Joint Stock Commercial Bank “RABITABANK”

Independent Auditors’ Report and

Financial Statements
Year Ended 31 December 2005

JOINT STOCK COMMERCIAL BANK “RABITABANK”

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STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

The following statement, which should be read in conjunction with the independent auditors' responsibilities stated in the independent auditors' audit report set out on page 2, is made with a view to distinguishing the respective responsibilities of management and those of the independent auditors in relation to the financial statements of Joint Stock Commercial Bank "Rabitabank" (the "Bank").

Management is responsible for the preparation of the financial statements that present fairly the financial position of the Bank as at 31 December 2005, the results of its operations, cash flows and changes in equity for the year then ended, in accordance with International Financial Reporting Standards ("IFRS").

In preparing the financial statements, management is responsible for:

- selecting suitable accounting principles and applying them consistently;
- making judgements and estimates that are reasonable and prudent;
- stating whether IFRS have been followed, subject to any material departures disclosed and explained in the financial statements; and
- preparing the financial statements on a going concern basis, unless it is inappropriate to presume that the Bank will continue in business for the foreseeable future.

Management is also responsible for:

- designing, implementing and maintaining an effective and sound system of internal controls, throughout the Bank;
- maintaining proper accounting records that disclose, with reasonable accuracy at any time, the financial position of the Bank, and which enable them to ensure that the financial statements of the Bank comply with IFRS;
- maintaining statutory accounting records in compliance with legislation and accounting standards of Azerbaijan;
- taking such steps as are reasonably available to them to safeguard the assets of the Bank; and
- detecting and preventing fraud and other irregularities.

The financial statements for the year ended 31 December 2005 were authorized for issue on 19 May 2006 by the Management Board.

On behalf of the Management Board

______________________	______________________
Chairman	**Chief Accountant**
19 May 2006	**19 May 2006**

Deloitte.

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of the Joint Stock Commercial Bank "Rabitabank":

We have audited the accompanying balance sheet of Joint Stock Commercial Bank "Rabitabank" (the "Bank") as at 31 December 2005 and the related income statement and statements of cash flows and changes in equity (the "financial statements") for the year then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2005, and the results of its operations and its cash flows for the year then ended, in accordance with International Financial Reporting Standards.

Deloitte & Touche.

19 May 2006

JOINT STOCK COMMERCIAL BANK “RABITABANK”

INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2005
(in Azerbaijan Manats and in millions unless otherwise stated)

	Notes	2005	2004
Interest income	4, 25	16,241	9,661
Interest expense	4, 25	(7,019)	(4,135)
NET INTEREST INCOME BEFORE ALLOWANCE FOR IMPAIRMENT LOSSES ON INTEREST BEARING ASSETS		9,222	5,526
Allowance for impairment losses on interest bearing assets	5	(2,690)	(2,008)
NET INTEREST INCOME		6,532	3,518
Net gain on foreign exchange operations	6	522	73
Fee and commission income	7, 25	6,195	5,345
Fee and commission expense	7	(1,218)	(910)
Dividend income		-	85
Other income		-	1
NET NON-INTEREST INCOME		5,499	4,594
OPERATING INCOME		12,031	8,112
OPERATING EXPENSES	8, 25	(8,721)	(5,748)
OPERATING PROFIT		3,310	2,364
Recovery of allowance/(allowance) for off-balance sheet items	5	474	(843)
Recovery of allowance for impairment losses on other assets	5	110	15
PROFIT BEFORE INCOME TAX		3,894	1,536
Income tax expense	9	(1,366)	(392)
NET PROFIT		2,528	1,144
EARNINGS PER SHARE (AZM)	10	14,001	10,335

On behalf of the Management Board

Chairman	**Chief Accountant**
19 May 2006	**19 May 2006**

The notes on pages 8 to 37 form an integral part of these financial statements. The Independent Auditors’ Report is on page 2.

BALANCE SHEET
AS AT 31 DECEMBER 2005
(in Azerbaijan Manats and in millions unless otherwise stated)

	Notes	2005	2004
ASSETS			
Cash and balances with the National Bank of Azerbaijan	11	25,814	32,163
Loans and advances to banks, net	12	6,806	6,948
Loans and advances to customers, net	13, 25	112,999	95,213
Investments available-for-sale, net	14	603	1,153
Fixed assets, net	15	11,768	10,974
Intangible assets, net	16	432	-
Other assets, net	17	540	325
TOTAL ASSETS		158,962	146,776
LIABILITIES AND EQUITY			
LIABILITIES:			
Loans and advances from banks and other credit institutions	18	38,195	31,894
Customer accounts	19, 25	86,791	84,732
Debt securities issued	20	-	5,000
Current income tax liabilities	9	780	376
Other liabilities	21	1,708	1,240
Total liabilities		127,474	123,242
EQUITY:			
Ordinary share capital	22	18,635	15,135
Preference share capital	22	4,500	2,000
Share premium		43	43
Revaluation reserve		6,570	6,570
Retained earnings/(accumulated deficit)		1,740	(214)
Total equity		31,488	23,534
TOTAL LIABILITIES AND EQUITY		158,962	146,776

