Azerbaijan
Credit Analysis

AccessBank

Ratings

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

Outlook

Foreign Long-Term	Stable
Sovereign Foreign Long-Term	Stable

Financial Data

AccessBank

	30 Jun 08[a]	31 Dec 07
Total assets (USDm)	201.0	133.2
Total assets (AZNm)	165.8	112.6
Total equity (AZNm)	27.1	13.8
Operating profit (AZNm)	5.4	4.8
Published net income (AZNm)	4.2	3.6
Comprehensive income (AZNm)	4.2	3.6
Operating ROAA (%)	7.8	6.0
Operating ROAE (%)	52.8	48.5
Internal capital generation (%)	41.1	36.4
Eligible capital/weighted risks (%)	18.3	13.8
Tier 1 Basel I ratio (%)	18.2	13.6

[a] Management IFRS accounts

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Related Research

- The Azerbaijani Banking System and Prudential Regulation
- Microfinance Institutions - Factors in Risk Assessment
- The Microfinance Sector: Its Success Could be its Biggest Risk

Rating Rationale

- The Long-Term and Short-Term Issuer Default Ratings (IDRs) and Support Ratings of AccessBank (AB), recently renamed from Micro Finance Bank of Azerbaijan, are underpinned by the potential support from its shareholders. The Individual Rating reflects AB's small size by international standards, risks arising from its rapid asset growth, and certain weaknesses in the operating environment. However, it also takes into account its recent strong profitability, good corporate governance by local standards, satisfactory asset quality to date (albeit on a highly unseasoned portfolio) and the bank's leading market position in the domestic microfinance market.
- AB turned profitable in 2007 and has shown strong performance since. Profitability has been supported by a robust net interest margin, while efficiency has been improving on the back of business growth and resultant scale effects. In Fitch's view, performance should remain sound in the medium term, provided the economic environment remains favourable.
- The loan portfolio, which accounted for 85% of the bank's assets at end-H108, is mostly made up of micro-loans (up to USD20,000) and small business loans (up to USD100,000). Asset quality has been good to date: loans overdue by one-day or more were 0.2% of the portfolio and had 12x loan impairment reserve coverage at end-H108. However, the loan book is very unseasoned.
- Market risks are limited and AB's liquidity is comfortable, thanks to the long-term structure of non-equity funding.
- Funding, attracted from special microfinance funds, is the major source of AB's growth, and is well diversified by tenors and individual creditors.
- Capitalisation in H108 was supported by a new equity injection, which increased the Tier 1 ratio to 18.2% at end-H108. In Fitch's view, capitalisation is good, but the bank will need further capital injections if rapid growth continues.

Support

- In Fitch's opinion, given AB's importance in microfinance lending in Azerbaijan and the proven track-record of support, the shareholders would have a high propensity to support the bank in case of need.

Key Rating Drivers

- Upward movement in AB's IDRs and Support Rating would only be possible in case of an upgrade of the Country Ceiling. Upside potential for the Individual rating could result from further franchise growth, funding diversification, continued satisfactory asset quality as loans start to season, and the maintenance of sound capitalisation, notwithstanding planned rapid growth.

Profile

AB was established in 2002 as a bank specialising in microfinance lending. The bank is owned by the development bank KfW (IDR: 'AAA'; 20% stake), the European Bank for Reconstruction and Development (EBRD: 'AAA'; 20%), the International Finance Corporation (IFC: 'AAA'; 20%), the Black Sea Trade and Development Bank (BSTDB: 20%), Access Microfinance Holding (AH: 16.5%) and LFS Financial Systems GmbH (LFS: 3.5%).

- Specialises in micro and small business lending
- Strong market position in micro-lending segment
- KfW, EBRD, IFC and BSTDB are 20% stakeholders

Profile

History and Ownership

AB was set up in 2002 by a group of recognised international investors (with the support of the financial authorities in Azerbaijan) as a bank aiming to offer a full range of banking services to micro and small businesses in Azerbaijan. KfW, EBRD, BSTDB, IFC and LFS have been the bank's shareholders since its foundation. LFS, a strategic investor and provider of technical assistance to AB, in particular in respect to lending procedures, is a leading German consultancy specialising in the field of microfinance and small business financing. AH is a new strategic equity holder of AB. Established in 2006 by LFS and owned by an international group of private and public investors (including IFC, KfW and the European Investment Bank, which together own some 50% of its equity), it is LFS's investment arm, focusing on equity finance.

