurance Income	n.a.	n.a.	n.a.	n.a.
Net Fees and Commissions	2.6	1.3	0.5	-0.1
Other Operating Income	0.6	0.3	0.1	0.0
Total Non-Interest Operating Income	3.6	1.7	0.5	-0.3
Personnel Expenses	10.3	5.3	2.6	1.1
Other Operating Expenses	7.7	4.8	3.0	1.1
Total Non-Interest Expenses	18.0	10.1	5.6	2.2
At Equity Profit/ Loss - Operating	n.a.	n.a.	n.a.	n.a.
Change in Fair Value of Own Debt	n.a.	n.a.	n.a.	n.a.
Pre-Impairment Operating Profit	15.6	5.9	0.2	0.3
Loan Impairment Charge	2.1	1.1	0.4	0.1
Other Credit Impairment Charges	n.a.	n.a.	n.a.	n.a.
Operating Profit	13.5	4.8	-0.2	0.2
At Equity Profit/ Loss - Non-operating	n.a.	n.a.	n.a.	n.a.
Non-recurring Income	n.a.	n.a.	n.a.	n.a.
Non-recurring Expense	n.a.	n.a.	n.a.	n.a.
Change in Fair Value of Own Debt	n.a.	n.a.	n.a.	n.a.
Other Non-operating Income and Expenses	n.a.	n.a.	n.a.	n.a.
Pre-tax Profit	13.5	4.8	-0.2	0.2
Taxes	3.0	1.2	n.a.	0.1
Net Income	10.5	3.6	-0.2	0.1
Less: Allocation to Non-controlling Interests	n.a.	n.a.	n.a.	n.a.
Net Income after Allocation to Non-controlling Interests	10.5	3.6	-0.2	0.1
Profit/Loss from Discontinued Operations	n.a.	n.a.	n.a.	n.a.
Change in Value of AFS Investments	0.0	0.0	0.0	0.0
Currency Translation Differences	n.a.	n.a.	n.a.	n.a.
Other OCI Gains/ (losses)	n.a.	n.a.	n.a.	n.a.
Fitch Comprehensive Income	10.5	3.6	-0.2	0.1
Memo: Profit Allocation to Non-controlling Interests	n.a.	n.a.	n.a.	n.a.
Memo: Net Income after Allocation to Non-controlling Interests	10.5	3.6	-0.2	0.1
Memo: Common Dividends Paid & Declared in respect to the Period	n.a.	n.a.	n.a.	n.a.

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Assets & Off-Balance Sheet Items

	31 Dec 2008 (AZNm) Original	31 Dec 2007 (AZNm) Original	31 Dec 2006 (AZNm) Original	31 Dec 2005 (AZNm) Original
A. Loans				
Residential Mortgage Loans	n.a.	n.a.	n.a.	n.a.
Other Consumer/ Retail Loans	13.4	9.8	2.3	0.0
Corporate & Commercial Loans	n.a.	n.a.	n.a.	n.a.
Other Loans	154.4	86.2	39.3	16.6
Less: Reserves for Impaired Loans/ NPLs	4.1	2.0	0.9	0.7
Total Loans	163.7	94.0	40.7	15.9
Memo: Gross Loans	167.8	96.0	41.6	16.6
Memo: Impaired Loans included above	0.4	0.1	0.2	0.4
Memo: Loans at Fair Value included above	n.a.	n.a.	n.a.	n.a.
B. Other Earning Assets				
Loans and Advances to Banks	8.1	2.9	3.0	1.4
Trading Securities	n.a.	n.a.	n.a.	n.a.
Derivatives	n.a.	n.a.	n.a.	n.a.
Available for Sale Securities	5.9	5.3	n.a.	n.a.
Held to Maturity Securities	0.1	n.a.	n.a.	n.a.
At-equity Investments	n.a.	n.a.	n.a.	n.a.
Other Securities	n.a.	n.a.	n.a.	n.a.
Total Securities	6.0	5.3	n.a.	n.a.
Memo: Government Securities included Above	6.0	5.3	n.a.	n.a.
Investments in Property	n.a.	n.a.	n.a.	n.a.
Insurance Assets	n.a.	n.a.	n.a.	n.a.
Other Earning Assets	n.a.	n.a.	n.a.	n.a.
Total Earning Assets	177.8	102.2	43.7	17.3
C. Non-Earning Assets				
Cash and Due From Banks	9.3	5.8	2.5	1.5
Foreclosed Real Estate	n.a.	n.a.	n.a.	n.a.
Fixed Assets	5.1	3.5	1.5	0.9
Goodwill	0.0	0.0	0.0	0.0
Other Intangibles	1.0	0.1	0.1	0.0
Current Tax Assets	n.a.	n.a.	n.a.	n.a.
Deferred Tax	n.a.	0.0	0.1	0.1
Discontinued Operations	n.a.	n.a.	n.a.	n.a.
Other Assets	0.7	1.0	0.4	0.3
Total Assets	193.9	112.6	48.3	20.1
D. Off-Balance Sheet Items				
Managed Securitized Assets Reported Off-Balance Sheet	n.a.	n.a.	n.a.	n.a.
Liquidity Lines to SPEs	n.a.	n.a.	n.a.	n.a.
Guarantees	n.a.	0.3	n.a.	n.a.
Acceptances Reported Off-Balance Sheet	n.a.	n.a.	n.a.	n.a.
Committed Credit Lines	n.a.	n.a.	n.a.	n.a.
Other Contingent Liabilities	n.a.	n.a.	n.a.	n.a.
Total Business Volume	193.9	112.9	48.3	20.1
Memo: Total Weighted Risks	177.5	100.0	44.8	18.1

