TuranBank

Annual Report
2009

TuranBank

Open Joint-Stock Company
2009

ANNUAL REPORT

CONTENT

OUR STRATEGIC VISION

To make TuranBank a universal bank with foreign investment providing comprehensive financial services to customers, small and medium entrepreneurs, with the presence of wide service network in all regional centers of the Republic.

OUR MISSION

TuranBank, with its professional team, is a transparent bank that offers all types of bank services to its clients by supporting their development and adds value to its investors by increasing the value of their investments.

OUR VALUES

Reliability
Safety
Truthfulness
Transparency
High Quality Services
Cooperation with Clients
Profitability of the Bank's Stocks
Serving to Azerbaijan Economy
Respecting the Laws of the country

General Information about the Bank

FULL NAME OF THE BANK:	«TuranBank» Open Joint Stock Company
SHORT NAME OF THE BANK:	«TuranBank» OJSC
DATE OF FOUNDATION:	June 12, 1992
LEGAL ADDRESS:	85 Ismayil bey Gutgashinly str, AZ1073 Baku, Azerbaijan
TAX ID:	1300016391
CORRESPONDENT ACCOUNT AT CENTRAL BANK OF AZERBAIJAN:	0137010027944
CODE:	507462
SWIFT:	TURAAZ22
TELEX:	14236 TURAN AI
PHONES:	+994 (12) 497 25 11, 497 25 92, 510 79 11, 510 79 22
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WEB:	http:// www.turanbank.az

LICENSE

License No. 115 issued by the Central Bank of the Republic of Azerbaijan on 30.12.1992 for commencement of its activities and license No. 115 updated on 23.03.2005 in connection with the change of the organizational and legal form of the bank.

MEMBERSHIP IN PROFESSIONAL ASSOCIATIONS, UNIONS, STOCK-EXCHANGES AND PAYMENT SYSTEMS:

- Azerbaijan Banks Association (ABA)
- Azerbaijan Micro-finance Association (AMA)
- Azerbaijan Export and Investment Promotion Foundation (AZPROMO)
- Caspian Integration Business Club (CIBC)
- German-Azerbaijanian Business Association (DAWF)
- EurAsian Agricultural Credit Association (EURACA)
- Society for Worldwide Interbank Financial Telecommunication (SWIFT)
- Baku Interbank Currency Exchange (BBVB)
- MasterCard International» International Payment System
- «Western Union»
- «Contact»
- «Bistraya Pochta»
- «Migom»
- «Express Money»
- «PrivatMoney»
- «Allure»
- «Zolotaya Korona»

Main indicators as of the end of 2009 (mln AZN)

Indicators	2005	2006	2007	2008	2009
Assets	27,9	41,9	60,5	82,7	106,1
Credit Portfolio	24,0	32,3	47,6	65,5	76,5
Deposit Portfolio	7,9	13,4	18,2	30,9	44,8
Shareholders' Equity	5,0	8,5	12,5	16,0	17,0
Net Profit	0,8	1,1	2,7	2,3	2,0

Service Network

Indicators	2005	2006	2007	2008	2009
Number of branches, of which:	8	10	11	11	11
– in Baku	5	6	6	6	6
– in regions	3	4	5	5	5
Number of exchange offices, of which:	23	6	15	23	21
– in Baku	22	5	13	21	19
– in regions	1	1	2	2	2
Number of ATMs, of which:	2	5	8	9	9
– in Baku	1	3	6	7	7
– in regions	1	2	2	2	2
Number of POS Terminals, of which:	1	4	52	73	73
– in Baku	1	4	46	67	67
– in regions	-	-	6	6	6
Our Subsidiaries	-	1	1	1	1
Our Representatives	8	8	8	8	8

Our Stockholders

Indicators	2005	2006	2007	2008	2009
Total number of Stockholders including:	24	28	28	26	25
– legal entities	6	6	6	6	5
– individuals including:	18	22	22	20	20
– bank personnel	8	6	7	6	5
Share of Stockholders in the Authorized Capital (%) including:					
– legal entities	29,67	29,67	27,77	27,14	21,8
– individuals, of which	50,37	57,16	58,43	53,32	54,08
– bank personnel	19,96	13,17	13,8	19,51	24,12

Our Personnel

Indicators	2005	2006	2007	2008	2009
Total personnel, of which:	120	121	150	197	205
– head office	36	38	49	71	76
– branches and representatives	58	73	80	94	103
– exchange offices	26	10	21	32	26

Our Independent Auditors:

«PriceWaterHouseCoopers» and «Deloitte & Touche»

Significant Events in 2009:

- The Bank became the member of the German-Azerbaijanian Business Association (DAWF).
- The Bank continued the «Institutional Development» project in corporation with Azerbaijan Bank Training Center (ABTM);
- The Bank signed a ten-year credit agreement amounting to 7,5 million USD with US based WBC (World Business Capital Inc.) with the support of OPIC (Overseas Private Investment Corporation) aimed at financing of SMEs in Azerbaijan.
- The Bank signed a five-year training and consulting agreement with US based Financial Services Volunteer Corps (FSVC) within the «Technical Assistance» project;
- The Bank was chosen as an authorized bank within « 2nd Phase of Azerbaijan Corporate Governance Project» of the International Finance Corporation (IFC).
- The bank became the member of EurAsian Agricultural Credit Association (EURACA).
- The Bank launched a new unique deposit campaign «Sirlər Xəzinəsi» (Secret of Treasure).
- The Bank completed the process of joining «Allure» and «Zolotaya Korona» express money transfer systems.
- The Bank established correspondent relations with ŞekerBank Turkey, IşBank, Turkey and CommerzBank AG, Germany;
- The Bank signed agreement with PriceWaterHouseCoopers (PWC) for the preparation of the External Auditor's Report for the Financial Year 2009.

CHAIRMAN OF THE SUPERVISORY BOARD
by Mr. FUAD MUSAYEV

CHAIRMAN OF THE MANAGEMENT BOARD
by Mr. NAZIM SADIGOV

STATEMENT

DEAR LADIES AND GENTLEMEN!

In the 2009 account year, TuranBank successfully accomplished the 17th year of its activity. Notwithstanding that the global financial crisis that started from the second half of 2008, proceeded to a more deepened phase in the first half of 2009, Azerbaijan economy managed to overcome this stage of the crisis with minimal losses and our country maintained its leading position among the countries least affected by the crisis. As in the previous years, in 2009, the Azerbaijan government, for the purpose of maintaining the trends of economic growth in the midst of raging global financial crisis, continued the implementation of large infrastructure and other social and economic projects through government investments and the activity of the private sector. Owing to the real growth by 9,3 percent in GDP and 13,5 percent in banking sector during the accounting year, Azerbaijan entered into the list of the fastest growing economies in the world during the financial crisis.

The increase in the indicators of the banking sector and consequently in its attractiveness from the point of view of investments increased the interest of the foreign financial institutions towards the financial market of Azerbaijan. The trend of growth observed year-by-year in the economy and in the banking sector as its integral part is the result of the correct and proper economic strategy pursued by the government.

Certainly, under the above-mentioned conditions, as well as in the light of economic growth, we, TuranBank, as an actor of banking system supporting real economic sector, are gratified by the increasing care and support provided to the small and medium enterprises in the non-oil sector of the country.

Especially we would like to note that, for the purpose of implementation of the State Programme for Socio-Economic Development of Regions (for 2004-2008 year) adopted by the President of the country, TuranBank has successfully cooperated as an agent bank in the financing projects aimed at socio-economic development, provided by a number of international financial institutions such as World Bank, International Fund for Agricultural Development, Islamic Development Bank, etc. and we are enhancing our activity in supporting the Programme for Socio-Economic Development of Regions for 2009-2013 year which is the continuation of the previous programme.

The significance of the cooperation of our Bank in the mentioned projects lies in the fact that they are integrated into all contingents of the population being regional, preferential, long-term and mostly oriented to agriculture, which is the basis for activity under the principle of «long-term mutual benefit».

As it is obvious from the financial indicators of the Bank for 2009, the total assets for the corresponding year amounted to 106,1 million AZN, increasing by 28,3 percent. As a characteristic feature of Azerbaijan banking system, the credit portfolio composes a significant part of the total assets. The portfolio of the bank for 2009 amounted to 76,5 million AZN, increasing by 16,8 percent.

Along with its assets, we would like to note the liabilities of the Bank, especially the amount of the attracted savings and deposits. The deposit portfolio for 2009 amounted to 30,7 million AZN increasing by 42,2 percent. A number of factors, especially the 17-years of reliable and competitive activity of the bank and the increase in the real cash incomes of the population, lead to the year-by-year remarkable increase in the deposit portfolio of the bank, which in its turn displays that the free cash flows are deposited by the population to the reliable and profitable banks. It should be noted that one of the achievement of the bank in this field during the accounting year - the application of new «Sirlər Xəzinəsi» deposit conception developed on the basis of national hereditary fertilities – lead to a significant increase in the deposit portfolio of the Bank.

Profitable activity is one of the main objectives of TuranBank. In the result of the dynamic growth in this field and the year-by-year increase in the level of confidence, the interest in the stocks of the bank has increased, which is an illustrative example of sustained capitalization policy pursued by the bank. During the accounting year the Bank issued additional stocks to the existing stockholders, in the result of which in the end of 2009 the authorized capital of the bank reached 17 million AZN, with the 6,3 percent growth compared to the corresponding period of 2008.

Also, the year 2009, was one of the accounting years remarkable for the continuing of the implementation of the strategy for 2008-2011 adopted by the Bank in 2007. The year 2009, as the end of the basic «institutional development» period, went down in the history of our bank as a significant and remarkable year owing to a number of radical reforms in the bank. The action plans covering the activities in this field have been successfully accomplished, in the result of which this year was the «reconstructive» turning point for the bank. For the purpose of benefiting from the experience of Azerbaijan Bank Training Center, mutual cooperation was carried out and regular trainings and advanced training courses have been held.

The year 2009 was a very successful year from the point of view of purposeful continuation of the institutional development. Thus, on 05 June 2006, TuranBank signed a two-year cooperation agreement with International Finance Corporation (IFC) within the second phase of the Azerbaijan Corporate Governance Project. Another success of the bank during the accounting year was the signing of a five-year training and consulting agreement with US Financial Services Volunteer Corps (FSVC) for the «Technical Assistance» project.

TuranBank, keeping pace with the latest innovative technologies and adhering to the modern banking criteria, intends to cooperate with internationally recognized organizations and institutions within the «technical support» projects covering the areas of various profiles during the next years.

International cooperation is one of the priorities of the overall activity of the bank. In the 2009 account year, the Bank concluded a ten-year credit agreement amounting to 7,5 million USD with US based World Business Capital Inc. (WBC) with the support of US Overseas Private Investment Corporation (OPIC) aimed at financing of Small- and Medium-sized Enterprises. Taking into account the deeper phase of the global financial crisis in 2009, attraction of funds from international financial institutions is an illustrative example of the confidence in our Bank. Aiming to continue our profitable activity and making appropriate corrections to our financial plans adequate to our existing potential, our bank targets to attract additional funds from the international financial institutions in the future.

We - TuranBank, are thinking of speeding up the implementation of the measures planned for 2010 aimed at increasing our competitiveness in the Azerbaijan banking system, provision of comfortable and high quality services to our customers, improvement of financial performance, as well as at increasing our contribution, as a bank, to the economical development taking into consideration the down-going of the financial crisis.

Our strategic action plans for the coming year 2010 are based on our financial capacity and we would like to note that the next year will be the year of radical changes both in financial performance and in the quality of the banking services.

The year 2009 is the second year aimed at the universal banking activity providing all kinds of services stipulated in the strategic action plan and meeting the requirements of the international standards.

The goals set in the strategic action plan for 2009-2011 and the availability of the resources necessary to achieve these goals encourages us to look ahead with more confidence.

At the end, for the achievements obtained in the report year of 2009, we, on behalf of TuranBank team, extend our gratitude to our shareholders, customers, each member of our team and to everyone who provided their input into our success and wish new success stories for the report year of 2010.

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SUPERVISORY BOARD

FUAD MUSAYEV
Chairman of the Supervisory Board

SHOHRAT VEKILOV
Member of the Supervisory Board

MANAGEMENT BOARD

NAZIM SADIGOV
Chairman of the Managemet Board

FAZAIL MUSAYEV
Deputy Chairman of the Management Board

KAMALA MUSTAFAYEVA
Member of the Management Board, Director of the Operational Department

MAHAMMAD KALASHOV
Member of the Management Board, Director of the Risk Management Department

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STRUCTURAL UNITS

Vugar Asadov
Director of Credit Department

Alizaman Ibrahimov
Director of the Financial Management Department

Orkhan Garayev
Director of the Treasury Department

Chingiz Aghayev
Director of Internal Audit Department

Sevinj Hajiyeva
Director of Human Resources Management Department

Bakhtiyar Mammadov
Director of Information Technologies Department

Turan Isayev
Director of Customer Services Department

Rashad Tanriverdiyev
Director of Business Development Department

Emil Mursalov
Credit Department, Head of Corporate Lending Division

Hikmat Nazirov
Director of Branches Management Department

Aydin Huseynov
Treasury Department, Head of Stock-Exchange Operations Division

Ilgar Maharramov
Business Development Department, Head of International Relations Division

Jeyhun Hajiyev
Business Development Department, Head of Marketing and Sales Division

Zaur Aliyev
Risk Management Department, Head of Credit Monitoring Division

Turgay Aliyev
Director of Administrative Department

Kamil Huseynli
Risk Management Department, Head of Problem Loans Division

Javid Aliyev
Deputy Director of Customer Services Department, Head of Credit Division

Azada Ibrahimova
Customer Services Department, Head of Controlling Division

Kanan Iskandarov
Financial Management Department, Head of Budget Division

Macroeconomy

Notwithstanding the fact that 2009 is characterized as the year of financial and economic difficulties all over the world, the trends of growth experienced in the Azerbaijan economy over the last years were maintained in 2009. During the 2009 accounting year the real growth of the Gross Domestic Product (GDP) amounted to 9,3 percent compared to 2008 and reached 34.6 billion AZN at the existing prices. The real amount of the per capita GDP amounted to 3917.3 AZN (4874.1 USD), increasing by 7.9 percent compared to 2008. The real growth during the accounting year was 14.3 percent in the oil and gas sector and 3.2 percent in non-oil sector. In 2009, the real growth rate was 12.8 percent in industrial sector, 9.3 percent in transport, 13.1 percent in communication and 9.9 percent in trade. As in the previous years, owing to the special care to the agriculture and the reasonable measures carried out (granting to farmers subsidies, seeds and technical equipment, fuel, etc. on preferential terms) the real growth rate in agriculture in the last year amounted to 3,5 percent, increasing compared to 2008.

