TechnikaBank OJSC

Audited Consolidated Financial Statements
for year ended 31 December 2008

Report of the Management Board

Dear customers, shareholders, colleagues and friends of TechnikaBank OJSC!

For TechnikaBank the year of 2008 was a very successful and productive year in the bank's operation. We have achieved determined goals and obtained expected results in all of the directions.

By the end of 2008 assets of TechnikaBank grew by 26% and total equity by 37%. Growth of direct indicators proving increasing loyalty of the customers to the bank was higher. By the end of year the bank's net profit after tax was AZN 13,5 million and in terms of this indicator our bank was the second most profitable bank in the coutnry. Generally, during the year our bank was in top four of the banking sector in terms of main indicators.

Previous years also brought changes to TechnikaBank's funding. Whereas development of the bank was mainly due to local sources till 2006, in 2007 the bank achieved high results in attracting funds from international financial markets. Foundation of successful cooperation with giants of world financial sector such as Citi Group and Morgan Stanley is vital not only for TechnikaBank, but for integration of the whole banking sector of Azerbaijan to international financial world. At the same time, in 2007 Black Sea Trade and Development Bank extended to our bank USD 8 million loan for mortgage lending purposes.

In 2007 OJSC TechnikaBank became principal member of MasterCard International payment system and launched production of Cirrus/Maestro MasterCard Standard and MasterCard Gold cards.

Our activity directed at increase of branch number what is most important in the bank's development strategy also continued. As of the year ended 31 December 2008 TechnikaBank had 34 branches and 5 service outlets well diversified throughout the country.

As one of the largest banks in Azerbaijan TechnikaBank considers support to social projects stimulating the country's thorough development as priority, so the bank was a sponsor to many scientific activities during previous year. The bank was gold sponsor for II international congress on "Caucasus and Central Asia in Globalization Process" and international conference on "Application of information-communication technologies in science and education".

We are still committed to expansion of borders in all activity directions, maintenance of stable and reliable bank image, strengthening of our status as a bank with positive image in international market, continuing our activities as the strongest universal bank in Azerbaijan in future. We are anticipating opening the bank's representative offices in the countries such as Great Britain, Turkey and Russia in upcoming years. We are confident in further achievements relying on our experienced staff on one hand and loyal customers and partners on the other hand.

In conclusion, I would like to thank everyone who has contributed to the bank's accomplishments and hope that upcoming year will stay in our memory with more important achievements. I look forward for yet another memorable year with higher heights conquered.

Yours faithfully,

Samir Huseynov
Chairman of the Board

STATEMENT OF THE MANAGEMENT'S RESPONSIBILITIES

The Management of TechnikaBank OJSC (Bank) is responsible for the preparation of the consolidated financial statements of the Bank and its subsidiaries (the Group).

The consolidated financial statements are prepared in accordance with the source documents and present fairly the financial position of the Group as of 31 December 2008 and the results of its operations and cash flows for the year ended 31 December 2008.

The consolidated financial statements are prepared in accordance with International Financial Reporting Standards on a going concern basis. Appropriate accounting policies have been applied on a consistent basis. Prudent and reasonable judgments and estimates have been made by the Management in the preparation of the financial statements.

The management of TechnikaBank OJSC are responsible for the maintenance of a proper accounting system, safeguarding the Group's assets, and prevention and detection of fraud and other irregularities in the Group. They are also responsible for operating the Bank in compliance with the Law on Banks, regulations of the National Bank of Azerbaijan and other legislation of the Republic of Azerbaijan applicable to credit institutions.