In September 2008 AB assumed its current name, having previously been known as Micro Finance Bank of Azerbaijan. The re-branding campaign is aimed at making the bank more recognisable on the Azeri market among customers and linking its name under the unified brand with other banks part-owned by AH in different countries.

Management and Strategy

Initially AB's activity was largely supported by LFS, which provided the bank with key managerial staff (mostly expatriates), in conjunction with consultancy services, maintenance of software systems and general institutional support. LFS continues to provide technical assistance; however, with the exception of the general manager (who is an expatriate and has extensive banking experience in the CIS and CEE markets), all other management positions have been gradually filled with local employees, who initially joined the bank in its early days. Each 20% stakeholder has a seat on the five-member supervisory board (one member jointly represents AH and LFS). The board is actively engaged in determining AB's business policy, meets quarterly and also approves large credit exposures (see *Credit Risk*) and reviews borrowings from international financial institutions (IFIs).

Table 1: Shareholder Structure (%)

KfW	20
IFC	20
EBRD	20
BSTDB	20
AH	16.53
LFS	3.47

Source: AB

AB pursues a strategy of keeping a leading position in microfinance lending and becoming one of the leading full-service banks in Azerbaijan. Until 2006 the bank's growth was primarily financed through capital injections and shareholders' loans, while performance was supported by subsidies (management services, charged to various technical assistance grants). Since 2006 management costs have been fully borne by AB and the bank shifted to special microfinance funds, in addition to existing borrowings from IFIs, to finance its growth. The next stage of its development is to be based on funding attracted from international capital markets. Micro-lending (between USD100 and USD20,000) and lending to small enterprises (USD20,000-100,000) will remain the primary focus in the long term. SME lending (USD100,000 and above) is to be kept at around 20% of the portfolio at least until end-2010. Consumer lending has been in great demand among AB's customers; however, its proportion in the loan book will be limited to under 15% in the medium term. Since 2005 AB has also been developing its deposit platform to diversify its non-equity base.

Market Position and Franchise

According to the Azerbaijan Microfinance Association, which collects data for 31 institutions (13 of them are banks) involved in microfinance, at end-Q108 AB had a 36% market share in microfinance lending, with 55,500 active clients, making it the leading microfinance institution in the country. AB is the only bank in Azerbaijan with a full banking licence focused primarily on micro and small business. AB's management believes that the bank's capacity to provide all necessary services (loans, current accounts, savings facilities and payment services) to its clients will remain its main and sustainable advantage, despite intensifying competition. AB's network at end-H108 comprised 17 branches, with eight of them located in regional districts across the country. The bank plans to increase its branches to 14 in the capital and 21 in the regions by end-2010.

Shareholder Support

Given AB's socially important role in developing the non-oil sector and eliminating poverty in Azerbaijan, and the proven track-record of providing equity injections, loans and technical assistance, Fitch believes its shareholders would have a strong propensity and high ability (reflected in their IDRs) to provide support, should the bank require it.

Performance

Operating Environment

The Azerbaijani economy grew by 23% in real terms in 2007, benefiting from high investment in the oil and gas sector, the spillover effects of high oil and gas prices, and an expansionary policy stance. Growth in H108 was 16.5%. However, the country's economy remains heavily dependent on hydrocarbons, with most other sectors underdeveloped. Progress with economic reforms has been mixed, but there have been some progress in banking reforms. A deposit insurance system has been set up, local accounting standards have been brought into line with IFRS and minimum capital requirements for existing banks were increased to AZN10m in 2007.