The main priorities of the investment policy in the previous account year was improvement of infrastructure, stimulation of investing in non-oil sector and development of regions, optimization of distribution of investments among regions, enhancement of the social fields of investments in the country.

Application of a number of significant reforms in the accounting year, has already contributed to maintaining of the economic growth and dynamic development. The applied reforms include:

1 Exemption of the part of the profit intended for increasing of authorized capital of banks, insurance and reinsurance companies from profit tax for a period of 3 years from 1 January 2009.

2 Exemption of the interests paid by banks and other credit organizations on individuals' deposits from income tax for a period of 3 years from 1 January.

3 Reduction of the compulsory reserve rates applied by the Central Bank to banks from 10 to 0,5 percent and cancellation of reserve rates for foreign liabilities

4 Defining of the upper limit of annual interest rate for protected deposits as 15 percent and fixing as 30 thousand AZN at 100 percent of compensated amount

5 Starting of the placement of bonds provided by Azerbaijan Mortgage Fund

6 Reduction of the annual interest rate for the investment projects financed by authorized credit organizations out of the funds of National Fund for the Support of Entrepreneurship from 7 to 6 percent.

7 Reduction of income tax applied to private entrepreneurs from 35 to 30 percent and profit tax applied to enterprises from 22 to 20 percent

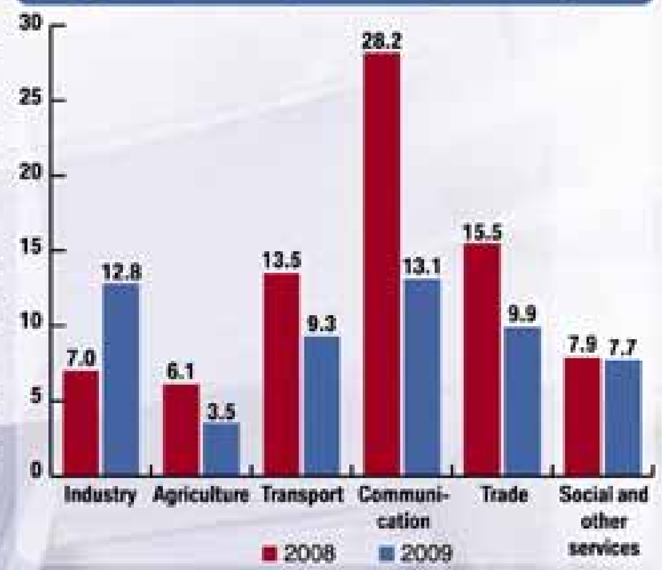
8 Decreasing of the upper limit for income tax imposed on individuals from 35 to 30 percent.

9 Increasing of the annual amount of the transactions of legal entities subject to taxation for the purpose of obtaining the right of simplified tax payer from 90 to 150 thousand AZN

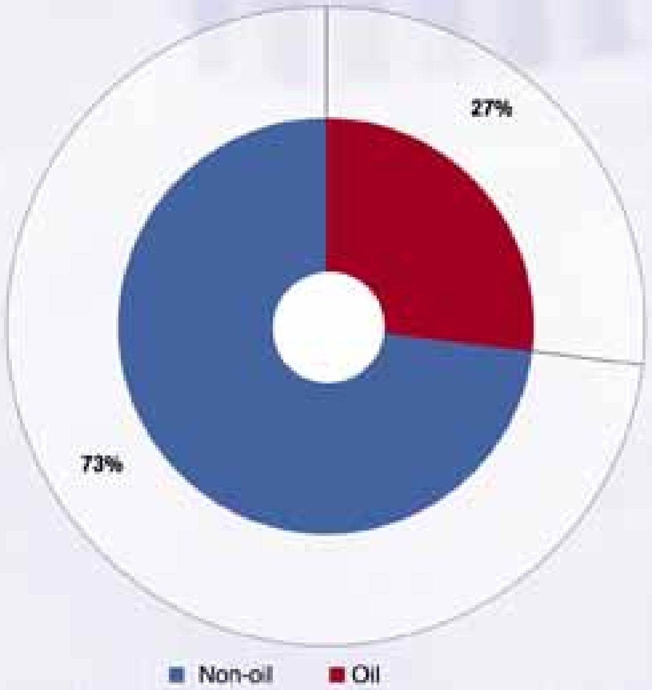
10 Application of electronic tax invoices for VAT and excises.

11 Application of «single window» system in customs system.

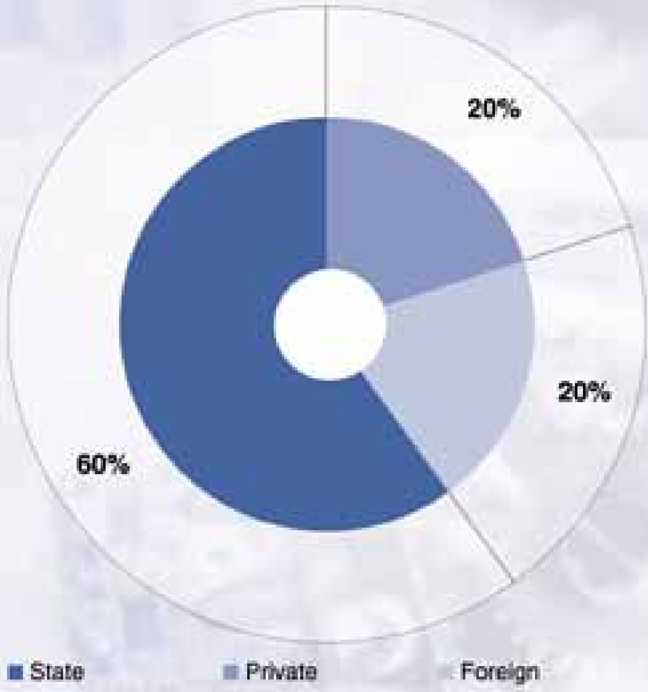
Real growth rate compared to the previous year, %



Distribution of investments between oil and non-oil sectors



Sources of investments made to the fixed capital in 2009



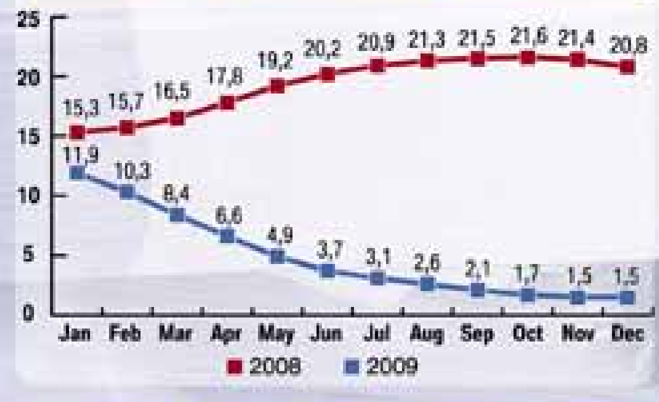
In 2009, 7.4 billion AZN investments were made from all sources to the fixed capital for development of economy and social fields. Out of these assets 27 percent was aimed at the development of oil sector and 73 percent for non-oil sector. The assets invested to the fixed capital consist of 79.9 percent of domestic investments and 20.1 percent of foreign investments.

The population's incomes in 2009 amounted to 22.4 billion AZN, increasing by 8 percent and the per capita income was 2537.2 AZN which is 6.7 percent more than in the previous year. The average monthly salary in 2009 amounted to 298 AZN increasing by 8.6 percent compared to 2008.

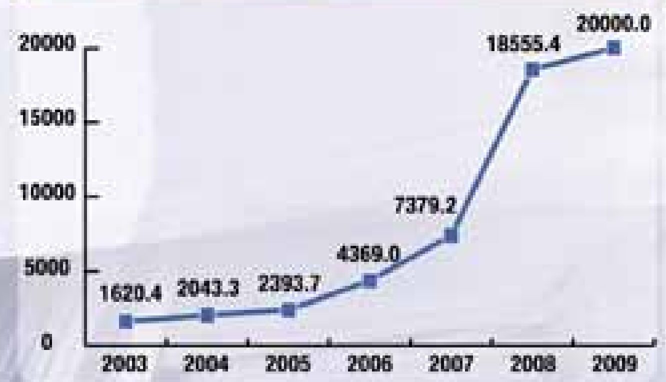
Average annual rate of inflation in 2009 was 1.5 percent (20.8 percent in 2008).

In 2009, the foreign trade turnover was 20.8 billion USD, including 14.7 billion USD of export and 6.1 billion USD of import, and a trade surplus amounting to 8.6 billion USD appeared. According to the figures of the 2009 year, the strategic currency reserves of the country were more than 20 billion USD.

Average annual rate of inflation



Strategic currency reserves, billion USD



Banking System

The 2009 accounting year is remembered for the wide-range fluctuations of the financial crisis world economy in whole. While a large number of countries experienced a stagnation phase in their financial systems due to the negative effects of such fluctuations, the positive trend in the banking system of Azerbaijan were maintained in 2009 as well.

The main reason of the sustained development of the banking system in the reporting year was the integration of real sector with financial sector in the Azerbaijan economy within the framework of mutual sustained development. The sustained economic growth, the large economic potential of the country, year-by-year increasing economic capacity and the improvement of the banking system in correspondence with the international standards serve as the key factors ensuring the rapid development and progress of the banking system.

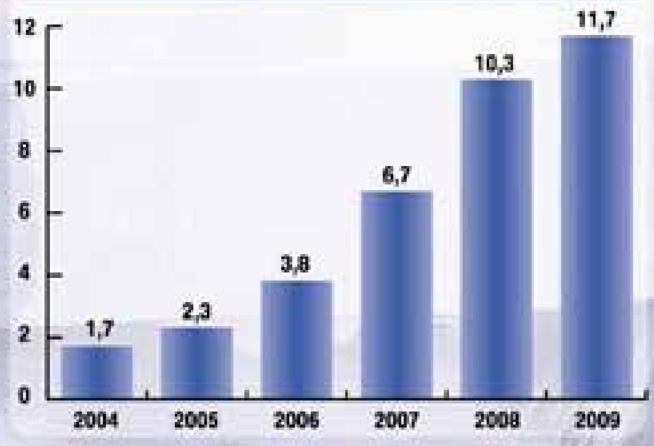
In 2009, there were 46 banks acting in the republic, 45 ones of which are wholly private and one with state share. In the accounting year, among the banks acting in the banking system 23 ones are registered as foreign capital banks, out of which in 7 ones the foreign capital constitutes more than 50 percent of the authorized capital, in 14 ones the foreign capital constitutes up to 50 percent of the authorized capital. There are 2 banks acting as the branches of foreign banks. The total number of the representations of foreign banks in our country was 4 in the accounting year.

As the positive result of the dynamic development trends of the banking system of the country, in the 2009 accounting year 2 subsidiary banks, 1 branch and 6 representations of the domestic banks were opened within the institutions acting in foreign countries.

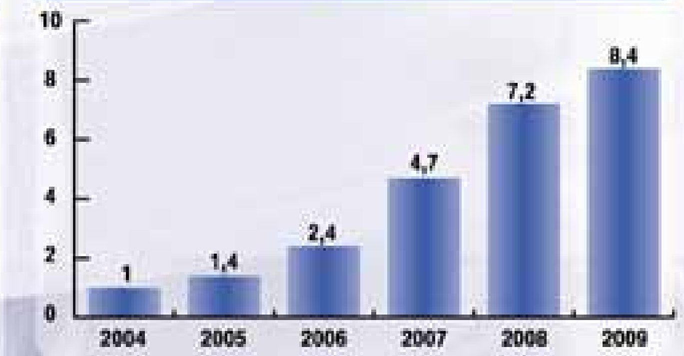
As for the enhancement of the branch network of the banks in the country during 2009, it should be noted that during the mentioned period the banks demonstrated high activity, opening 59 new branches and 10 departments.

Currently, there are 626 branches in the banking system, out of which 38 ones belong to state banks and 588 ones to the private banks.

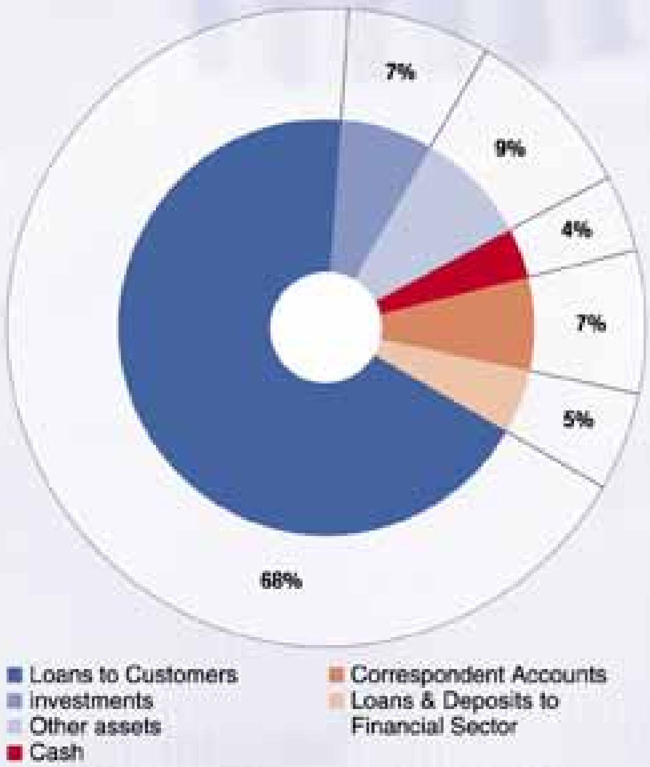
Assets of the Banking System, (bln AZN)



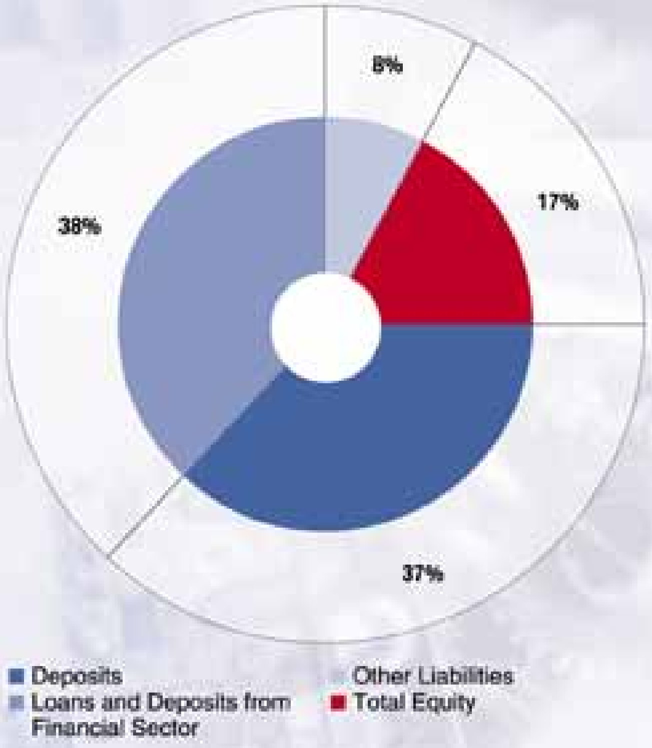
Credit Portfolio of the Banking System, (bln AZN)



Structure Of Assets Of The Banking System, (%)



Structure of Liabilities of the Banking System, (%)



As of the end of the reporting year, the total assets of Azerbaijan banks amounted to 11,7 billion AZN, increasing by 13,5 percent compared to 2008.