On behalf of the Management Board

Chairman	**Chief Accountant**
19 May 2006	**19 May 2006**

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JOINT STOCK COMMERCIAL BANK “RABITABANK”

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2005
(in Azerbaijan Manats and in millions unless otherwise stated)

	Ordinary share capital	Preference share capital	Share premium	Fixed assets revaluation reserve	Retained earnings/ (accumulated deficit)	Total equity
31 December 2003	14,135	2,000	43	-	(1,358)	14,820
Share capital increase	1,000	-	-	-	-	1,000
Revaluation of fixed assets	-	-	-	6,570	-	6,570
Net profit	-	-	-	-	1,144	1,144
31 December 2004	15,135	2,000	43	6,570	(214)	23,534
Share capital increase	3,500	2,500	-	-	-	6,000
Dividends declared on preferred shares	-	-	-	-	(574)	(574)
Net profit	-	-	-	-	2,528	2,528
31 December 2005	18,635	4,500	43	6,570	1,740	31,488

On behalf of the Management Board

Chairman

19 May 2006

Chief Accountant

19 May 2006

The notes on pages 8 to 37 form an integral part of these financial statements. The Independent Auditors’ Report is on page 2.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2005
(in Azerbaijan Manats and in millions unless otherwise stated)

	Notes	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit before income tax		3,894	1,536
Adjustments for:			
Allowance for impairment losses on loans to customers		2,690	2,008
Recovery of loans and advances to customers previously written-off	5	66	36
Recovery of allowance/(allowance) for claims, guarantees and other commitments	5	(474)	843
Recovery of allowance for losses on other assets	5	(110)	(15)
Deferred loan origination fees		97	-
Dividend income		-	(85)
Depreciation and amortization expense	8	1,253	342
Fixed assets given as gift		-	5
Commissions settled against other liabilities		-	(22)
Net unrealized (gain)/loss arising from changes in foreign currency exchange rates	6	(204)	63
Net change in interest accruals		(598)	484
Cash flows from operating activities before changes in operating assets and liabilities		6,614	5,195
Changes in operating assets and liabilities			
(Increase)/decrease in operating assets:			
Minimum reserve deposit with the National Bank of Azerbaijan		1,224	(1,848)
Loans and advances to banks		(806)	(4,017)
Loans and advances to customers		(22,777)	(46,718)
Securities purchased under agreement to resell		-	9,000
Other assets		(241)	(140)
Increase/(decrease) in operating liabilities:			
Deposits from banks and other institutions		6,745	22,656
Customer accounts		5,160	30,764
Other liabilities		598	165
Cash (outflow)/inflow from operating activities before income		(3,483)	15,057
Income tax paid		(963)	(597)
Net cash (outflow)/inflow from operating activities		(4,446)	14,460
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of fixed and intangible assets	15, 16	(2,604)	(1,287)
Proceeds on sale of fixed assets	15	125	-
Dividends received		63	23
Sale of investments in associate		550	-
Net cash outflow from investing activities		(1,866)	(1,264)

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2005 (Continued)
(in Azerbaijan Manats and in millions unless otherwise stated)

	Notes	2005	2004
CASH FLOWS FROM FINANCING ACTIVITIES:			
Issue of ordinary shares	22	6,000	1,000
(Repayment)/issue of debt securities	20	(5,000)	5,000
Dividends paid		(213)	-
Finance lease liability		-	(46)
Net cash inflow from financing activities		787	5,954
Effect of foreign exchange rate changes on cash and cash equivalents		(365)	33
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(5,890)	19,183
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	11	30,001	10,818
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	11	24,111	30,001

Interest paid and received by the Bank in cash during the year ended 31 December 2005 amounted to AZM 6,332 million and AZM 15,020 million, respectively.

Interest paid and received by the Bank in cash during the year ended 31 December 2004 amounted to AZM 3,733 million and AZM 9,742 million, respectively.

On behalf of the Management Board

Chairman	**Chief Accountant**
19 May 2006	**19 May 2006**

The notes on pages 8 to 37 form an integral part of these financial statements. The Independent Auditors’ Report is on page 2.

1. ORGANIZATION

Joint Stock Commercial Bank "Rabitabank" (the "Bank") is a joint stock bank, which was established on May 17, 1993. The address of its registered office is B. Sardarov Street 1, Baku, AZ1001, Azerbaijan. The Bank is regulated by the National Bank of Azerbaijan (the "NBA") and conducts its business under the general banking license number 136. The Bank's principal business activities are commercial and retail banking operations. The Bank has 12 branches in Azerbaijan.

As at 31 December 2005 and 2004 the following individuals and legal entities owned the share capital of the Bank:

Shareholder	2005 Ownership interest, %	2004 Ownership interest, %
Mr. Zakir Nuriyev	32	47
Mr. Kamal Madatov	13	-
Mr. Nuraddin Zulfugarli	11	-
Ms. Dilare Nuriyeva	9	5
Ms. Sudabe Mammadova	5	7
Other individuals	19	21
Other legal entities	11	20
Total	**100**	**100**

These financial statements were authorized for issue by the Management Board on 19 May 2006.