Inflation in December 2007 rose to 17% yoy up from 11% in December 2006, underpinned by very high money supply growth and extra liquidity in the banking system. In H108 inflation continued to accelerate, driven by a hike in commodity and foodstuff prices on the world market, and Fitch expects the year-on-year inflation rate to rise to 22% at end-2008. In the absence of a tightening of fiscal and monetary policy – a moderation in public spending, a substantial nominal appreciation of the manat, and higher interest rates – the NBA will find it hard to tackle increasing inflation.

The banking sector is small (sector assets/GDP at 27% at end-2007), but grew by a very rapid 79% in 2007 and 30% in H108. Fitch expects asset growth to gradually slow down due to base effects, limited access to international capital markets and the toughening of the NBA's reserve requirements. The sector is dominated by the state-controlled International Bank of Azerbaijan (38% of banking sector assets at end-H108). The rest is divided between 45 private banks (including the recently privatised Kapital Bank), 23 of which have foreign capital. Azerbaijan is rated 'E' on Fitch's Banking System Indicator and '3' on the agency's Macro-Prudential Indicator, reflecting a relatively low-quality banking system and a high vulnerability of the sector to systemic crisis, respectively.

Profitability and Efficiency

- Strong nominal profitability, albeit in high inflation economy
- Very high interest margin and improving efficiency

The bank prepares annual financial accounts according to IFRS. During 2002-2005 the accounts were audited by PricewaterhouseCoopers. Since 2006 the statements have been audited by Deloitte and Touche. The analysis below is also based on management accounts for H108.

Table 2 below compares AB's performance with JSC Azerdemiryolbank (Azerdemir) and microfinance banks in ProCredit's network in eastern Europe. During 2003-2005 AB's performance was burdened by investments in its branch network and small business volumes; nevertheless, the bank broke even, as part of its staff costs (worth around AZN1m annually) relating to management services were borne by technical assistance grants and not reflected in the accounts. Since 2006 the full cost of management has been borne by the bank, which resulted in a small loss (AZN0.2m) in 2006; however, already in 2007 AB reported sound profit of AZN3.6m or 48.5% ROAE.

AB's net interest margin has been the strongest among its peers during recent years. Despite higher funding costs, the bank's loan yields are much stronger due to the still low competition in the microfinance market in Azerbaijan, weak penetration of banking services in the economy and high inflation, pushing up nominal rates. The high cost/income ratio is typical for the microfinance business model; however, rapid asset growth accompanied by economies of scale helped to improve cost efficiency: in 2007 the cost/income ratio fell to 63% from 97% in 2006, largely outperforming peers except for Azerdemir.

Table 2: Peer Performance Comparison

	AB 'BB+'/'D/E'/'3'				Azerdemir[b] 'B-'/'D/E'/'5'		ProCredit Bank (Georgia) 'BB-'/ 'D'/'3'		ProCredit Bank (Ukraine) 'BB-'/ 'D'/'3'		ProCreditBank (Bosnia) 'B'/ 'D/E'/'4'		ProCredit Bank (Macedonia) 'BB+'/ 'D/E'/'3'	
	H108[a]	2007	2006	2005	2007	2006	H107	2006	2007	2006	2007	2006	2007	2006
Net interest margin	22.3	19.6	17.4	22.8	10.9	10.2	11.6	11.4	11.0	12.5	13.2	12.7	10.4	11.2
Loan yield	31.5	29.3	25.8	30.6	20.0	17.7	19.7	18.8	19.4	20.1	16.9	17.2	17.6	18.4
Cost of funds	9.6	9.4	8.6	9.7	8.6	5.9	7.1	7.5	8.3	7.9	4.2	3.9	4.2	4.1
Costs/average assets	11.1	12.6	16.4	15.2	5.5	5.2	8.4	8.7	9.4	9.0	9.4	9.7	8.5	9.1
Cost/income	53.8	63.1	96.6	88.0	46.4	52.9	69.1	68.0	82.5	71.0	82.2	85.4	80.6	81.4
Pre-impairment operating ROAA	9.5	7.3	0.6	2.1	6.3	4.6	3.8	4.1	2.0	3.7	2.0	1.7	2.0	2.1
Operating ROAA	7.8	6.0	-0.6	1.4	5.5	4.5	2.9	2.4	1.2	2.3	0.8	1.0	1.8	1.8
Oper. ROAE	52.8	48.5	-3.3	3.3	32.6	23.9	17.7	17.7	11.8	21.2	9.3	10.4	18.3	12.7
Equity/assets	16.3	12.3	12.4	30.8	17.4	15.6	16.7	16.2	8.7	11.4	8.9	8.5	8.8	10.8
Assets (USDm)	201.0	133.2	55.5	21.9	173.2	101.2	269.4	252.2	454.0	352.0	319.1	198.6	229.9	144.5