The credit investments to the economy constituted a significant part of the assets of the banking sector during the reporting year, amounting to 8,4 billion AZN, which expresses an increase by 17,3 percent compared to 2008. Especially, during the recent years the banks of the country, taking into account the competition conditions, attach more importance to meeting of the increasing long-term credit demands, which is of great significance for sustained economic growth in the country and strategic economic planning of the business entities. For the 2009 accounting year, the amount of the long-term credits in credit investments constituted 71,9 percent or 6 billion AZN, out of with 56,7 percent are in foreign currency and 43,3 percent in domestic currency. For the reporting period, the proportion of the overdue credits to the total credit investments was 3,6 percent.

As it is obvious from the structure of the credit investments to the economy in the 2009 accounting year according to the credit organization, out of the total crediting 3,9 billion AZN or 46,5 percent was financed by the banks with state share, 4,3 billion AZN or 51,4 percent by private banks and 177 million AZN or 2,1 percent by non-banking credit organizations.

In the accounting year the structure of the credit investments according to the fields is as follows: Trade and Service – 1,8 billion AZN or 21,8 percent, Energy - 1,5 billion AZN or 18,1 percent, Agriculture and Processing - 0,4 billion AZN or 4,7 percent, Construction and Estate - 0,6 billion or 6,9 percent, Industry and Production - 0,5 billion AZN or 6,4 percent, Transport and Communication - 0,5 billion AZN or 6,2 percent, Housekeeping 2,3 billion AZN or 27,7 percent, other fields 8,2 percent.

The fact that the accounting year was accompanied by the global financial crisis lead to an interesting trend in the structure of the credit transactions. Thus, compared to the previous years, the amount of the credit portfolio of Documentary Transactions has notably increased. Compared to 2008, in 2009 the Letter of Credit Portfolio amounted to 284,5 million AZN or 3,38 percent of total credit investment (0,6 percent in 2008), the Guarantee portfolio amounted to 18,52 million AZN or 0,22 percent, Factoring transactions amounted to 19,77 million AZN or 0,24 percent.

As of the end of the 2009 accounting year, the average annual interest rate for credits was 15,92 percent in domestic currency and 17,19% percent in foreign currency, and the average annual interest rate for issued interbank credits was 15,58 percent in domestic currency and 8,7 percent in foreign currency.

As of the end of the 2009 accounting year, the average annual interest rate for the deposits and savings was 11,72 percent in domestic currency and 10,71 percent in foreign currency.

Main Financial Performance Indicators of the Bank for 2009

TuranBank OJSC, as a bank distinguished for its progressive development in the banking system of Azerbaijan increases its financial performance every year and the 2009 year was not an exception in this respect. The high rate of development of the bank is expressed in all its financial indicators as well.

TuranBank, in all kinds of banking services provided, attaches a special importance to the quality criteria and complies with the requirements of the National Bank of Azerbaijan and the International Financial Reporting Standards.

ASSETS

The assets may be pointed out as one of the key indicators expressing the rapid development of TuranBank. In 2009 the total assets of the bank amounted to 106.1 million AZN, increasing by 28.3 percent.

STRUCTURE OF THE ASSETS

According to the totals of 2009, the credit portfolio constituted 72,0 percent of the assets of the Bank. The major cause of this is the profitability of credit investments, as well as the increased credit demands by the customers.

LIABILITIES

The major part of the liability items of the bank consists of the funds attracted from banks and other credit organizations, as well as the deposit portfolio. The total liabilities of the bank during the accounting period was 85,2 million AZN, which is 35,9 percent more than the corresponding indicator of the previous year.

STRUCTURE OF THE LIABILITIES

As the result of the strengthening and diversification of the asset base of the bank during the reporting year, the bank attracted funds which are deemed to be cheaper from local and foreign financial and credit institutions. As of the end of the accounting year, funds amounting to 40.1 million AZN were attracted from banks and financial organizations. Another significant part of the liability items is the funds attracted from legal entities and individuals, and during the accounting period the bank attracted such funds amounting to 44,8 million AZN.

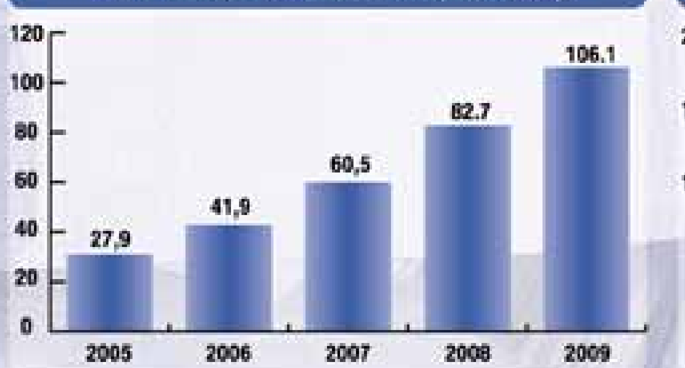
CAPITAL

As of the end of 2009, the total capital of the Bank amounted to 20,9 million AZN. For the purpose of increasing its stock capital, in the accounting year the Bank carried out the issue of stocks, in the result of which its stock capital reached 17.0 million AZN as of the end of 2009.

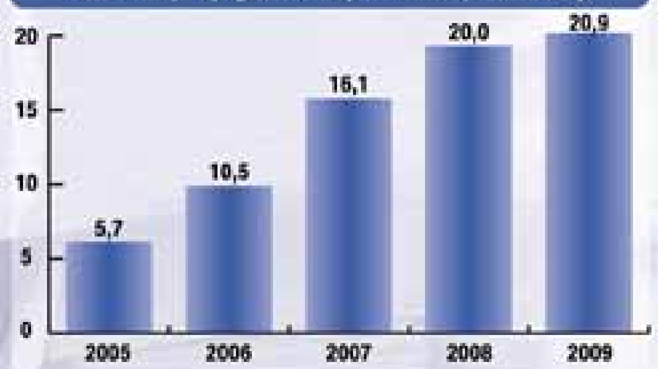
STRUCTURE OF THE CAPITAL

As mentioned above, the total capital of the bank consisted of the paid stock capital of 17.0 million AZN, the undivided profit of 2.8 million AZN and the reserve capital of 1.1 million AZN established under revaluation.

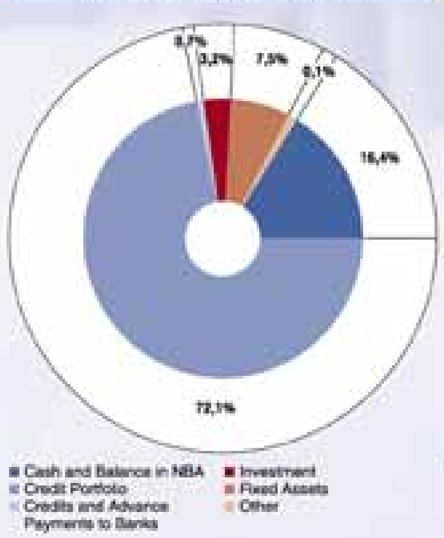
Total Assets of TuranBank (mln AZN)



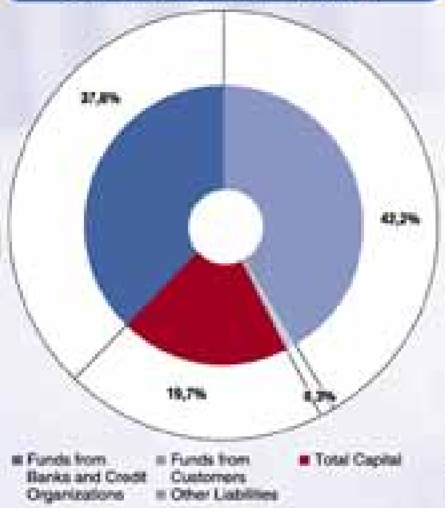
Total Equity growth dynamics (mln AZN)



Structure of the assets in 2009 (%)



Structure of the liabilities in 2009 (%)



Structure of the total capital in 2009 (mln AZN)

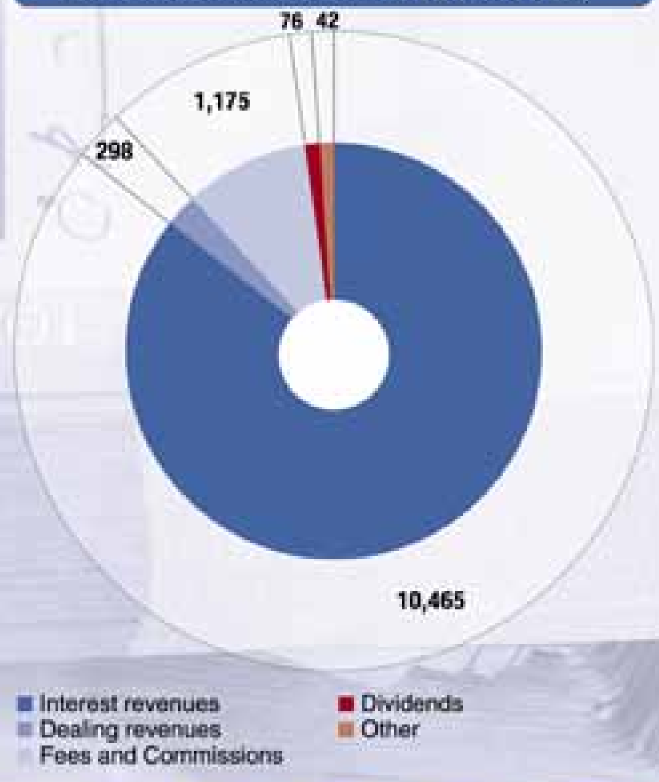
PROFIT

As of the end of 2009, the revenues of the bank were 12,06 million AZN and the expenses, including profit tax was 10,04 million AZN. As of the end of the accounting year, the net profit of the bank was 2.02 million AZN.

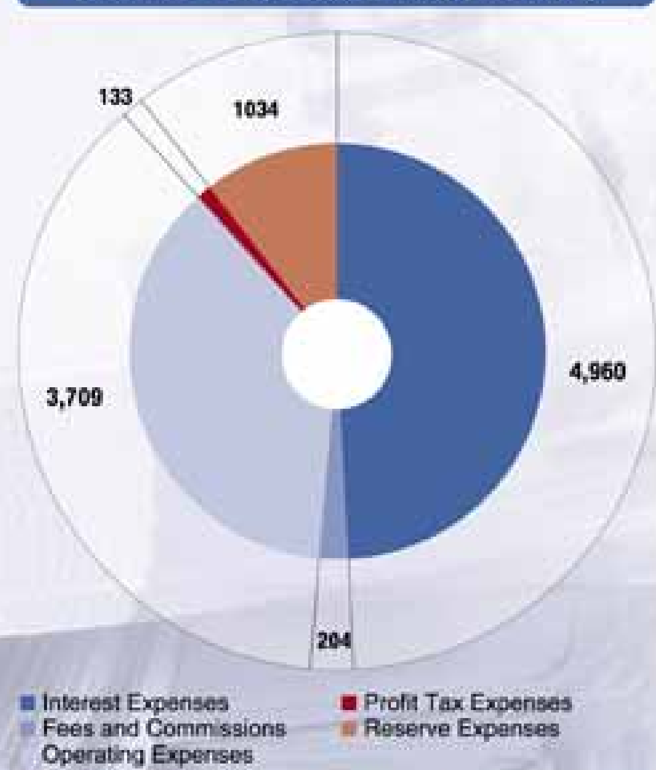
As it is obvious from the comparative analysis of the bank's revenue and expense items separately, the revenues of the bank during the accounting year exceed the corresponding indicator of the previous year by 3.3 percent. It is natural that within the structure of the revenues for 2009 86.8 percent (10.5 million AZN) falls under the revenues from interests. At the same time, the revenues from commissions (1.18 million AZN) and dealings (0.298 million AZN) are also considered significant for the Bank.

As it is obvious from the analysis of the expense items for the accounting year, the main expense items are the interest expenses (4.96 million AZN), operating expenses (3.71 million AZN) and profit tax expenses (0.13 million AZN).

Structure of revenues in 2009 (thsd AZN)



Structure of expenses in 2009 (thsd AZN)



Customer Relationship Policy

Attaching a special importance to customer relations is one of the priorities of TuranBank. In the 2009 accounting year, being committed to its basic priority objectives and guided by the 17-year experience in the banking activity, professional personnel and progressive corporate values, TuranBank, in compliance with its slogan – *...in confidence with us* rendered its customers multifarious services ensuring the key quality criteria.

Acting for 2 years in compliance with the «universal» banking module, the Bank demonstrated a balanced approach towards both individual customers and corporate customers segments of its clientele.

In the accounting year, one of the Bank's key objectives was the measures aimed at, along with maintaining its existing clientele, attraction of potential customers. The main tactical measures of the bank in this regard are the annual revision of the all rates applied by the bank, application of «individual approach» principle to the clientele, products and services provided at preferential prices, consulting service provided to the clients by the professional personnel, as well as the rapid response by the back-office managers together with the sales network.

Generally, the key principles of the Bank in cooperation with corporate customers are the establishment of long-term relations and complete meeting of demands for banking services. The bank's relations with corporate customers are based on the principle of protection of their interests, and such relations are aimed at making their goods and services competitive, as well as at supporting their efficient activity. This criterion enables the timely meeting of the financial demands of the customers, establishment of new kinds of services and improvement of the quality of the rendered services

The key guiding principles of the customer care policy of the Bank was the same as the previous years: provision of complex services, protection of the attracted funds, rapid and high quality performance of the transactions, etc.