On behalf of the Bank's management,

Samir Huseynov
Chairman of the Board

18 February 2009

CONSOLIDATED BALANCE SHEET

*figures are shown in '000 Assets	31 December 2007		31 December 2008	
	AZN	EURO	AZN	EURO
Cash and cash equivalents	53 227	42 753	49 392	43 741
Mandatory cash balances with the NBA	8 413	6 757	9 933	8 796
Due from other banks	25 494	20 477	15 504	13 730
Loans and advances to customers	237 776	190 985	320 275	283 630
Investment securities available for sale	460	369	550	487
Investment properties	145	116	253	224
Premises, equipment and intangible assets	20 310	16 313	36 747	32 543
Intangible assets	95	76	1 251	1 108
Other financial assets	2 297	1 845	1 859	1 646
Other assets	1 189	955	3 484	3 085
Total assets	**349 406**	**280 647**	**439 248**	**388 990**
Liabilities				
Due to other banks	55 748	44 778	75 570	66 923
Liabilities to customers under brokerage agreements	10 793	8 669	-	-
Customer accounts	196 212	157 600	174 603	154 625
Debt securities in issue	4 679	3 758	31 271	27 693
Term borrowings from other banks and financial institutions	38 917	31 259	99 739	88 327
Current income tax liability	1 852	1 488	861	762
Deferred income tax liability	1 343	1 079	1 199	1 062
Profit tax liabilities on share premium	-	-	382	338
Other financial liabilities	1 160	932	3 916	3 468
Other liabilities	2 037	1 636	1 495	1 324
Total liabilities	**312 741**	**251 198**	**389 036**	**344 524**
EQUITY				
Share capital	26 912	21 616	26 912	23 833
Share premium	3 464	2 782	3 464	3 068
Retained earnings	3 620	2 908	17 157	15 194
Revaluation reserve for premises	2 669	2 144	2 589	2 293
Revaluation reserve for investment available for sale	-	-	90	79
Total equity	**36 665**	**29 450**	**50 212**	**44 466**
Total liabilities and equity	**349 406**	**280 647**	**439 248**	**388 990**

Samir Huseynov
Chairman of the Board

CONSOLIDATED INCOME STATEMENT

*figures are shown in '000	31 December 2007		31 December 2008	
	AZN	EURO	AZN	EURO
Interest income	28 355	22 775	53 217	47 128
Interest expense	-13 962	-11 214	-29 171	-25 833
Net interest income	**14 393**	**11 561**	**24 046**	**21 295**
Provision for loan impairment	-4 624	-3 714	-13 098	-11 599
Provision of impairment of due from other banks	-	-	-550	-487
Net interest income after provision for loan impairment	**9 769**	**7 847**	**10 398**	**9 208**
Fee and commission income	12 166	9 772	14 787	13 095
Fee and commission expense	-1 763	-1 416	-1 961	-1 737
Gains less losses from trading in foreign currencies	2 100	1 687	1 900	1 683
Foreign exchange translation losses less gains	189	152	3 903	3 456
Insurance premiums written	1 535	1 233	1 329	1 177
Reinsurance premium ceded	-166	-133	-243	-215
Increase of provision for unearned premiums, net of reinsurance	-752	-604	-47	-42
Net claims incurred	-235	-189	-358	-317
Provision for losses on credit related commitments				
Gains arising from a change in fair value of investment property	140	112	-	-
Loss arising from a change in fair value of premises	-70	-56	-	-
Other operating income	262	210	466	412
Operating income	**23 175**	**18 614**	**30 174**	**26 721**
Administrative and other operating expenses	-8 008	-6 432	-12 527	-11 094
Provision for profit tax liability from share premiums	-	-	-381	-337
Profit before tax	**15 167**	**12 182**	**17 265**	**15 290**
Income tax expense	-3 415	-2 743	-3 808	-3 372
Profit for the year	**11 752**	**9 439**	**13 458**	**11 918**

Samir Huseynov
Chairman of the Board

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*figures shown in '000	Share capital		Share premium		Revaluation reserve for premises		Retained earnings		Total equity	
	AZN	EURO	AZN	EURO	AZN	EURO	AZN	EURO	AZN	EURO
Premises and equipment:										
- Revaluation of premises, net of tax	-	-	-	-	1 504	1 208	-	-	2 712	2 178
- Realised revaluation reserve	-	-	-	-	-47	-38	47	38	-	-
Net income recognised directly in equity	-	-	-	-	1 457	1 170	47	38	2 674	2 148
Profit for the year	-	-	-	-	-	-	11 752	9 439	11 752	9 439
Total recognised income for the year	**-**	**-**	**-**	**-**	**1 457**	**1 170**	**11 799**	**9 477**	**14 426**	**11 587**
Share issue	15 000	12 048	1 056	848	-	-	-10 692	-8 588	18 260	14 667
Treasury shares										
- Acquisitions	-2 400	-1 928	-1 400	-1 124	-	-	-	-	-6 852	-5 504
- Disposals	2 400	1 928	-	-	-	-	-2 400	-1 928	-	-
Balance at 31 December 2007	**26 912**	**21 616**	**3 464**	**2 782**	**2 669**	**2 144**	**3 620**	**2 908**	**36 665**	**29 450**
Premises and equipment:										
- Revaluation of premises, net of tax	-	-	-	-	-	-	-	-	-	-
- Revaluation of investment available for sale	-	-	-	-	90	80	-	-	170	136
- Realised revaluation reserve	-	-	-	-	-80	-71	80	71	-	-
Net income recognised directly in equity	-	-	-	-	10	9	80	71	99	88
Profit for the year	**-**	**-**	**-**	**-**	**-**	**-**	**13 458**	**11 918**	**13 458**	**11 918**
Total recognised income for the year	**-**	**-**	**-**	**-**	**10**	**9**	**13 538**	**11 989**	**13 557**	**12 006**
Share issue	-	-	-	-	-	-	-	-	-	-
Treasury shares	-	-	-	-	-	-	-	-	-	-
- Acquisitions	-	-	-	-	-	-	-	-	-	-
- Disposals	-	-	-	-	-	-	-	-	-	-
Balance at 31 December 2008	**26 912**	**23 833**	**3 464**	**3 068**	**2 679**	**2 372**	**17 158**	**15 195**	**50 222**	**44 476**