[a]- Management IFRS accounts
[b] JSC Azerdemiryolbank
Source: Banks' audited IFRS accounts, adapted by Fitch

AB derives the bulk of its revenues (89% in 2007) from lending operations in the form of net interest income. This increased almost three-fold to AZN14m in 2007 thanks to increased business volumes. Net fee income, earned mainly on cash operations, grew 2.5x in the same period; however, its contribution remained a moderate 8%.

Operating expenses grew 80% to AZN10.1m in 2007, driven by increases in business volumes and staff. Staff expenses, excluding management services from the shareholders, more than doubled, while their share of operating expenses increased to 52% from 45% in 2006. Due to the relatively stable absolute costs of the management services, their contribution to operating expenses fell substantially to an acceptable 9% in 2007 and will continue to fall. The costs related to branch network maintenance and development contributed 14% in operating expenses, remaining flat compared with 2006.

In H108 AB continued to strengthen its profitability, improving all major performance ratios. The bank earned AZN4.2m of net profit, exceeding the budgeted bottom-line almost two-fold and increasing its ROAE to 53% notwithstanding the AZN9m equity injection. Cost efficiency also improved, with the cost/income ratio falling to 55%. In Fitch's view, AB's profitability should remain strong in the medium term, absent any significant asset quality deterioration.

Risk Management

- Conservative risk management, but very rapid growth
- Low concentration by customer
- Sound asset quality and loan impairment coverage
- Limited market risks
- Comfortable liquidity

The main risks AB faces are credit and operational, arising from its rapid asset growth. These are managed according to guidelines developed by LFS. Management of credit risk, the most important type of risk for AB, was strengthened in 2005, following the creation of the head office credit management unit (consisting of a credit manager and heads for micro, SME and training). Senior loan officers were also excused from direct lending duties to concentrate on management, training and control of loan officers in the branches.

According to its credit policy, AB divides its business lending operations in two major segments: micro-lending (the maximum exposure limit was raised to USD20,000 from USD10,000 in early 2008) and SME lending (all total exposures in excess of USD20,000). These departments are managed by micro and SME heads, who report to the director of business banking. All micro-loans are approved at the branch-level credit committee by at least two people (loan officer and senior loan officer). Small loans (USD20,000–100,000) at branch level have to be approved by the branch manager and branch head of SME.

All exposures in excess of USD100,000 are approved by the head office credit committee. Exposures of USD100,000-200,000 must be approved by the SME head. Exposures exceeding USD250,000 must be jointly approved by the general manager, director of business banking and micro/SME credit heads. Exposures in excess of 3% of the bank's equity (at end-H108: AZN812,000) must be reviewed and approved by the supervisory board.

After the recent equity injection (see *Capital* below), management believes the proportion of loans approved by the board will fall to a negligible level. Apart from business lending, since mid-2006 the bank has been developing consumer loans for the customers of the bank's small business clients — these loans are generally quite small.

Asset quality is constantly monitored through the management information system developed by LFS, which can generate different up-to-date reports on the loan portfolio with detailed information on sector breakdown, maturity, portfolio at risk, currency, client type, etc. All branches are connected online and all business is integrated in the central database, which provides management with instant up-to-date information.

Loan applications for the micro-lending segment are mostly assessed on the borrowers' cash flows. Such loans are usually secured by equipment, inventory, and personal guarantees, typically provided by the borrower's relatives or business partners. In the SME segment the bank requires minimum 100% hard collateral loan coverage (usually real estate) with other forms of security providing additional coverage (usually inventory and personal guarantees).