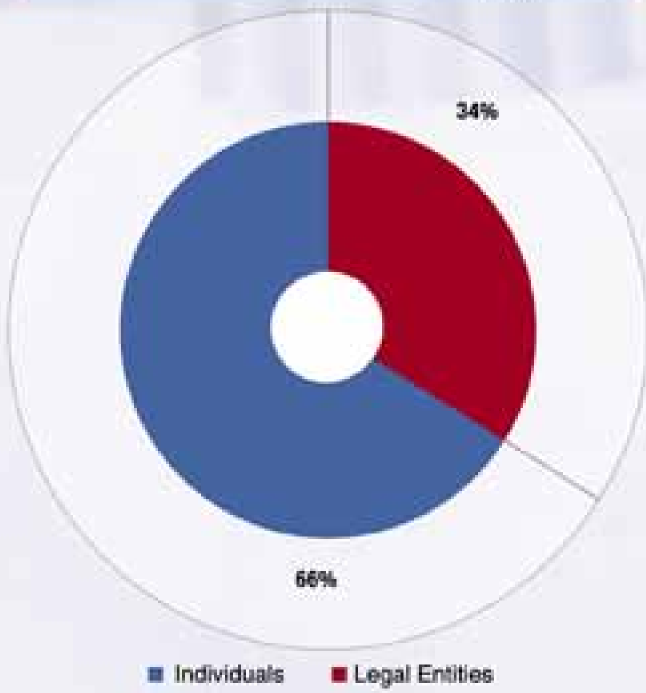
The managers of the bank, taking all endeavors to render high quality services to the customers, brings the products and services into line with the demands of the customers, provide financial advices to the customers, and in cases of necessity draw up individual rates scales.

TuranBank offers its customers the following package of complex products and services

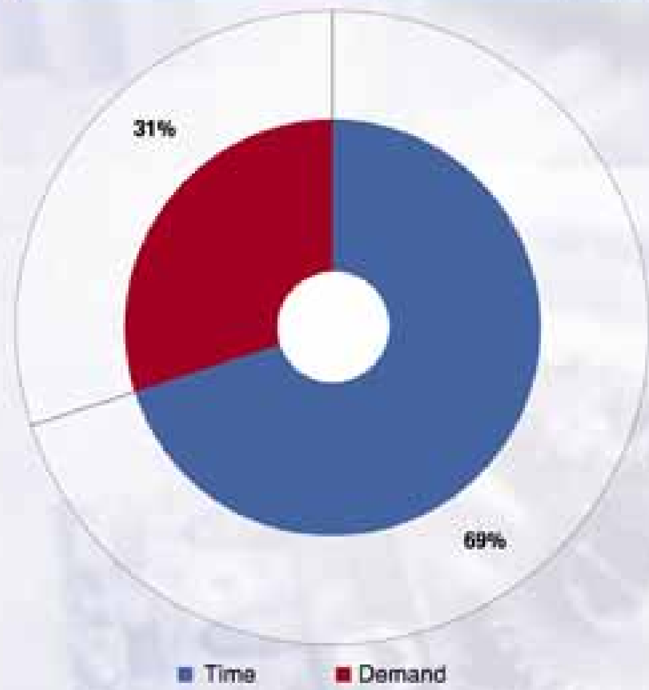
Our services:

- Cash Settlement Services
- Currency Exchange Transactions
- Credits (consumer credits, car loans, lombard loans, micro credits, mortgage, business credits, project credits)
- Deposits
- Plastic Cards
- Money Transfers
- Documentary Transactions
- Salary Projects

Structure of Clientele in 2009, (%)



Structure of Customer Deposits in 2009, (%)



- Public Utilities Payment
- Mobile Operator Payments
- Encashment
- Consultancy

As for the customer services, TuranBank pursues two courses of activity. One of these courses is services for corporate customers and the other one is the services provided to the individuals.

In the accounting year, TuranBank, joining the projects of a number of international financial institutions, increased the variety of the credit products introduced to corporate customers within the overall clientele, which in its turn lead to the expression of satisfaction in the inquiry forms by corporate customers.

The accounting year was also remarkable for the deposit campaigns provided to the customers. Thus, during the accounting period a variety of deposit products such as Buta, Mücrü, Xurcun, Sandıqca, Qızıl Küpə, Xəzinə and Dəfinə were introduced within the framework of «Sirlər Xəzinəsi» (Secret of Treasure) deposit campaign. Within the framework of such campaigns the customers were provided with various options such as saving in the desired currency, withdrawal of interests on deposits at monthly or quarterly basis or at the end of the period, as well as the saving at favorable interest rates.

The increase in the transactions carried out under «Trade Financing» project of the bank during the accounting year, as well as the active cooperation with international financial institutions for this purpose, enabled our customers to carry out import and export operations on more favorable terms.

TuranBank, who entered the plastic card business in 2003, currently is introducing its customers MasterCard (Maestro Cirrus, Master Standard, Master Gold) international plastic cards. The fact that the credits issued with plastic cards are interest-free for 30 days, at 20 percent p.a. interest rate for further 180 days and at 26 percent p.a. for more that 180 days, as well as the availability of additional services via plastic cards (virtual shopping, non-cash payments in public catering enterprises, payment of fees for mobile calls, public utilities, card to card, conversion to other currencies, etc.) enabled the Bank to take the leading position in the plastic card market in Azerbaijan.

Moreover, the SMS Notification service is launched which increased the opportunities for use of plastic cards. Using the «ATM SMS Notification enrollment» service makes it possible to send the information about the transactions carried out in ATMs, POS terminals and via internet in the form of SMS to any Azercell number desired by the customer in online mode. Another problem is the installation of POS terminals in enterprises.

Continuous enhancement of the express money transfer system is the obvious example of provision of high-quality and favorable services to the population through the bank's sales network with large regional geographical coverage. Thus, during the accounting year, the bank accomplished the activities for joining to two more express money transfer systems - «Allure» and «Zolotaya Korona».

TuranBank also offers the population the services of express money transfers through Western Union, Contact, Bistraya Pochta, Migom, Privat Money and Xpress Money systems.

Credit Policy

As a result of the correct credit policy of the Bank and the conducted active credit transactions, the credit portfolio of the bank increased by 11,0 million AZN compared to the corresponding period of the previous year and reached 76,5 million AZN. The key goal of the crediting activity of the bank is to invest the cash assets rationally and to gain maximal profits, within minimal risks and maintaining the liquidity at the necessary level. In the result of such policy, a high quality and diversified credit portfolio was established through well-balanced amounts, terms and types of credits across the regions, customer or customer groups, as well as the sectors of economy. TuranBank provided various types of credits to individuals and legal entities in 2009 as well. In the result of the works performed for this purpose, the range of both business and consumer credits was expanded. The credit portfolio of the bank is composed of credits provided to individuals and corporative customers acting in various sectors of the economy.

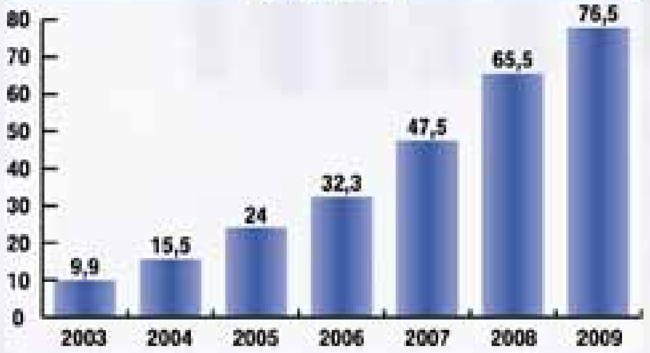
The business crediting, especially crediting of small and medium enterprises, is also of great significance in the crediting activity of the Bank and a remarkable progress has been achieved in this field in 2009. The Bank provides the business credits for its own accounts and the funds attracted from various domestic and international financial organizations.

Generally, the sectoral structure of the credit investments for 2009 was characterized by the issue of credits to production, processing, agricultural, construction, and trade and service sectors of the economy.

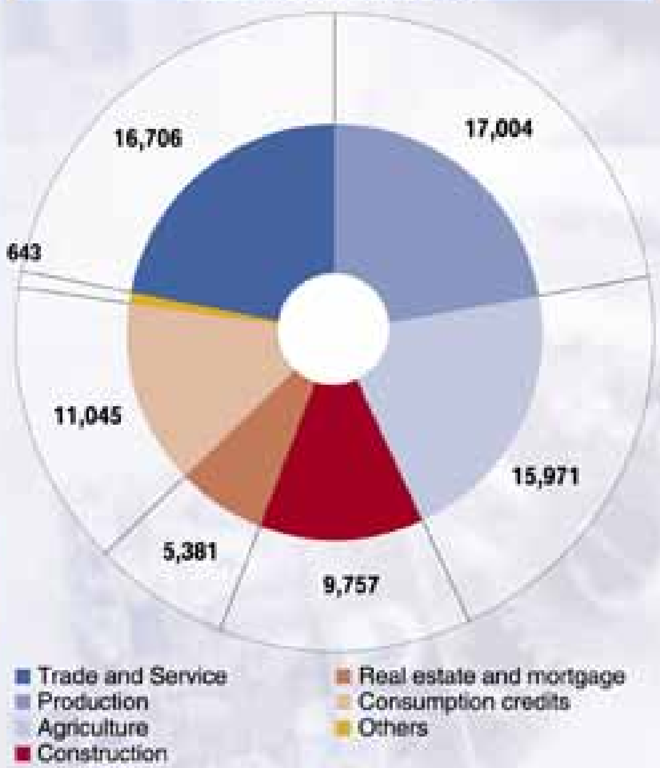
As for 30.12.2009, the credit portfolio according to the sectors of the economy is as follows:

In its activities in the field of business crediting, our bank closely cooperates with both domestic and international financial organizations. Our Bank, having participated in «Development of Mountainous and Highlands Areas», «Development of Small- and Medium Enterprises», «Mortgage Crediting» projects till 2007, joined «Agricultural Development and Credit Project II», «North-East Development» projects of the World Bank and the International Fund for Agricultural Development

Growth Rate of Credit Portfolio per years, (mln AZN)



Division of the credits to consumers per sectors of economy (thsd AZN)



Types of loan	Credit Investment (thsd AZN)	Reserve (thsd AZN)	Net Credit Investment (thsd AZN)
Corporate credits	43 938	1 316	42 622
Entrepreneurs	17 372	482	16 890
Individuals (consumer credits)	11 761	652	11 109
Mortgage credits	5 625	383	5 242
Other credits	823	180	643
	79 519	**3 013**	**76 506**

S/N	Sectors	Credit amount (thsd AZN)	Weight in Credit Portfolio
1	Trade and Service	16,706	22%
2	Production	17,004	22%
3	Agriculture	15,971	21%
4	Construction	9,757	13%
5	Real Estate and Mortgage	5,381	7%
6	Consumer Credits	11,045	14%
7	Other credits	643	1%
	TOTAL:	**76,506**	**100%**

and «Development of Agrarian Sector» project funded by the State Agency on Agricultural Credits under the Ministry of Agriculture, and the Islamic Corporation for the Development opened a credit line of 1,0 million US Dollars for our bank in 2007.

Since 2004, within the framework of the Development Programme for Mountain and Highland Areas, the bank issued credits amounting to 0,82 million AZN for financing of the projects of 93 enterprises in the regions covered by the projects (Guba, Gabala, Dashkasan, Gadabay, Ismayilli and Lerik). As of the end of 2009, the credits under the project amounted 0,29 AZN and the collection rate for the principal amount and interest was 100 percent.

As mentioned above, since July 2007, our bank participates in «North-East Development» project of the International Fund for Agricultural Development. The main objective of the project is the financing of the small-scale and medium enterprises acting in the field of agriculture in the northeastern regions of Azerbaijan - Absheron, Khizi, Siyazan and Davachi, organization of the processing

S/N	Division of credit portfolio according to the types of collateral	Amount (mln AZN)	Weight in portfolio
1	credits secured by real estate	46 940	61%
2	credits secured by guarantees	1 750	2%
3	credits secured by securities	2 105	3%
4	credits secured by equipment	101	0,1%
5	credits secured by precious metals	2 094	3%
6	credits secured by vehicles	7 609	10%
7	credits secured by deposits	3 869	5%
8	credits without pledge	12 038	16%
TOTAL SUM:		76 506	100%

and sale of the products of such small-scale and medium enterprises, purchase of seasonal production facilities to ensure the activity of such enterprises and procurement of processing equipment and vehicles. Within the framework of this project, the bank issued credits amounting to 0,63 million AZN for financing of the projects of 33 enterprises, and it is planned to enhance the crediting under the project in 2010.

Beginning from 2007, our bank is acting as agent bank within the framework of «Agricultural Development and Credit Project II» of the World Bank. The main objective of the project is the financing of the investment projects of the enterprises acting in the field of production and processing of agricultural products in the Republic of Azerbaijan. As of today, within the framework of this project, the bank issued credits amounting to 5 million USD for financing of the projects of 33 enterprises in 18 regions, and its planned to carry out active crediting under the project in 2010 as well.

One of the domestic financial organizations with which our bank cooperates for a long time (since 2002) is the National Fund for the Support of Entrepreneurship. During this period «TuranBank» OJSC issued, out of the means of the Fund, preferential credits (including micro credits in 157 cases), amounting to 18,5 million AZN (including micro credits – 0,15 million AZN), for financing of the projects of 254 enterprises in 22 cities and regions. Eighty percent of the financed projects were implemented in the regions and the share of the production-oriented projects constitutes 88 percent. As of the end of 2009, the credits out of the means of the National Fund for the Support of Entrepreneurship was 15,4 million AZN and the share of such credits in the credit portfolio of the bank constituted 20,1 percent.

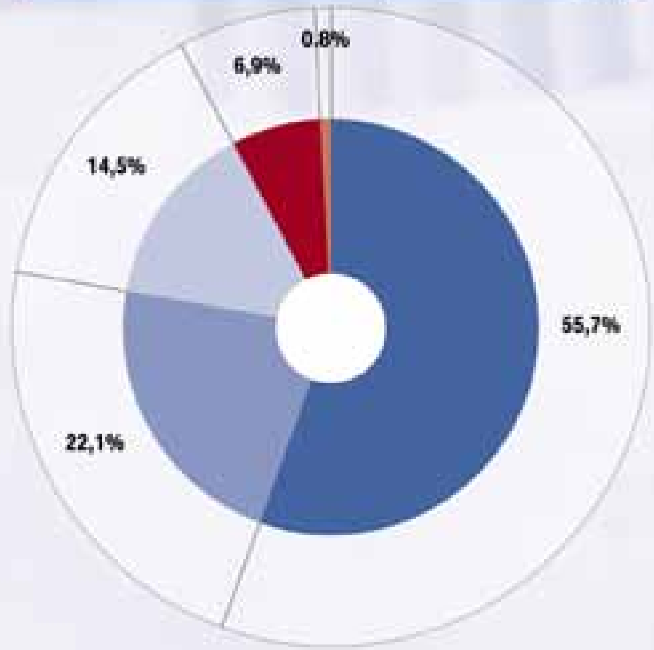
Also, our bank was one of the first banks acting as agent bank for the issue of credits out of the means of the State Agency on Agricultural Credits under the Ministry of Agriculture, within the framework of the «Development of Agrarian Sector» Project. Within the framework of this project, «Turanbank» OJSC issued preferential credits, amounting to 2,9 million AZN, for financing of the projects of 25 enterprises acting in the fields of cattle-breeding, production and processing in 15 regions.