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Liabilities and Equity

	31 Dec 2008 (AZNm) Original	31 Dec 2007 (AZNm) Original	31 Dec 2006 (AZNm) Original	31 Dec 2005 (AZNm) Original
E. Interest-Bearing Liabilities				
Customer Deposits - Current	4.8	3.3	0.9	0.4
Customer Deposits - Savings	n.a.	n.a.	n.a.	n.a.
Customer Deposits - Term	16.9	8.8	2.4	0.2
Total Customer Deposits	21.7	12.1	3.3	0.6
Deposits from Banks	116.6	75.6	39.0	13.2
Other Deposits and Short-term Borrowings	n.a.	n.a.	n.a.	n.a.
Total Deposits, Money Market and Short-term Funding	138.3	87.7	42.3	13.8
Long-term Borrowing	0.0	0.0	n.a.	n.a.
Subordinated Borrowing	19.7	10.4	n.a.	n.a.
Other Funding	n.a.	n.a.	n.a.	n.a.
Total Long Term Funding	19.7	10.4	n.a.	n.a.
Derivatives	n.a.	n.a.	n.a.	n.a.
Trading Liabilities	n.a.	n.a.	n.a.	n.a.
Total Interest Bearing Liabilities	158.0	98.1	42.3	13.8
F. Non-Interest Bearing Liabilities				
Fair Value Portion of Debt	n.a.	n.a.	n.a.	n.a.
Credit impairment reserves	n.a.	n.a.	n.a.	n.a.
Reserves for Pensions and Other	n.a.	n.a.	n.a.	n.a.
Current Tax Liabilities	1.8	0.5	n.a.	n.a.
Deferred Taxes	0.0	0.0	n.a.	n.a.
Other Deferred Liabilities	n.a.	n.a.	n.a.	n.a.
Discontinued Operations	n.a.	n.a.	n.a.	n.a.
Insurance	n.a.	n.a.	n.a.	n.a.
Other Non-interest Bearing Liabilities	0.8	0.2	n.a.	0.1
Total Liabilities	160.6	98.8	42.3	13.9
G. Hybrid Capital				
Pref. Shares and Hybrid Capital accounted for as Debt	n.a.	n.a.	n.a.	n.a.
Pref. Shares and Hybrid Capital accounted for as Equity	n.a.	n.a.	n.a.	n.a.
H. Equity				
Common Equity	33.3	13.8	6.0	6.2
Non-controlling Interest	n.a.	n.a.	n.a.	n.a.
Securities Revaluation Reserves	0.0	0.0	0.0	0.0
Other Accumulated OCI	0.0	0.0	0.0	0.0
Total Equity	33.3	13.8	6.0	6.2
Total Liabilities and Equity	193.9	112.6	48.3	20.1
Memo: Fitch Core Capital	33.3	13.8	5.9	6.1
Memo: Fitch Eligible Capital	33.3	13.8	5.9	6.1