Samir Huseynov
Chairman of the Board

CONSOLIDATED STATEMENT OF CASH FLOWS

*figures are shown in '000	2007		2008	
	AZN	EURO	AZN	EURO
Cash flows from operating activities				
Interest received	25 396	20 398	47 234	41 830
Interest paid	-13 406	-10 768	-27 843	-24 657
Fees and commissions received	12 166	9 772	14 787	13 095
Fees and commissions paid	-1 763	-1 416	-1 961	-1 737
Insurance premium received	1 419	1 140	1 329	1 177
Reinsurance premium ceded	-132	-106	-243	-215
Insurance claims paid	-72	-58	-358	-317
Income received from trading in foreign currencies	2 100	1 687	1 900	1 683
Other operating income received	262	210	466	412
Staff costs paid	-3 920	-3 149	-5 740	-5 083
Administrative and other operating expenses paid	-3 868	-3 107	-4 725	-4 185
Income tax paid	-2 013	-1 617	-4 942	-4 377
Cash flows from operating activities before changes in operating assets and liabilities	**16 169**	**12 987**	**19 904**	**17 627**
Changes in operating assets and liabilities				
Net increase in mandatory cash balances with the NBA	-2 235	-1 795	-1 520	-1 346
Net increase in due from other banks	-23 032	-18 500	8 981	7 953
Net increase in loans and advances to customers	-165 862	-133 222	-90 526	-80 168
Net decrease/(increase) in other assets	-1 074	-863	-2 295	-2 032
Net decrease/(increase) in other financial assets	-727	-584	438	388
Net (decrease)/increase in due to other banks	43 617	35 034	21 924	19 415
Net increase in liabilities to customers under brokerage agreements	10 750	8 635	-10 793	-9 558
Net increase in customer accounts	115 323	92 629	-19 215	-17 017
Net (decrease)/increase other financial liabilities	1 422	1 142	2 709	2 399
Net (decrease)/increase in other liabilities	377	303	-542	-480
Net cash (used in)/provided from operating activities	**-5 272**	**-4 235**	**-70 936**	**-62 819**
Cash flows from investing activities				
Acquisition of investment securities available for sale	-	-	2	1
Proceeds from disposal of investment securities available for sale	88	71	-	-
Acquisition of premises and equipment and intangible assets	-12 552	-10 082	-19 512	-17 280
Acquisition of subsidiaries, net of cash acquired	-	-	-	-
Net cash used in investing activities	**-12 464**	**-10 011**	**-19 511**	**-17 279**
Cash flows from financing activities				
Net increase of term borrowings from other banks and financial institutions	23 745	19 072	60 346	53 441
Proceeds from debt securities in issue	2 868	2 304	25 489	22 573
Issue and sale of ordinary share	5 364	4 308	-	-
Acquisition of treasury shares	-3 800	-3 052	-	-
Net cash provided from financing activities	**28 177**	**22 632**	**85 835**	**76 014**
Effect of exchange rate changes on cash and cash equivalents	**122**	**98**	**776**	**687**
Net decrease in cash and cash equivalents	**10 563**	**8 484**	**-3 835**	**-3 396**
Cash and cash equivalents at the beginning of the year	42 664	34 268	53 227	47 137
Cash and cash equivalents at the end of the year	**53 227**	**42 753**	**49 392**	**43 740**

Samir Huseynov
Chairman of the Board