One of the international financial organization with which our bank has close cooperation relations is the Islamic Corporation for the Development. In 2007, a credit line amounting to 1,0 million US dollars was opened by the Islamic Corporation for the Development for our bank. Within the framework of the opened credit line, «Turanbank» OJSC issued long-term credit amounting to 1,0 million AZN for financing of the projects of 2 enterprises acting in the field of publishing and production

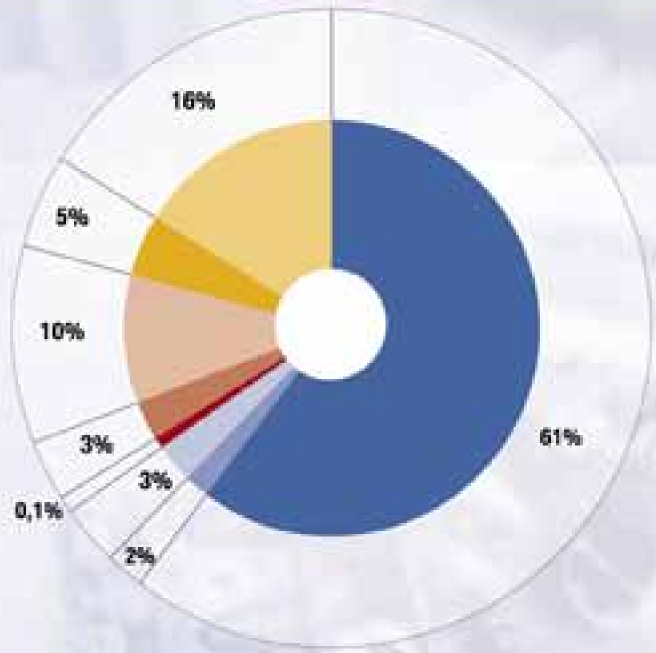
One of the significant parts of the credit activity of the bank is mortgage crediting. Our bank, acting as an agent bank for the issue of credits funded by Azerbaijan Mortgage Fund, after joining the state programme for mortgage

S/N	Description	Amount (mln AZN)	Weight in portfolio
1	Unused credit lines	8,1	10,6%
2	Extended credits	5,6	7,3%
3	Credits exceeding 10 percent of share capital	9,9	12,9%

Division of Credit Portfolio per Borrowers, (%)



Division of Credit Portfolio per types of securities (%)



crediting, issued credits amounting to 4,12 million AZN within the framework of this project, and as of the end of 2009 the credit investments amounted to 3,9 million AZN.

The revenues from the interests on the credit transactions, increasing year by year with a dynamic growth rate, constitute a significant part of the total revenues of the bank.

In 2009, the revenues from the interests on the credits increasing by 0,4 million AZN compared to 2008, amounted to 10,5 million AZN, which constituted 86.7 percent of the total revenues of the bank.

The reserves established in the bank for the potential losses on the credits increased by 1,0 million AZN compared to 2008 and amounted to 3,0 million AZN.

The division of the credit portfolio according to terms is as follows:

Credits up to 1 month - 5,8 million AZN or 7,7 percent of the portfolio

Credits from 1 to 6 months - 21,0 million AZN or 27,5 percent of the portfolio

Credits from 6 months to 1 year - 12,7 million AZN or 16,6 percent of the portfolio

Credits for more than 1 year - 37,0 million AZN or 48,3 percent of the portfolio

As it is obvious, the positions of the Bank in the field of crediting become stronger year by year and in accordance with the strategic plan and the goals set, it is planned to improve the activities in this field in the next years.

Microfinancing

In the reporting year, TuranBank, continuing its activities as a universal bank module, attached a special importance to the sphere of microfinancing in market segmentation.

Beginning from the accounting year, the crediting, which is considered to be the main field of activity of the Bank, contains the field of micro-financing. From the point of view of development of this field, in the accounting year the Bank developed a «micro-credit» product, and in compliance with the international practice, micro-credits include the credits up to 20 000 AZN.

One of the most remarkable events in the reporting year was the active participation of TuranBank in the International Microfinance Conferences. The most portentous was the participation of the Bank's delegation in the 12th Annual Microfinance Conference in Belgrade, Serbia. In the conference, productive negotiations were held with a number of international and local microfinancing institutions and preliminary agreements for cooperation were achieved.

For the purpose of expanding the microfinancing business, it is planned to open a new «Microfinancing» branch, which will provide opportunities for financing the low income groups of the population under more suitable and advantageous conditions in the future.

In order to expand microfinancing business new Yasamal branch has been established which enable low income people to access low cost financial resources at favourable conditions.

Sectors	Loans disbursed (AZN)		Change
	2008	2009	%
Agriculture	4 463 980	6 762 227	33,99
Production	595 500	893 124	33,32
Trade	3 253 487	5 291 725	38,52
Service	743 500	1 403 481	47,02
Other	1 523 620	1 080 182	-41,05
Total	**10 580 087**	**15 430 740**	**31,43**

Plastic Cards

TuranBank attaches a special importance to the card business. The economy-wide importance of the non-cash settlements is one of the key factors stimulating the Bank's operations in this field.

The 2009 accounting year was successful TuranBank from the point of view of card business. Our Bank passed the certification in «MasterCard International» payment system for production of chip cards, EURO card accounts are available for customers and «ATM SMS Notification enrollment» service was launched.

TuranBank started to release plastic card products since 2003 and demonstrates positive trends in expanding the variety of its cards every year. In 2009, the production of cards increased by 74 percent compared to 2008, and the total turnover through 9 ATMs amounted to 6 669 551 AZN and the bank commissions for card services amounted to 112 204 AZN.

The ATMs network of the Bank covers Baku, Ganja and Sumgayit. Currently, the network consists of 9 ATMs. The Bank intends to place ATMs in its existing branches in Tovuz, Aghstafa and Zagatala in 2010. Our Bank, being the member of «MasterCard International» international payment system, offers its customers CırrusMaestro, MC Standard, MC Gold bank cards.

During the accounting year, there was an intensive increase in payment of public utilities fees, mobile operator fees, internet provider service fees by means of plastic cards, and in the transaction carried out through «on-line shopping» and «Card to Card» services.

TuranBank enhances its acquiring network as well. Currently, 73 trade and service centers are involved in provision of services by means of bank's cards and necessary opportunities have been provided in large stores and public catering enterprises for use of plastic cards.

In the next accounting year we intend to implement a number of projects related to the plastic cards, to install PayPoint system and to apply Visa International and the issue of «chip» cards.

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Service Network

One of the key factors ensuring the sustained development of a bank is the geographical coverage of its service network. During the accounting year the service network of the Bank consisted of 11 branches, 10 representatives and 21 exchange offices.

Generally, expansion of the service network is one of the priority lines of the activity of TuranBank. Comprehensive development and expansion of the service network is not limited only to representation in regions and increase in the number of regional units, but also include the improvement of the efficiency of the existing structural units. For this purpose, TuranBank always does its best to increase the capacity of its service network and to improve the quantitative and qualitative parameters of its activity.

Our goal is to establish a larger and developed service network in order to render our services to the customers promptly, efficiently and with high quality, to meet the demands of the customers, to find new markets for provided services, to enlarge the existing sales markets both within and outside the geographical region.

The geographical coverage of the branches, representative and exchange offices constituting the service network of the Bank is distinguished for its peculiarity, with 6 branches located in various locations in Baku, 5 branches in Ganja, Sumgayit, Tovuz, Aghstafa and Zagatala.

During the accounting year the General Meeting of Shareholders approved the «Branches and Departments Development Strategy», according to which all branches shall comply with single corporate identity, the material and technical resources of the branches shall be improved. Standardization process which has begun in 2009 will also be continued in 2010. As a result branches such as Tovuz and Nur have been standardized to comply with single corporate identity.

At the same time, certain changes are applied in the management process and sales mechanism of the branches, especially regarding the control and monitoring issues.

In support of the State Programme for Socio-Economic Development of Regions carried out by the government of the Republic, it is intended to open new branches in the northern and southern regions of the country.

Expanding its network of services, Bank is planning to achieve the goals mentioned below:

- To expand the regional base of clientele
- To offer the clients prompt and high quality services being close to them
- To expand opportunities of introducing a complete set of services to the clients who are regionally operational
- To increase investment attractiveness of the bank
- To decentralize services offered from the centre to the regions
- To participate in the Regional Socio-Economic Development Program

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Institutional Development

Since the basis of the successful banking business is institutional development, TuranBank set the strengthening of this field as one of its goals. The strategy adopted by the Bank for 2008-2011, declared the years 2008 and 2009 to be «Institutional Development» years in the Bank, and a mutual cooperation agreement, aimed at the support of the institutional development in the Bank, was concluded with Azerbaijan Bank Training Center, one of the training organizations having certain experience in this field. The qualified specialists of ABTC conducted a close cooperation with the middle and senior management of the Bank for implementation of the projects, modules/submodules and measures determined in the Action Plans in the field of «institutional development». For the purpose of maintaining the «Institutional Development» as an area of priority, the Bank established the Strategic Plan Group (SPG) composed of the heads of structural units and the Management Board on vertical subordination of the Supervisory Board within the adequate organizational structure corresponding to the strategy of the Bank. Generally, the SPG shall held regular weekly, quarterly and annual meetings to deal with the envisaged annual tasks and make relevant decisions conducting discussions on the progress status of implementation of the strategic tasks.

While 2008, as the first year of the «Institutional Development» years, was prominent for a number of fundamental reforms in the Bank, 2009 was remarkable both for continuation of the projects started in 2008 and for implementation of other projects supporting the stable development business course. The Action Plans for 2009 consists of 9 projects – Improvement of Organizational Structure, Reconstruction of HR Management Activities, Improvement of the Risk Management System, Improvement of the Financial Management Activities, Improvement of the Information Technologies, Improvement of the Marketing and Sales Activities, Attraction of Foreign Investors, Improvement of the Intrabank Measures against Money Laundry and Improvement of the Corporate Governance System. Also, the Action Plans for 2009 include 32 modules, 2 submodules and 171 measures to be taken.

Implementation of the measures and works set out in the Action Plans ensured the improvement of a number of significant fields:

1 Recruitment of the adequate staff for the adopted organizational structure
2 Comprehensive improvement of intrabank legal and regulatory framework – the development of the policies, procedures and instructions on processes has completed
3 Improvement of internal control systems – optimal control mechanisms for various business blocks have been applied
4 Intrabank instructions book for products and services, as well as for functional activities have been created
   4.1 Procedures for Transactions with Plastic Cards
   4.2 Procedures for Transactions with Deposits
   4.3 Procedures for Intrabank Processes
   4.4 Procedures for Treasury Activities
   4.5 Procedures for Clerical Work
   4.6 Procedures for Procurement
   4.7 Procedures for Documentary Transactions
   4.8 Procedures for Guarantees
   4.9 Procedures for Currency Transactions
   4.10 Procedures for Internal Audit
   4.11 Procedures for Settlements
   4.12 Procedures for Securities
   4.13 Procedures for Rent of Deposit Safes
   4.14 Procedures for Budget
5 Improvement of HR Management System
6 Career Development System has been established
7 Code of Business Ethics has been developed and applied
8 Qualifying Evaluation for evaluation of knowledge and skills of the personnel has been conducted and the first 10 successful officers have been awarded
9 The direct leader officers passed trainings for improvement of their leader skills
10 The Bank Staff Profile has been improved
11 Improvement of activities for establishment of Risk Management System
   11.1 Risk Management Policy
   11.2 Development of Risks Map
   11.3 Development of Emergency Plan
   11.4 Internal Procedures for Distressed Credit Management
   11.5 Internal Procedures for Conduction of Credits Monitoring
   11.6 Procedures for Currency Risk Management
   11.7 Procedures for Interest Risk Management
   11.8 Procedures for Liquidity Risk Management
   11.9 Procedures for Operational Risk Management
   11.10 Procedures for Credit Risk Management
12 Improvement of ALM system, promotion of the activity of ALCO, distribution of limits. Comprehensive promotion of treasury activities, establishment of liquidity-oriented analytical database
13 Improvement of the Bank's Credit Policy
   13.1 Procedures for Issue of Business Credits
   13.2 Procedures for Provision of Guarantees
   13.3 Procedures for Application of Life Insurance to Prospective Borrowers
   13.4 Procedures for insurance of the property to be pledged against fire and other risks
   13.5 Procedures for CASCO insurance of vehicles to be pledged
   13.6 Improvement of systematic basic activities on distressed credits
14 Improvement of Financial Management System
   14.1 Procedures for Drawing-up and Closing Balance
   14.2 Procedures for Organization of Archiving
   14.3 Procedures for Business trips
   14.4 Prime Costs Accounting
15 Improvement of Marketing, Sales and CRM system;
   15.1 Development of Marketing Policy
   15.2 Development of Advertising Policy
   15.3 Development of Instructions for Segmentation
   15.4 Procedures for New Product Development
   15.5 Procedures for Customer Rating System
   15.6 Marketing Plan Development System
   15.7 Establishment of Customer Profile System
16 Improvement of the System for Countering Money Laundry and Terrorism Financing;
   16.1 Development of new advanced internal procedures for Countering Money Laundry and Terrorism Financing
   16.2 Development of ««Know your Customer» Policy
   16.3 Training of Compliance Officers
   16.4 Adoption of intrabank declaration on Countering Money Laundry and Terrorism Financing
   16.5 Obtaining PATRIOT ACT certificate;
17 Improvement of IT system;
   17.1 Procedures for conduction of IT trainings for Business Departments
   17.2 Procedures for determination of authorities for use of IT systems
   17.3 Procedures for starting and stopping main information systems
   17.4 Procedures for service of systems and applications
   17.5 Procedures for testing and application of new IT systems or changes.
   17.6 Re-establishment of Help-Desk system

Implementation of the measures cited for 2009 ended up, to large extent, in formulation of a profound base of the bank under the "institutional development" project. Continuation of the project in the year of 2010 aims to facilitate meeting the business targets of the bank. For this purpose a plan of measures consisting of 14 modules has been designed.