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Summary Analytics

	31 Dec 2008 (AZNm) Original	31 Dec 2007 (AZNm) Original	31 Dec 2006 (AZNm) Original	31 Dec 2005 (AZNm) Original
Interest Ratios				
Interest Income on Loans/ Average Net Loans	31.1	30.2	26.5	29.5
Interest Expense on Customer Deposits/ Average Customer Deposits	70.2	85.7	120.0	200.0
Interest Income/ Average Earning Assets	29.6	28.6	25.3	29.3
Interest Expense/ Average Interest-bearing Liabilities	9.6	9.4	8.5	9.6
Net Interest Revenue/ Average Earning Assets	20.9	19.6	17.4	22.8
Net Int. Inc Less Loan Impairment Charges/ Av. Earning Assets	19.4	18.1	16.1	22.0
Other Operating Profitability Ratios				
Non-interest Income/ Gross Revenues	10.7	10.6	8.6	-12.0
Non-Interest Expense/ Gross Revenues	53.6	63.1	96.6	88.0
Pre-impairment Op. Profit/ Average Equity	63.2	59.6	3.3	4.8
Pre-impairment Op. Profit/ Average Total Assets	9.9	7.3	0.6	2.1
Credit Impairment Charges/ Pre-impairment Op. Profit	13.5	18.6	200.0	33.3
Operating Profit/ Average Equity	54.7	48.5	-3.3	3.2
Operating Profit/ Average Total Assets	8.6	6.0	-0.6	1.4
Taxes/ Pre-tax Profit	22.2	25.0	n.a.	50.0
Other Profitability Ratios				
Net Income/ Average Total Equity	42.5	36.4	-3.3	1.6
Net Income/ Average Total Assets	6.7	4.5	-0.6	0.7
Fitch Comprehensive Income/ Average Total Equity	42.5	36.4	-3.3	1.6
Fitch Comprehensive Income/ Average Total Assets	6.7	4.5	-0.6	0.7
Net Income/ Av. Total Assets plus Av. Managed Assets	n.a.	n.a.	-0.3	0.3
Capitalization				
Fitch Eligible Capital/ Regulatory Weighted Risks	18.8	13.8	13.2	33.7
Tangible Common Equity/ Tangible Assets	16.7	12.2	12.2	30.9
Tier 1 Regulatory Capital Ratio	18.8	13.6	13.3	34.3
Total Regulatory Capital Ratio	24.6	20.4	13.3	34.3
Fitch Eligible Capital/ Tier 1 Regulatory Capital	100.0	100.0	95.2	98.4
Equity/ Total Assets	17.2	12.3	12.4	30.9
Cash Dividends Paid & Declared/ Net Income	n.a.	n.a.	n.a.	n.a.
Cash Dividend Paid & Declared/ Fitch Comprehensive Income	n.a.	n.a.	n.a.	n.a.
Net Income - Cash Dividends/ Total Equity	n.a.	n.a.	n.a.	n.a.
Loan Quality				
Growth of Total Assets	72.2	133.1	140.3	128.4
Growth of Gross Loans	74.8	130.8	150.6	115.6
Impaired Loans(NPLs)/ Gross Loans	0.2	0.1	0.5	2.4
Loan Impairment Reserves/ Gross loans	2.4	2.1	2.2	4.2
Reserves for Impaired Loans/ Impaired Loans	1,025.0	2,000.0	450.0	175.0
Impaired Loans less Reserves for Imp Loans/ Equity	-11.1	-13.8	-11.7	-4.8
Loan Impairment Charges/ Average Gross Loans	1.6	1.6	1.4	0.8
Net Charge-offs/ Average Gross Loans	0.0	0.0	1.0	0.0
Impaired Loans plus Foreclosed Assets/ Gross Loans plus Foreclosed Assets	n.a.	n.a.	n.a.	n.a.
Liquidity				
Loans/ Customer Deposits	773.3	793.4	1,260.6	2,766.7
Loans/ Deposits and Short-term Funding	121.3	109.5	98.4	120.3
Liquid Assets/ Total Assets	n.a.	n.a.	n.a.	n.a.
Liquid Assets/ Wholesale Funding	n.a.	n.a.	n.a.	n.a.
Wholesale Funding/ Total Funding and Capital	10.3	9.3	n.a.	n.a.