The loan portfolio has been growing very rapidly since the bank's foundation (more than 100% annually), albeit in part due to base effects; however, Fitch expects high lending growth rates to continue in the medium term. In 2007 the loan portfolio increased by 140% and grew by an additional 57% in H108 to AZN141m at end-June, with the total number of outstanding loans exceeding 65,000. The gross loan portfolio largely comprises micro-loans below USD10,000 (at end-H108: 40%), followed by small loans (28%), SME loans (19%) and consumer credits (9%). Concentration by customer remains low: the average outstanding loan size at end-H108 was USD606 in the retail lending segment, USD1,822 in micro-lending and USD28,943 in the small loans segment. Although the share of SME loans has been expanding, the average outstanding loan size was only USD178,367 at end-H108 and the exposure to the top 20 borrowers was still moderate at 45% of equity. The business loan book split by industry shows a large concentration in the trade sector (at end-H108: 65%), which is typical for a microfinance business model, followed by services (12%), production (9%) and agriculture (7%). More than 80% of the business portfolio is denominated in US dollars; therefore the bank bears indirect credit risk in case of local-currency depreciation. While retention rates for repeat borrowers are high at over 90%, new borrowers still account for half of the bank's clientele, driving growth; however, their proportion in the loan book is gradually declining.

Other major asset items at end-H108 included cash and placements with banks (AZN14m or 8% of gross assets). The securities portfolio (AZN4m) comprises only short-term NBA notes, held for liquidity purposes.

Table 3: Portfolio at Risk[a], (%)

	End-H108	End-2007	End-H107	End-2006
>1 day	0.22	0.09	0.38	0.52
>30 days	0.14	0.05	0.29	0.46
LIR/1-day arrears (x)	12	36	7	5

[a] includes overdue principal and interest
Source: AB

Loan Loss Experience and Reserves

The success of AB's business model is largely dependent on the quality of its loan portfolio. The loan officers are personally responsible for the quality of disbursed loans and are motivated to monitor the loan book, as their compensation depends not only on the achieved growth results relative to the budget but also on the asset quality of their individual outstanding loan portfolio. The bank applies penalties to borrowers in arrears for more than a day, which helps to maintain high payment discipline. As can be seen in Table 3, AB has successfully managed its asset quality to date, with one-day overdue loans maintained at sustainable low levels. Loan impairment coverage, in Fitch's view, has been strong; however, rapid asset growth could hide some impairment.

Operational Risk

In 2007 the bank's staff increased by 34% and now exceeds 800 people, and Fitch considers further staff growth one of the major challenges in AB's rapid development. The bank prefers to hire young staff (mostly university graduates) and provides them with several months' intensive training and testing, after which candidates assume start-up positions. The internal audit has been developing and growing in parallel with the bank. Each branch and head office is audited at least twice a year, reporting weaknesses through the audit committee to the supervisory board on a quarterly basis.

Liquidity and Market Risks

Liquidity is monitored daily with the use of cash flow analysis and forecasts, and managed by the asset-liability committee, which meets on a monthly basis. Most of the loan book is short term: on average, micro-loans mature in seven to eight months and SME exposures in 14-16 months. As the maturity of non-equity funding predominantly exceeds two years, AB's liquidity is comfortable. At end-2007 the bank had a positive liquidity gap in all time baskets up to one year. Nevertheless, Fitch notes that AB's strong reliance on wholesale funding could increase refinancing risk in the medium term if market sentiment towards the microfinance sector erodes. The securities portfolio comprises short-term NBA notes held for liquidity purposes. Interest spreads are exceptionally high, reducing interest rate risk, but would naturally fall should loan rates decrease. Currency risk arises from balance sheet mismatches and is controlled according to the NBA's requirements (10% of regulatory capital for each currency and 20% for the aggregate open currency position). At end-H108 the bank had a long USD currency position, amounting to 10% of the bank's capital.