Islamic Banking

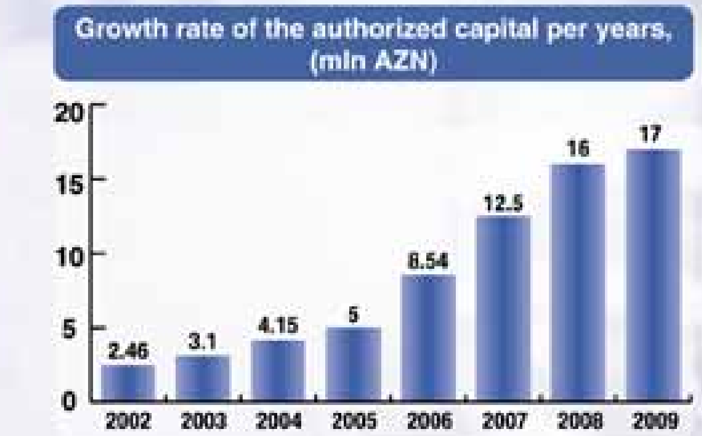
The global financial crisis starting from the second half of 2008, proved that «Islamic Banking» is a stable system alternative to traditional banking. Taking into consideration the annual growth rate of Islamic Banking by 15 percent and the durability against the crisis, most countries started activities aimed at application of Islamic Banking module.

The intention to enlarge the general sales channels and the fact that while Azerbaijan is a Muslim country its population has a limited or no access to products and services of «Islamic Banking» encouraged TuranBank to apply «Islamic Banking» windows in accordance with Shariah principles and the existing banking legislation. The first practice of the Bank in this field was the a credit line agreement concluded with the ICD (Islamic Corporation for the Development of the Private Sector, Islamic Development Bank Group) in 2008, which is aimed at financing of Small and Medium Enterprises by means of Murabbaha (Islamic Banking Tool) product and the first year of which is preferential. The Bank has conducted trainings on application of this product together with the relevant experts and specialist of the ICD in Kazakhstan and at the Head Office of the Bank.

The implementation of the first activities for application of «Islamic Banking» windows is planned for the 2010 accounting year, which will be provided for in the Action Plans for that year.

Generally, the primary activity plan of the Bank includes the development of conception, conduction of trainings on «Islamic Banking», development and application of mechanisms for corresponding products. The Bank intends to cooperate with a number of qualified institutions for training and education of Bank's personnel in this field. Such institutions include Islamic Research and Training Institute (IRTI) and Bahrain Institute of Banking and Finance (BIBF), etc.

Stock Capital



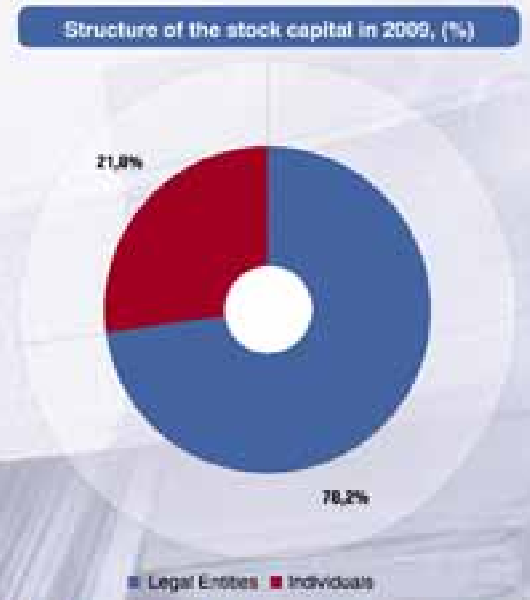
As of the end of 2009, the stock capital of TuranBank amounted to 17 million AZN, which exceeds the minimal requirement of the Central Bank for the authorized capital of banks by 7 million AZN or 70 percent.

The relations established on sincerity, trust and transparency principles increases the confidence of the actual stockholders of TuranBank in the productive growth of the Bank, which is proved by the dynamic increase in the stock capital of the Bank during the 17 year of functioning, as well as by the issue of additional stocks during the accounting year. Compared to the end of 2008, the growth of the stock capital amounted to 1 million AZN, which was provided through additional issue of stocks in Baku Stock Exchange.

As of the end of 2008, the total number of the stocks of the Bank was 17 500 ones, the nominal value of each being 1000 AZN.

One of the notable features of the adopted strategic approach is the attraction of foreign investor to TuranBank during the next 2 years. For this purpose, the key criteria for participation in the stock capital of the Bank were developed by the stockholders of the Bank and will be submitted, as proposals, to the selected foreign financial institutions.

In the accounting year, the Bank has 25 stockholders, 20 of which are individuals and 5 ones are legal entities.



Capital investments

As in the previous years, in 2009, TuranBank adhered to its course of economic activity in the field of capital investments, and taking into account the profitability of the field of business it is planned to provide a balanced approach to this field in the next years

During the reporting year the capital investments of TuranBank was as follows:

«Azer-Turk Bank» OJSC
«Bashak Inam» Insurance Company
«Milli Kart» LLC Processing Center
«TuranLizing» LLC

«Azer-Turk Bank» OJSC:

«Azer-Turk Bank» OJSC was founded in 25 May 1995 by T.C. Ziraat Bankası and Azerbaijan Republic Joint Stock Commercial Agrarian-Industrial Bank and was launched in 11 July 1995 under license No. 234 issued by the Central Bank of Azerbaijan on 29 June 1995.

The authorized capital of «Azer-Turk Bank» OJSC, as of the end of the accounting year was 10 million AZN. The shareholders of the Bank are T.C. Ziraat Bankası A.S. (owner of 46 percent of stocks), «AgrarCredit» Non-Bank Credit Organization (owner of 46 percent of stocks), Ziraat Bank International AG Frankfurt, Germany (owner of 4 percent of stocks) and «TuranBank» OJSC (owner of 4 percent of stocks).

«Bashak Inam» Insurance Company:

«Bashak Inam» Joint Insurance Company started its activity on 9 August 1996 under the license granted by the Ministry of Finance for the relevant insurance activity.

As of the end of the reporting year, the authorized capital of «Bashak Inam» Joint Insurance Company was 1 million AZN. The stockholders of the company are «Bashak Sigorta» A.S., «TuranBank» OJSC (owner of 15 percent of stocks). The remaining stocks are owned by «Azer-Turk Bank» OJSC, «AgrarCredit» Non-Banking Credit organization and individuals.

Generally, «Bashak Inam» Joint Insurance Company takes one of the leading places in the insurance market of Azerbaijan.

«Milli Kart» LLC Processing Center (EBRD):

«Milli Kart» LLC Processing Center was established as a processing center alternative to «Azerkart» LLC, which is a subsidiary of the International Bank of Azerbaijan in the plastic card market of Azerbaijan. As a Processing Center, serving the domestic banks while the turnover of the transactions carried out by means of plastic cards, it carries out the production and release of bank cards, use of bank cards in the domestic and international non-cash payments and settlements network, and provides services connected with settlements by means of such bank cards. The center was established in 1 June 2006 by 18 domestic banks – AtaBank, AzerdemiryolBank, StandardBank, Bank Respublika, Azer-TurkBank, Bank of Baku, Azerbaijan Industrial Bank, DebutBank, AmrahBank, KhalgBank, CredoBank, Access Bank, ParaBank, RabitaBank, ZaminBank, and TuranBank (owner of 3 percent of stocks) with 4 million AZN of paid authorized capital.

On September 11, 2006 «MilliKart» LLC was registered in the Ministry of Justice of Azerbaijan Republic. Currently 13 banks are served in «MilliKart» LLC. These banks have issued over 80 000 cards, also more than 200 ATMs and 2 200 POS-terminals have been installed by these banks.

One of the significant events of the 2008 was the activities of the EBRD aimed at participation in the structure of the stock capital of «Milli Kart» LLC Processing Center. In the accounting year it was agreed that the 12 percent share in the stock capital of the center will be completed by the EBRD in the second half of 2009.

«TuranLizinq» LTD:

Along with the rapid growth in banking operations, a rapid growth is experienced in leasing operations, as well. Taking into account the business potential of this field, TuranBank signed a memorandum of understanding on establishment of a subsidiary leasing entity within the programme, under Azerbaijan Leasing Development project implemented by the International Finance Corporation (IFC) and funded by Swiss State Secretariat for Economic Affairs (SECO).

In the result of the technical assistance by IFC, in 21 August 2006, «TuranLeasing» LLC, 100 percent of stocks owned by TuranBank, was established and officially registered.

For the purpose of expansion of leasing activities and implementation of a number of prospective projects, «TuranLeasing» LLC conducted productive negotiations with Exim Bank, US, BCP Bank, Switzerland, Russian Agricultural Bank, as well as with Belagroprombank, one of the leading banks of Belarus.

Corporate governance

Establishment of an efficient corporate governance system is one of the main courses of our activity.

Beginning from 2007, TuranBank, as an integral part of the institutional development, commenced the activities on establishment and application of corporate governance system, in accordance with the «Regulations on the Application of Corporate Governance Standards in Bank» of the Central Bank of the Republic of Azerbaijan and Basel Committee Guidance «On Enhancing Corporate Governance for Banking Organizations», and taking into account good international corporate governance practice.

One of the most important measures taken by the Bank in the field of corporate governance was the development of the Code of Business Ethics and corporate behavior in May 2009.

In the result of the endeavors to apply in the Bank the best practice in the field of the international standards of corporate governance, on 5 June 2009, the International Financial Corporation joined the Phase 2 of the Azerbaijan Corporate Governance Project. Beginning from that month, the experts of the IFC have held interviews with the management and structural units of TuranBank and the phases of the application of the best corporate governance practice in the Bank, as well as the measures to be taken for this purpose have been determined. The following measures are intended to be taken in various fields of activity of the Bank within the framework of the two-year project:

- Developing Corporate Governance Code
- Establishment of the post of Corporate Secretary and conduction of training for the person to be appointed to the post
- Development of the Conflict of Interest and Related Party Transactions Policy
- Consultation on Risk Management
- Development of Information Disclosure Policy and improvement of the practice in this field
- Development of Sustained Performance Policy
- Development of Dividend Policy

Furthermore, the Bank's Action Plan include a number of other measures such as amending the By-laws on General Meeting of Shareholders, taking measures for getting the activity of the General Meeting of Shareholders closer to the best practice, taking measures for getting the activity of the Supervisory Board closer to the best practice, providing recommendations for getting the activity of the Management Board closer to the best practice, providing recommendations on the activity of Internal Committees, etc.

From the point of view of implementation of the action plan intended to be carried out from 2010, the next 2010 year is expected to be a year of busy and intensive activity.

To increase faith of its clients and shareholders in the bank, it has planned to apply Corporate Governance standards within the bank on the high level in mutual cooperation with IFC. As part of this plan, it has been envisaged to hold pragmatic seminars for the middle-level management, the heads of branches, loan officers and the corporate secretary of the bank.

Risk management

The global crisis had a negative effect on Azerbaijan economy especially in the last quarter of the previous year and the first quarter of this year, which lead to certain tension in currency market and banking system. However, thanks to the successful economic strategy pursued by the government, the country was ready to meet the global crisis and the established currency reserves of large amounts ensured the financial stability of the economy. Owing to such financial cushion the liquidity demands of the economy were met timely, the exchange rate of Manat and the stability of the banking system were maintained, which in its turn prevented recession in the country and retained the optimal economic growth rates.

At the same time, The Central Bank took an active part in maintaining the macroeconomic stability and strength through efficient monetary and exchange rate policy and the anticrisis measures carried out in a regular basis. The stability of Manat protected the incomes and savings of the population from inflation and prevented the severe increase in the prices of imported goods used in various fields of production. This also protected the economic units having liabilities to banks in foreign currencies from serious financial losses, prevented the increase in the foreign debt burden of banks and the banking sector, with large capitalization and financial and liquidity reserves was ready to meet the global economic difficulties. Bank control system ensured the systematic minimization of risks, increased the capacity of banks in risk management and created a strong financial immunity in the sector.

Protecting itself from the negative effects of the global economic difficulties takes an important place in the activity of TuranBank. The Bank attached a special attention to Risk Management. During the crisis and the post-crisis reflation period, the Bank tenaciously adhered to its philosophy and principles of reliability, truthfulness, transparency, high quality services, cooperation with clients, profitability, serving to Azerbaijan economy, respecting the laws of the country. For the purpose of improving the risk management activities in the Bank, close cooperation was established with IFC, GARP and other international institution, including ABTC.

Currently, the Risk management Department of «TuranBank» OJSC determines, evaluates, controls, monitors and manages all risks connected with the activities of all structural units of the Bank.

Since the Bank is a financial intermediator among the economic units and acknowledging and managing risks is of the essence in banking business, «TuranBank» OJSC adhering to the standard European banking traditions classifies the risk management in the following hierarchical levels:

a) Strategic level: Here the risk management is carried out at the level of the Management Board and the Supervisory Board. At this level, risk management activities include determination and management of risks, development of strategies and policies depending on the nature and frequency of occurrence of risks and on the amount of the damage caused, establishment of adequate systems in cases of occurrence of risks, determination of tools for maintaining in the acceptable, i.e. manageable level.

b) Macro level: Here the risk management is usually carried out by the committees established by the management personnel of various structural units of the Bank engaged in financial activity, in accordance with the risk strategy and policy of the Bank.

c) Micro level: Here the risks are managed by the structural units of the Bank engaged in financial activity, within the limits determined by the above mentioned levels.

Beside it, for the purpose of Risk management in the Bank, the procedures for determination, evaluation and management of various risks such as credit, operational and market risks have been developed and the corresponding risk management tools are applied.

Today, compared to the previous years, our Bank has obtained certain achievements in Risk Management and improved the Risk Management System in accordance with the following aspects:

I. Structure of Risk Management

The Structure of the Risk management in the Bank, being comprehensive and sensitive to risks that the Bank maybe faced including the changes that may occur in the fields of business where the Bank acts, is based on progressive risk management procedures and rules and includes the followings:

a) Determination, acknowledgment, evaluation, monitoring, reporting and control of the risks;

b) Management of risks by the structural units and the responsibilities of such structural units;

c) Availability of management information system techniques which transfer the information from operational level to management level;

d) Mechanism ensuring the efficiency of the system and procedures and their progressive changes.

II. Integrity in Risk Management

In the Bank's Risk Management, the risk that the Bank may be faced in the future due to the multilateral activity of the Bank are analyzed in whole rather than separately, which to serve as a ground for preventing one risk from creating another one and maintaining the risk at controllable and manageable level.

III. Accountability in Risk Management

The activity of the structural units and persons participating in risk management in the Bank is inspected by internal audit and risk monitoring departments. This is aimed at more efficient management of risks ensuring the accountability of such structural units and persons and preventing them from causing any damage to the Bank.

IV. Evaluation and Measurement of Risks

Risks are measured by the risk management personnel of the Bank, having certain analytical risk analysis skills, by means of various methods, models, mathematical tools and systems, in order to maintain them in a manageable level. During the evaluation of risks, the weight, frequency of occurrence, amount of the possible damage of the risks are taken into account and the management methods corresponding to nature of such risks are applied.

V. Independent View and Monitoring in Risk Management

In accordance with the risk management philosophy, as in the standard banking, in our Bank the party – structural unit undertaking the risk and the structural unit determining, measuring and evaluating such risk are not the same unit. This structural unit, being a single independent unit with wide powers, properly hands over the result of its activity to the Management Board for making decisions on risk management, which ensures the proper management of risks.

VI. Emergency Planning

A risk management mechanism, enabling the Bank to predetermine possible undesired circumstances in the activity of the Bank, to determine all kinds of possible risks to occur in such circumstances, to carry out timely and efficient measures, to assess such circumstances in a regular basis and evaluate the possible negative effect of such circumstances on the activity of the Bank, have been is established in the Bank. This, in its turn, enables the Bank to predetermine and mitigate the risks and retain them within manageable limits.

Notwithstanding the negative effects of the global economic difficulties, «TuranBank» OJSC has safely protected itself from such negative effects and the durability of the growth rates of the Bank's activity has been maintained.

Today, TuranBank retains its high profitability and investment attractiveness.

Anticrisis management

The global financial crisis started in 2008, reached its critical point in the first quarter of 2009. The crisis beginning from the banking sector resulted in such negative trends as the reduction of production, increasing of unemployment, reduction of the incomes of the population in most countries all over the world.

Naturally, the crisis affected the financial market of Azerbaijan, as a part of global financial market, especially the local banks. Given that the end of 2008 was the starting phase of the crisis, the Central Bank has already taken necessary preventive measures in this field. The significant measures aimed at ensuring the stability of the domestic financial market and increasing of the competitiveness include the lowering of the discount rate, exemption from taxation of the part of profit intended for increasing of the capital for three years for the purpose of acceleration of the process of capitalization of the banks. Although the crisis almost had no effect on the activity of TuranBank, for the purpose of efficient management and minimization of the risks that may occur in the future, all fields of activity of the Bank were monitored, the existing defects and shortcomings were identified.

The «Anticrisis Group» was established in the end of 2008 and started development of anticrisis action plan. It should be noted that the main factor enabling our Bank to avoid the influences of the crisis was the diversified credit transactions carried out by the Bank. The other significant measures taken in 2009 were the diversification of the credit portfolio and the maintaining of the diversification strategy for the next years.

Under the crisis condition, the «Anticrisis Group», in the light of the stability of the institutional projects targeted for medium and long periods to the modern macroeconomic situation, plans to take measures for conduction of stress tests, organization of flexible functioning of controlling systems in management, more efficient management of liquidity, reduction of limits for one debtor, prevention of the possible depreciation of the Bank's assets and liabilities in the global and domestic macro processes, pursuing of the capitalization strategy, etc.

One of the key objectives of our Bank is to minimize the risks that may occur in all transactions of the Bank during post-crisis period. Such measures are of great importance especially from the point of view of minimization of damages to the Bank's transactions during the crises that may be faced in the future.

Measures against money laundering and terrorism financing

As in the previous years, in 2009, TuranBank carried on its intensive activities in prevention of money laundering and terrorism financing. Earlier in 2004, the Bank developed its internal procedures and instructions against money laundry and terrorism financing in accordance with the laws of the Republic of Azerbaijan «On the Central Bank of the Republic of Azerbaijan» and the Law «On Banks», international conventions to which the Republic of Azerbaijan is a part, instructions of the Financial Action Task Force (FATF), «Volfsberg» principles of the Basel Committee on Banking Supervision. In 2009 such internal regulations and normative legal basis was improved and the relevant officers of the Bank took a regular part in the trainings, courses and seminars on money laundry and terrorism financing held by such famous organizations as USAID, ATTF and ABTM.

The important documents adopted by the Bank against money laundry and terrorism financing include the Declaration on Prevention of Money Laundry and Terrorism Financing, «»Know your Customer» Policy. The overall internal normative legal basis adopted by the Bank with respect to money laundry and terrorism financing is based on the identification of customers and transaction and on the relevant normative documents on keeping of records of operations.

We would like to note that, taking into consideration the changes in the international and domestic legal and regulatory framework on countering money laundry and terrorism financing in 2009, the internal regulations on countering money laundry and terrorism financing we revised and approved by the Supervisory Board in June. The new regulations, along with other significant changes and amendments, defines the responsibilities of the relevant structural units, procedures for internal control, identification of customers according to risk groups, the transactions subject to special attention, powers and obligations of the compliance officer, procedures for monitoring reporting, etc. Also the compliance officer has been appointed.

As a part of the measures taken by the Bank against money laundry and terrorism financing, a working group, consisting of the heads of three structural units, was established for the purpose of controlling the implementation of the intrabank procedures and regulations against money laundry and terrorism financing, monitoring of customer transactions and improving the process of regular following of the list of terrorist organizations and countries updated by the Central Bank.

Information Technologies

Information Technologies is one of the most important fields in development of any enterprise. This field starting its rapid development from the second half of the 20th century has become one of the most urgent needs of the modern world. Today, it is practically impossible to manage any large or medium enterprise or organization without the means of information technology. «Turanbank» OJSC acknowledges the importance of information technologies and sets the development of the information technologies as one of its foreground tasks.

In 2009, TuranBank applied a number of innovations in the field of information technologies. Beginning from early 2009, TuranBank, joining the Centralized Information System for Mass Payments established by the Central Bank of Azerbaijan, started to receive from the customers the payment for public utilities. Thereafter, the Bank, for the purpose of improving the quality of services rendered to the customers, joined the collective agreement on establishment of electronic document exchange between the Bank and the Ministry of Taxes of the Republic of Azerbaijan, which ensured the exchange of certificate duplicates, directions on customer accounts between the Bank and the Ministry of Taxes. The site of the Bank was transferred from the server in the United States to the server in our Republic, which ensured more stable functioning of the site. Beside it, certain changes were made in the e-mail system of the Bank, which increased the effectiveness and speed of intrabank correspondence. «Help Desk» Software was applied in the Bank for the users of the IT systems, which ensured the recovery of any minor failures in the functioning of the systems in the shortest time, as well as automated collection of the information necessary for analysis of such failures. «Nur» branch of the Bank moved to a new office building, equipped with all systems meeting the requirements of modern standards.

For the purpose of speeding up the printing of documents from the information system of the Bank in the branches, «Thin Print» technology and software was successfully applied. In the result of centralization of connection to the systems for receipt of payments for Azercell, Bakcell and NarMobile operators, problem with one busy line in each branch was solved. For the purpose of establishing strong reserve center of the Bank, a project was developed together with the leading IT companies of Azerbaijan, as a part of which 10 Mbps connection was provided between the Sumgayit branch and the Head office of the Bank. New «Customer Profile» software has been established in order to strengthen the customer relations and to improve the customer care system of the Bank. Also the Information Technologies Department of the Bank engineered new software for budget management. Most of the copper telephone lines were replaced by optical fibre cables which will provide higher quality of telephone connection.

Bank intends to make investments in Information Technologies in the next year, which guarantees that the Bank's customers will be provided with high quality and safe services in the next years.

Human resources

In accordance with the Strategic Plan of the Bank, the HR Management Structure has successfully implemented the Action Plans in the field of development of Human Resources.

Today, HR Management Committee of the Bank is overseeing and monitoring the implementation status of the action plans in the field of HR Management.

During the account period, the 16th meeting of the HR Management Committee, which is ensuring the complete and successful implementation of the regulations and procedures in the field of HR Management, analyzing the improvement thereof and making changes in these systems aimed at overall development of the Bank.

The key objective of the HR Management Structure is to contribute to the Bank's present and future achievements, providing the Bank with adequate human resources and establishing optimal and fair compensation system.

As the first action plan of 2009, the Staff Profile, containing the brief history of professional experience of the staff was drawn-up in an improved form.

The next task was the procedures for «HR Management Planning» containing the quality, quantity and time factors in demand for personnel. The HR planning, aimed at predetermining the Banks needs for human resources, protecting from internal and external factors to affect the human resources, preventing the risk of personnel flow, is based on the principle of providing the Bank with necessary human recourses for implementation of the objectives, business plans and tasks of the Bank in accordance with the strategy of the Bank. The procedures also provide for a personnel promotion model aimed at meeting the Bank's needs for personnel by means of intrabank resources in accordance with the HR Management Policy.

The Code of Business Ethics and Corporate Behavior, containing the corporate behavior standards and consisting of such sections as Diversity, Relations with Customers and Business Partners, Fairness and respect towards the personnel of the Bank and other organizations, countering money laundry and general ethic principles, has been developed in the Bank. This Code, as a part of everyday HR management practice, was developed based on the mission, organizational principles and business values of the Bank

For the purpose of assessment of the knowledge and skills of the new employed and existing personnel of the Bank the «Instruction of Personnel Testing» has been developed. According to the Instruction, certification of the existing personnel of the Bank has been conducted and the employees with good results were awarded certificates and the employees with higher results were awarded presents along with certificates. The main objective of the conducted certification was to determine the eligibility of the personnel to the positions held, possibilities of promotion and career perspectives of the employees in their fields of activity, to find out the employees for vacant positions and to determine the educational demands of the Bank personnel

Today, most of the personnel working in the Bank are young, which in its turn ensures the dynamism and

creativeness of the collective. From this point of view, certain activities such as involving of persons with high knowledge, experience and professional competence in efficient management of human resources, as well as their promotion of such persons within the Bank and their participation in domestic and foreign trainings, etc. have been carried out. As in the previous years, owing to the long-term partnership relations with Ziraat Bank, the Republic of Turkey, a number of Bank's employees studied in the Banking Center of Ziraat Bank this year. Several employees of the Bank participated in various trainings, courses and conferences such as the «Managers Training Programme» held by the German Government, «Virtual Systems Installation and Administration» conference in Moscow, Twelfth MFC Annual Microfinance Conference in Belgrade, «Efficient Management of Banks Resources» seminar held by Raiffaizen Zentralbank Österreich AG in Vienna, etc.

Along with foreign training, the intrabank training are also attached a special importance and the during the year, the heads and managers of various structural units of the Bank held trainings with the participation of the Bank personnel working in the Head Office and Branches of the Bank for the purpose of introducing the new regulations and procedures applied in the Bank and the new products and services provided by the Bank.

As another part of the Action Plans, «Career Development System» Procedures, where the rights and obligations of the overall staff and the heads of structural units in development of the existing personnel, harmonization of the goals of the Bank and its personnel, selection of candidate for higher posts, were developed in accordance with «Make a Career in This Bank and Advance» principle. These procedures set out the model of vertical (career development) and horizontal (rotation) promotion of the Bank staff.

The Procedures on «Motivation System», effective from 2008, were improved, and within the framework of the «Action Project on Conduction of Common Social Events» aimed at increasing the loyalty of the staff to the Bank and their motivation, a corporate party was organized with the participation of the employees of the Head Office and Branches of the Bank. Also, from this year on, for the purpose of increasing the loyalty of the staff to the Bank, «additional salary for employment in this Bank» will be paid. In accordance with the principle of «the Staff's Opinion is Important for Bank», an intrabank «anonymous inquiry» was conducted, which contributed to solution of a number of problems.

Based on the results of the Assessment of the Performance of Personnel and Structural Units in 2008, depending on the obtained point the Bank employees were promoted and rotated and the basic salary of the personnel was increased appropriately to the «balance sheet profit».

Today, «TuranBank» OJSC has a professional and well-disciplined staff ensuring the achievement of its institutional objectives, which is the result of the HR policy of the Bank.

International Cooperation

As in the previous years, enhancement of the partnership relations with international financial institutions has been one of the priority areas of the activities of TuranBank in 2009.

The most successful cooperation agreement of TuranBank during the accounting year was signed with World Business Capital Inc. in June 2009. The agreement amounting to 7.5 million USD was concluded for 10 years. The agreement is aimed at supporting and financing of SMEs in our Republic.

Another achievement of the Bank is the joining Phase 2 of the Azerbaijan Corporate Governance Project of International Financial Corporation on 5 June 2009. The objective of the project is the introduction of the best practices of international corporate governance standards in the Bank within the period of 2 years.

In the accounting year, the Bank signed a five-year agreement with US Financial Services Volunteer Corps (FSVC) on technical assistance. The objective of the project is the provision of «technical support» to TuranBank in such fields as risk management, lending processes, anti-money laundering, improvement of sales and marketing during 2009-2014.

In 2009, for the purpose of establishing corporation with German organizations and financial institutions, TuranBank became the member of the German-Azerbaijanian Business Association and had productive discussions with a number of Germany based financial institutions, successively built correspondent relations with Commerzbank AG.

In December 2009, TuranBank hosted the quarterly meeting of the EurAsian Agricultural Credit Association at its office and became the member of the organization. The objective of the organization is to establish and enhance the cooperation among the financial institutions of the regional countries in the field of financing of agriculture.

Enhancing its correspondent relations with international financial institution, our Bank opened correspondent accounts with ShekerBank and IshBank, Turkey and CommerzBank, Germany.

In enhancement of the international partnership relations, TuranBank attaches importance to the programmes for financing of trade, along with business crediting. The existing cooperation of TuranBank with BCP Bank, Switzerland and Ziraat Bank and ShekerBank, Turkey are of great importance from this point of view.

Another sector of banking business is the activity in securities market, issue of bonds, participation in syndicative financing projects. In this regard, TuranBank, for the purpose of determining new opportunities, plans, as it was in 2009, to achieve certain progress in the next year, establishing partnership relations with the famous international financial institutions in the financial markets of Europe, Asia and America.

For the purpose of enhancing the cooperation aimed at involvement of new financial assets, TuranBank is holding intensive negotiations to initiate and expand partnership relations with international financial institutions such as Black Sea Trade and Development Bank, Raiffeisen Bank, Societe Generale, BankTuranAlem, World Business Capital, etc.

Marketing activity

One of the activities ensuring the successful banking business is the Marketing Activity. The Marketing Activity of the Bank include development of Marketing Policy and periodical Marketing Plans, Advertising and Public Relations, Market Research, New Product Development, enhancement of sales channels and determination of sales strategy by segments.

The main area of priority of the Bank's activity in the 2009 accounting year was the development of new conception for deposit product. The conception envisages the application of «Sirlər Xəzinəsi» Campaign, embodying the ancient gems of Azerbaijan. The campaign consists of 7 new variegated deposit products - Buta, Mücrü, Xurcun, Sandıqça, Qızıl Küpə, Xəzinə and Dəfinə.

The main advantage of the above mentioned new kinds of deposits is the availability of a large variety of products for the population. The deposits can be made for periods ranging from 3 up to 60 months and guarantees 25,5 percent profit, which is the highest annual interest rate in the banking sector. At the same time, application of the «Cross Selling» mechanism stimulated the provision of the credit cards of the Bank, along with the deposit products, to the customers on attractive conditions.

Depending on the withdrawal of interests on the deposits under the mentioned campaign per month, per quarter, per annum or in the end of term, a limit of loan amount up to 95 percent of the deposit amount via credit card on unique conditions.