Funding and Capital

Funding

- Funding from IFIs and microfinance funds are major sources of business growth
- Long-term tenors of non-equity funding
- Sound capitalisation, but will need to be augmented in light of growth plans

AB receives the bulk of its non-equity funding from special microfinance funds and IFIs, which at end-2007 contributed AZN76m (excluding loans from shareholders) or 77% to the bank's total liabilities (end-H108: AZN103m or 74% of liabilities). This type of funding is usually USD denominated, well diversified by tenors (the majority of such loan agreements mature beyond 2010) and by creditor. Customer accounts (two-thirds of which are term deposits) almost quadrupled in 2007 and almost doubled in H108, becoming the second-largest source of funding growth. Much stronger deposit growth in H108 than in the banking system in general was explained by management focus and also the low starting base (customer funding's proportion in the bank's liabilities was still a relatively low 14% at end-H108).

Loans from the shareholders, which were the most important source of AB's business growth during 2002-2005, have been declining in recent years both in absolute and relative terms, and accounted for only 11% of the bank's non-equity base at end-2007. AB is gradually shifting to the third stage of its development, which will be based on public debt issues. In 2007 AB was the first bank in

Azerbaijan to successfully complete a private bond placement due 2012, worth USD11.4m. The second tranche of this issue in the amount of USD13.6m was placed in February 2008. AB planned to receive another USD100m in H208 from its shareholders, a syndicated loan and microfinance funds. During 2009 the bank is budgeting to attract USD60m through a second private bond placement and another USD100m-120m from a range of IFIs and commercial banks.

Capital

AB's capitalisation since its foundation has been regularly supported by its shareholders though equity injections. The most recent one was completed in H108, when the shareholder's capital was increased by AZN9m to AZN20m. All the shareholders participated in the capital increase in proportion to their previous ownership share, hence retaining the shareholder structure without any changes.

At end-H108, AB's Tier 1 and total capital ratios per Basel I were 18.2% and 25.1%, respectively (the Tier 2 capital ratio is also supported by a subordinated loan of AZN8.3m). In Fitch's view, AB's capitalisation is good; however, new capital injections will be required if the bank continues to grow rapidly. Since 2007, net profit has become an important source of capital support. In the long term AB aims to maintain its Tier 1 capital ratio above 10%. All net profits will be recapitalised.

Balance Sheet Analysis

MICRO FINANCE BANK OF AZERBAIJAN

	30 Jun 2008				31 Dec 2007		31 Dec 2006		31 Dec 2005	
	6 Months - Interim USDm Proforma	6 Months - Interim AZNm Proforma	As % of Assets Proforma	Average AZNm Proforma	Year End AZNm Original	As % of Assets Original	Year End AZNm Original	As % of Assets Original	Year End AZNm Original	As % of Assets Original
A. LOANS										
1. Private	19.4	16.0	9.65	12.9	9.8	8.70	2.3	4.76	0.0	0.00
2. Micro and SME	155.2	128.0	77.20	107.1	86.2	76.55	39.3	81.37	16.6	82.59
3. Loan Impairment	3.8	3.1	1.87	2.6	2.0	1.78	0.9	1.86	0.7	3.48
TOTAL A	**170.8**	**140.9**	**84.98**	**117.5**	**94.0**	**83.48**	**40.7**	**84.27**	**15.9**	**79.10**
B. OTHER EARNING ASSETS										
1. Loans and Advances to Banks	7.2	5.9	3.56	4.4	2.9	2.58	3.0	6.21	1.4	6.97
2. Government Securities	5.2	4.3	2.59	4.8	5.3	4.71	n.a.	-	n.a.	-
TOTAL B	**12.4**	**10.2**	**6.15**	**9.2**	**8.2**	**7.28**	**3.0**	**6.21**	**1.4**	**6.97**
C. TOTAL EARNING ASSETS (A+B)	**183.2**	**151.1**	**91.13**	**126.7**	**102.2**	**90.76**	**43.7**	**90.48**	**17.3**	**86.07**
D. TANGIBLE FIXED ASSETS	**5.6**	**4.6**	**2.77**	**4.1**	**3.5**	**3.11**	**1.5**	**3.11**	**0.9**	**4.48**
E. NON-EARNING ASSETS										
1. Cash and Due from Banks	10.4	8.6	5.19	7.2	5.8	5.15	2.5	5.18	1.5	7.46
2. Other	1.8	1.5	0.90	1.3	1.1	0.98	0.6	1.24	0.4	1.99
F. TOTAL ASSETS	**201.0**	**165.8**	**100.00**	**139.2**	**112.6**	**100.00**	**48.3**	**100.00**	**20.1**	**100.00**
G. DEPOSITS & MONEY MARKET FUNDING										
1. Due to Customers - Current	7.5	6.2	3.74	4.8	3.3	2.93	0.9	1.86	0.4	1.99
2. Due to Customers - Term	16.4	13.5	8.14	11.2	8.8	7.82	2.4	4.97	0.2	1.00
TOTAL G	**23.9**	**19.7**	**11.88**	**15.9**	**12.1**	**10.75**	**3.3**	**6.83**	**0.6**	**2.99**
H. OTHER FUNDING										
1. Long-term Borrowing	131.3	108.3	65.32	92.9	77.4	68.74	39.0	80.75	13.2	65.67
2. Subordinated Debt	10.1	8.3	5.01	8.5	8.6	7.64	n.a.	-	n.a.	-
TOTAL H	**141.3**	**116.6**	**70.33**	**101.3**	**86.0**	**76.38**	**39.0**	**80.75**	**13.2**	**65.67**
I. NON-INTEREST BEARING	**2.9**	**2.4**	**1.45**	**1.5**	**0.7**	**0.62**	**n.a.**	**-**	**0.1**	**0.50**
J. TOTAL LIABILITIES	**168.1**	**138.7**	**83.66**	**118.8**	**98.8**	**87.74**	**42.3**	**87.58**	**13.9**	**69.15**
K. EQUITY										
1. Common Equity	32.8	27.1	16.34	20.5	13.8	12.26	6.0	12.42	6.2	30.85
TOTAL K	**32.8**	**27.1**	**16.34**	**20.5**	**13.8**	**12.26**	**6.0**	**12.42**	**6.2**	**30.85**
MEMO:CORE CAPITAL	**32.8**	**27.1**	**16.34**	**20.5**	**13.8**	**12.26**	**5.9**	**12.22**	**6.1**	**30.35**
MEMO: ELIGIBLE CAPITAL	**32.8**	**27.1**	**16.34**	**20.5**	**13.8**	**12.26**	**5.9**	**12.22**	**6.1**	**30.35**
L. TOTAL LIABILITIES & EQUITY	**201.0**	**165.8**	**100.00**	**139.2**	**112.6**	**100.00**	**48.3**	**100.00**	**20.1**	**100.00**
Exchange Rate		USD1 = AZN 0.8250			USD1 = AZN 0.8453		USD1 = AZN 0.8714		USD1 = AZN 0.9186	