A wide promotional campaign was held for the mentioned campaign during the accounting year due to which certain achievements were made. The promotional campaign was provided mainly by means of TV, Radio, newspapers, magazines, Internet, ATM and other means of advertising. For the purpose of informing the mass population on the campaign Info Stands were installed in the trade, business and health centers, hotels and other facilities and the booklets were distributed.

For the purpose of expanding the sales network of the Bank, various advertising panels were placed in the branches and along the roads, booklets and other printed advertising means were provided for various products. In order to expand the scope of the Bank's promotional campaign through the regional sales network, commercials of the Bank were demonstrated on TV in Tovuz, Aghstafa, Ganja and Zagatala cities and addressed promo materials and greetings cards were delivered.

A Product Development Group, consisting of experienced, initiative and creative staff was established in 2009 for the purpose of application of purposeful and productive mechanism for Marketing Activity.

Other significant measures taken in the Bank during the accounting year include development of the Marketing Policy and Plan, Intrabank Procedures for Advertising, Intrabank Instruction on Customer Segmentation, Product Development Procedures, Intrabank Instruction on Market Research and Procedures on Customer Rating System.

Owing to the more productive mechanism of cooperation with mass media established by the Business Development Department of the Bank in 2009, periodical press releases of the Bank were provided on a number of famous journals such as Consulting & Business, Business Time, Banks and Business, as well as Azerbaijan, Khalq and Zerkalo newspapers and a large number of business and informative portals.

The main objectives of the Business Development Department in Marketing Activity for 2010 are the development of new attractive and innovative banking products and services, enhancement of sales channels and conduction of new promo campaigns.

Correspondent relations and international settlements

Along with other services, TuranBank attaches a special importance to sustained development and enhancement of correspondent relations and international banking. The works performed in this field during 2009 include opening of new accounts, enhancement of relations, close cooperation with international financial institutions, increase of documentary transactions in foreign trade, etc.

As in the previous years, in the 2009 accounting year, in its correspondent relations TuranBank, taking into account the needs of the Bank and its customers, adhered to the principles of ensuring the efficiency and reliability of domestic and international settlements, providing the most favorable conditions, from the point of view of time and commission fees, for customer payments and for Bank's own transactions, considering the peculiarities of the Banks and characteristic features of the regional markets, establishing individual schemes of cooperation with banks, involving new counter agents and correspondent through long-term cooperation and mutual benefit, as well as by a number of other principles.

The all-time goal of TuranBank is to establish a complete correspondent banks network, enabling to carry out domestic and international settlements with minimal risks and minimal financial and time costs and it is intended to expand the network taking into account the expansion in the geographical coverage of the international settlements.

In 2009, TuranBank expanded the correspondent bank network establishing new correspondent relations with Commerzbank AG, Germany and IshBank, Turkey.

As of the end of 2009, TuranBank held 41 NOSTRO and 13 LORO accounts with correspondent banks.

Our Bank, always taking into account the customer demands, expands the network of express money transfer systems and currently is the member of Western Union, Bistraya Pochta, Migom, Contact, Xpress Money, Privat Money express money transfer systems. In the account year the process of joining to Allure and Zolotaya Korona express money transfer system was also completed.

LIST OF CORRESPONDENT BANKS

CORRESPONDENT BANK	CCY	ACCOUNT №	SWIFT CODE
Deutsche Bank Trust Company Americas New York / USA	USD	04-438-990	BKTRUS33
Deutsche Bank Frankfurt Frankfurt am Main / Deutchland	EUR	100-9477639-00 EUR	DEUTDEFF
Commerzbank AG Frankfurt am Main / Deutchland	USD EUR	400886728500USD 400886728500EUR	COBADEFF
BCP - Banque de Commerce et de Placements Geneva / Switzerland	USD EUR TRY	CH5208629106024890000 CH9508629106024890002 10.602489.0.100-TRY	BPCPCHGG
Raiffeisen Zentralbank Vienna/Austria	EUR USD	000-55.074.603/100 70-55.074.603/001	RZBAATWW
T.C.Ziraat Bank İnternational AG Frankfurt am Main / Deutchland	EUR USD	1000787000 1000787018	TCZBDEFF
Türkiye-Ziraat Bankası Ankara / Turkey	USD	99900834-5001	TCZBTR2A
Yapı ve Kredı Bankası A.Ş., Istanbul Head Office – International Relations / Istanbul / Turkey	USD	TR600006701000000051715635	YAPITRISFEX
T.Halk Bankasi A.Ş. Ankara Corporate Branch / Ankara / Turkey	USD	TR770001200988880004Y000554	TRHBTR2A06L
ING Bank Head Office Istanbul / Turkey	EUR USD TRY	247-C-76410-MY-2 247-C-76410-MY-1 TR900009900007641000100002	INGBTRIS
Şekerbank Istanbul / Turkey	USD EUR	TR050005901720523172500069 TR750005901720523172500070	SEKETR2A
Turkiye İş Bankası Istanbul / Turkey	USD EUR TL	TR960006400000201790003733 TR090006400000201790003747 TR320006400000101790004987	ISBKTRIS
Evrotrust CB ZAO Moscow / Russia	USD EUR	30111840800000000 386 30111978400000000 386	CEURRUMM
Russian Agricultural Bank (Rosselxozbank) Moscow / Russia	USD EUR	30111840400000000 003 30111978700000000 002	RUAGRUMM

LIST OF CORRESPONDENT BANKS

CORRESPONDENT BANK	CCY	ACCOUNT №	SWIFT CODE
Moscow Branch of Raiffeisen Zentralbank Moscow / Russia (old -IMPEXBANK)	USD	30111840800000000 056	RZBMRUMM
Russlavbank Moscow / Russia	RUB USD EUR	30111810700000000 108 30111840000000000 108 30111978600000000 108	RSLBRUMM
PJSC CB Privatbank Kiev / Ukraine	USD EUR	16004000533003 16000000533063	PBANUA2X
OJSC URALSIB Moscow / Russia	RUB USD EUR GBP	30111810800000000 005 30111840700000000 010 30111978600000000 008 30111826600000000 006	AVTBRUMM
BTA Bank Almaty / Kazakhistan	USD EUR	001073125 002073125	ABKZKZKX
International Bank of Azerbaijan - Moskow Moscow / Russia	RUB USD EUR	30111810100000000 359 30111840400000000 359 30111978000000000 359	IBAZRUMM
Central Bank of Azerbaijan Baku / Azerbaijan	USD EUR	0137 11 00 27 840 0137 11 00 27 954	NABZAZ2X
ABB Baku / Azerbaijan	USD EUR RUB	205302 USD 3712-01 205302 EUR 3712-01 205302 RUR 3722-01	IBAZAZ2X
Azar-Türk Bank Baku / Azerbaijan	USD EUR	37110000150001	AZRTAZ22
Rabitabank Baku / Azerbaijan	USD EUR	0037110100840-05829 0037110100954-05829	RBTAAZ22
Bank Standard Baku / Azerbaijan	USD	3711021	MOSZAZ22
Texnikabank Baku / Azerbaijan	USD EUR	37110005230001 37110005230001 EUR	TECIAZ22
AtaBank Baku / Azerbaijan	USD	802-40658-7	ATAZAZ22
Azərbaycan Sənaye Bankı Baku / Azerbaijan	USD EUR	802-3711-16344-1-USD 802-16344-17EUR-3711	CAPNAZ22
Parabank Baku / Azerbaijan	USD	00 0045 3711 USD 00	PARAAZ22
Unibank Baku / Azerbaijan	USD EUR	0013711030 010173303711EUR01	UBAZAZ22
Bank Respublika Baku / Azerbaijan	USD	3711 840 000 6865	BRESAZ22
Bank of Baku Baku / Azerbaijan	USD	37110010100047	JBBKAZ22
Yapı Kredi – Azərbaycan Baku / Azerbaijan	USD EUR	00239283 00239291	KABAAZ22
Qavqaz İnkişaf Bankı Baku / Azerbaijan	USD	37110010070000	TDJOAZ22
Access Bank Baku / Azerbaijan	USD	001 00 1242 000 15 1173	MIFAAZ22
Nikoilbank Baku / Azerbaijan	USD	80211016-0818	NICBAZ22
Azərdəmiryol Bank Baku / Azerbaijan	USD EUR	22650255371113USD 22650266371113EUR	AZERAZ22
AFB bank Baku / Azerbaijan	USD EUR	802-10113-1 802-10113-2	AZFIAZ22
Paşabank Baku / Azerbaijan	USD EUR	3711USD00000041MO01 3711EUR00000041MO01	PAHAAZ22
Xalqbank Baku / Azerbaijan	USD EUR	BMHR000017USD00 BMHR000015EUR00	HAJCAZ22
VTB Bank Baku / Azerbaijan	USD EUR	3711014 803711008	VTBAAZ22

PRICEWATERHOUSECOOPERS

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Turanbank Open Joint Stock Company:

We have audited the accompanying consolidated financial statements of Turanbank Open Joint Stock Company and its subsidiary (the "Group") which comprise the consolidated statement of financial position as at 31 December 2009 and consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2009, 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
18 May 2010

TuranBank
ANNUAL REPORT 2009
www.turanbank.az

Turanbank Open Joint-Stock Company
Consolidated Statement of Financial Position

In thousands of Azerbaijani Manats	Note	31 December 2009	31 December 2008
ASSETS			
Cash and cash equivalents	7	17,364	6,637
Due from other banks	8	750	142
Loans and advances to customers	9	76,506	65,534
Investment securities available for sale	10	3,375	2,186
Investment property		358	358
Premises and equipment	12	7,549	7,604
Intangible assets	12	72	67
Deferred income tax asset	26	7	-
Other financial assets	13	37	25
Other assets	14	65	109
TOTAL ASSETS		**106,083**	**82,662**
LIABILITIES			
Due to other banks	15	7,579	18,674
Customer accounts	16	44,776	30,851
Other borrowed funds	17	32,542	12,622
Deferred income tax liability	26	-	121
Current income tax liability	26	78	94
Other financial liabilities	18	152	165
Other liabilities	19	45	155
TOTAL LIABILITIES		**85,172**	**62,682**
EQUITY			
Share capital	20	17,000	16,000
Other reserves	21	1,068	1,041
Retained earnings		2,843	2,939
TOTAL EQUITY		**20,911**	**19,980**
TOTAL LIABILITIES AND EQUITY		**106,083**	**82,662**

Approved for issue and signed on behalf of the Board of Directors on 18 May 2010.

Mr. Nazim Sadigov
Chairman of the Management Board

Mr. Alizaman Ibrahimov
Chief Accountant

Turanbank Open Joint-Stock Company
Consolidated Statement of Comprehensive Income

In thousands of Azerbaijani Manats	Note	2009	2008
Interest income	22	10,465	10,046
Interest expense	22	(4,960)	(5,056)
Net interest income		**5,505**	**4,990**
Provision for loan impairment	9	(1,035)	(390)
Net interest income after provision for loan impairment		**4,470**	**4,600**
Fee and commission income	23	1,175	1,141
Fee and commission expense	23	(204)	(144)
Gains less losses from trading in foreign currencies		274	260
Foreign exchange translation gains less losses		24	17
Other operating income	24	118	98
Change in fair value of investment property		-	108
Administrative and other operating expenses	25	(3,709)	(3,264)
Profit before tax		**2,148**	**2,816**
Income tax expense	26	(133)	(563)
Profit for the year		**2,015**	**2,253**
Other comprehensive income:			
Revaluation of premises		-	208
Income tax effect		27	(46)
Other comprehensive income for the year		**27**	**162**
Total comprehensive income for the year		**2,042**	**2,415**
Earnings per share for profit attributable to the equity holders of the Group during the year (expressed in AZN per share):			
– Basic/Diluted	27	0.12	0.16

Turanbank Open Joint-Stock Company
Consolidated Statement of Changes in Equity

In thousands of Azerbaijani Manats	Note	Share capital	Retained earnings	Other reserves	Total equity
Balance at 1 January 2008		**12,500**	**2,710**	**879**	**16,089**
Total comprehensive income for 2008		**-**	**2,253**	**162**	**2,415**
Share issue	20	3,500	-	-	3,500
Dividends declared		-	(2,024)	-	(2,024)
Balance at 31 December 2008		**16,000**	**2,939**	**1,041**	**19,980**
Total comprehensive income for 2009		**-**	**2,015**	**27**	**2,042**
Share issue	20	1,000	-	-	1,000
Dividends declared		-	(2,111)	-	(2,111)
Balance at 31 December 2009		**17,000**	**2,843**	**1,068**	**20,911**

Turanbank Open Joint-Stock Company
Consolidated Statement of Cash Flows

In thousands of Azerbaijani Manats	Note	2009	2008
Cash flows from operating activities			
Interest received		9,689	9,628
Interest paid		(4,581)	(5,047)
Fees and commissions received	23	1,175	1,141
Fees and commissions paid	23	(204)	(144)
Income received from trading in foreign currencies		298	277
Other operating income received	24	118	98
Staff costs paid	25	(2,031)	(1,523)
Administrative and other operating expenses paid		(1,128)	(1,347)
Income tax paid		(250)	(805)
Cash flows from operating activities before changes in operating assets and liabilities		**3,086**	**2,278**
Changes in operating assets and liabilities			
Net increase in loans and advances to customers		(11,357)	(18,352)
Net (increase)/decrease in due from other banks		(608)	132
Net increase in other financial assets		(12)	(28)
Net decrease/(increase) in other assets		43	(69)
Net (decrease)/increase in due to other banks		(11,095)	5,760
Net increase in customer accounts		13,653	5,851
Net (decrease)/increase in other liabilities		(110)	25
Net decrease in other financial liabilities		(13)	(37)
Net cash used in operating activities		**(6,413)**	**(4,440)**
Cash flows from investing activities			
Acquisition of investment securities available for sale		(2,931)	(1,508)
Proceeds from disposal and redemption of investment securities available for sale	10	1,742	-
Acquisition of premises and equipment	12	(431)	(1,657)
Proceeds from disposal of premises and equipment		4	65
Acquisition of intangible assets	12	(19)	-
Dividend income received	24	76	57
Net cash used in investing activities		**(1,559)**	**(3,043)**
Cash flows from financing activities			
Proceeds from other borrowed funds		22,044	8,520
Repayment of other borrowed funds		(2,167)	(1,067)
Issue of ordinary shares	20	1,000	3,500
Dividends paid	28	(2,111)	(2,024)
Net cash from financing activities		**18,766**	**8,929**
Effect of exchange rate changes on cash and cash equivalents		**(67)**	**(1)**
Net increase in cash and cash equivalents		**10,727**	**1,445**
Cash and cash equivalents at the beginning of the year	7	6,637	5,192
Cash and cash equivalents at the end of the year	7	**17,364**	**6,637**

Note: For the complete version of Auditor's Report for 2009, please see CD enclosed.