Income Statement Analysis
MICRO FINANCE BANK OF AZERBAIJAN

	30 Jun 2008		31 Dec 2007		31 Dec 2006		31 Dec 2005	
	Income Expenses AZNm Proforma	As % of Total AV Earning Assts Proforma	Income Expenses AZNm Original	As % of Total AV Earning Assts Original	Income Expenses AZNm Original	As % of Total AV Earning Assts Original	Income Expenses AZNm Original	As % of Total AV Earning Assts Original
1. Interest Income	19.7	31.11	20.9	28.65	7.7	25.25	3.6	29.39
2. Interest Expense	5.6	8.84	6.6	9.05	2.4	7.87	0.8	6.53
3. NET INTEREST REVENUE	**14.1**	**22.27**	**14.3**	**19.60**	**5.3**	**17.38**	**2.8**	**22.86**
4. Net Fees & Commissions	0.1	0.16	1.3	1.78	0.5	1.64	-0.1	-0.82
5. Other Operating Income	0.1	0.16	0.4	0.55	0.0	0.00	-0.2	-1.63
6. Personnel Expenses	4.7	7.42	5.3	7.27	2.6	8.52	1.1	8.98
7. Other Operating Expenses	3.0	4.74	4.8	6.58	3.0	9.84	1.1	8.98
8. PRE-IMPAIRMENT OPERATING PROFIT	**6.6**	**10.42**	**5.9**	**8.09**	**0.2**	**0.66**	**0.3**	**2.45**
9. Loan Impairment Charge	1.2	1.89	1.1	1.51	0.4	1.31	0.1	0.82
10. OPERATING PROFIT	**5.4**	**8.53**	**4.8**	**6.58**	**-0.2**	**-0.66**	**0.2**	**1.63**
11. PUBLISHED PRE-TAX PROFIT	**5.4**	**8.53**	**4.8**	**6.58**	**-0.2**	**-0.66**	**0.2**	**1.63**
12. Taxes	1.2	1.89	1.2	1.64	n.a.	-	0.1	0.82
13. FITCH COMPREHENSIVE INCOME	**4.2**	**6.63**	**3.6**	**4.93**	**-0.2**	**-0.66**	**0.1**	**0.82**
14. PUBLISHED NET INCOME	**4.2**	**6.63**	**3.6**	**4.93**	**-0.2**	**-0.66**	**0.1**	**0.82**

Ratio Analysis
MICRO FINANCE BANK OF AZERBAIJAN

		30 Jun 2008	31 Dec 2007	31 Dec 2006	31 Dec 2005
		6 Months - Interim AZNm Proforma	Year End AZNm Original	Year End AZNm Original	Year End AZNm Original
I. PERFORMANCE					
1. Net Interest Margin	%	22.26	19.59	17.38	22.76
2. Loan Yield	%	31.50	29.25	25.80	30.57
3. Cost of Funds	%	9.56	9.40	8.56	9.70
4. Costs/Average Assets	%	11.06	12.55	16.37	15.22
5. Costs/Income	%	53.85	63.13	96.55	88.00
6. Pre-Impairment Operating ROAA	%	9.48	7.33	0.58	2.08
7. Operating ROAA	%	7.76	5.97	-0.58	1.38
8. Pre-impairment Operating ROAE	%	64.55	59.60	3.28	4.88
9. Operating ROAE	%	52.81	48.48	-3.28	3.25
II. CAPITAL ADEQUACY					
1. Internal Capital Generation	%	41.08	36.36	-3.28	1.63
2. Core Capital/Total Assets	%	16.34	12.26	12.24	30.50
3. Eligible Capital/Regulatory Weighted Risks	%	18.29	13.80	13.17	33.70
4. Eligible Capital+Eligible Revaluation Reserves/Regulatory Weighted Risks	%	18.29	13.80	13.17	33.70
5. Tier 1 Basel I Capital Ratio	%	18.20	13.60	13.30	34.30
6. Total Basel I Capital Ratio	%	25.10	20.40	13.30	34.30
7. Free Capital/Equity	%	83.03	73.91	73.33	85.48
III. LIQUIDITY (year end)					
1. Liquid Assets/Deposits & Money Mkt Funding	%	58.38	88.43	81.82	250.00
2. Loans/Deposits	%	715.23	776.86	1,233.33	2,650.00
IV. ASSET QUALITY					
1. Loan Impairment Charge/Gross Loans (av.)	%	2.00	1.60	1.37	0.82
2. Total Credit Impairment/Pre-impairment Operating Profit	%	18.18	18.64	200.00	33.33
3. Loan Impairment/Gross Impaired Loans	%	1,033.33	2,000.00	450.00	175.00
4. Individual Loan Impairment/Gross Impaired Loans	%	1,033.30	2,000.00	450.00	175.00
5. Impaired Loans Gross / Loans Gross	%	0.21	0.10	0.48	2.41
6. Impaired Loans Net/Eligible Capital	%	-10.33	-13.77	-11.86	-4.92
7. Net Charge-offs/Gross Loans (av.)	%	0.00	0.00	1.03	0.00