2. BASIS OF PRESENTATION

Accounting basis

These financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards ("IFRS"). These financial statements are presented in millions of Azerbaijan Manats ("AZM") unless otherwise indicated. These financial statements have been prepared under the historical cost convention.

The Bank maintains its accounting records in accordance with Azerbaijan law, which in majority complies with IFRS. These financial statements have been prepared from the Azerbaijan statutory accounting records and have been adjusted to conform with IFRS. The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates that are particularly susceptible to change relate to the allowances for impairment losses and the fair value of financial instruments.

Functional currency

The functional currency of these financial statements is the Azerbaijan Manat ("AZM").

3. SIGNIFICANT ACCOUNTING POLICIES

Recognition and measurement of financial instruments

The Bank recognizes financial assets and liabilities on its balance sheet when it becomes a party to the contractual obligation of the instrument. Regular way purchases and sales of the financial assets and liabilities are recognized using settlement date accounting. Regular way purchases of financial instruments that will be subsequently measured at fair value between the trade date and the settlement date are accounted for in the same way as for acquired instruments.

Financial assets and liabilities are initially recognized at fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. The accounting policies for subsequent re-measurement of these items are disclosed in the respective accounting policies set out below.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, unrestricted balances on correspondent and time deposit accounts with the National Bank of Azerbaijan with original maturity within 90 days, advances to banks in countries included in the Organization for Economic Co-operation and Development ("OECD"), except for margin deposits for operations with plastic cards, which may be converted to cash within a short period of time. For the purposes of determining cash flows, the minimum reserve deposit required by the National Bank of Azerbaijan is not included as a cash equivalent due to restrictions on its availability (Note 11).

Loans and advances to banks

In the normal course of business, the Bank maintains advances or deposits for various periods of time with other banks. Loans and advances to banks with a fixed maturity term are subsequently measured at amortized cost using the effective interest method. Those that do not have fixed maturities are accounted for under the effective interest method based on expected maturity. Amounts due from credit institutions are carried net of any allowance for impairment losses.

Originated loans

Loans originated by the Bank are financial assets that are created by the Bank by providing money directly to a borrower or by participating in a loan facility.

All loans originated are initially recognized at fair value plus related transaction costs. Where the fair value of consideration given does not equal the fair value of the loan, for example where the loan is issued at lower than market rates, the difference between the fair value of consideration given and the fair value of the loan is recognized as a loss on initial recognition of the loan and included in the income statement as losses on origination of assets. Subsequently, the loan carrying value is measured using the effective interest method. Loans to customers that do not have fixed maturities are accounted for under the effective interest method based on expected maturity. Loans and advances to customers are carried net of any allowance for impairment losses.

Write off of loans and advances

Loans and advances are written off against the allowance for impairment losses in the case of the uncollectibility of loans and advances, including the repossession of collateral. Loans and advances are written off after management has exercised all possibilities available to collect the amounts due to the Bank and after the Bank has sold all available collateral. In accordance with the statutory legislation, loans may only be written off with the approval of the Shareholders’ Council and, in certain cases, with the respective decision of the Court.

Non-accrual loans

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is thereafter recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Allowance for impairment losses

The Bank establishes an allowance for impairment losses of financial assets when there is objective evidence that a financial asset or group of financial assets is impaired. The allowance for impairment losses is measured as the difference between the carrying amount and the present value of expected future cash flows, including amounts recoverable from guarantees and collateral, discounted at the financial asset’s original effective interest rate, for financial assets which are carried at amortized cost. If in a subsequent period the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed by adjusting an allowance account. For financial assets carried at cost the allowance for impairment losses is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

The determination of the allowance for impairment losses is based on an analysis of the risk assets and reflects the amount which, in the judgment of management, is adequate to provide for losses incurred. Allowances are made as a result of an individual appraisal of risk assets for financial assets that are individually significant, and an individual or collective assessment for financial assets that are not individually significant.

The change in the allowance for impairment losses is charged to the income statement and the total of the allowance for impairment losses is deducted in arriving at assets as shown in the balance sheet. Factors that the Bank considers in determining whether it has objective evidence that an impairment loss has been incurred include information about the debtors’ or issuers’ liquidity, solvency and business and financial risk exposures, levels of and trends in delinquencies for similar financial assets, national and local economic trends and conditions, and the fair value of collateral and guarantees. These and other factors may, either individually or taken together, provide sufficient objective evidence that an impairment loss has been incurred in a financial asset or group of financial assets.

It should be understood that estimates of losses involve an exercise of judgment. While it is possible that in particular periods the Bank may sustain losses, which are substantial relative to the allowance for impairment losses, it is the judgment of management that the allowance for impairment losses is adequate to absorb losses incurred on the risk assets.

Investments available-for-sale

Investments available-for-sale represent equity investments that are intended to be held for an indefinite period of time. The securities are measured at fair value. Gains or losses on available-for-sale securities are recognized directly in equity, through the statement of changes in equity, except for impairment losses and foreign exchange gains and losses, until the securities are derecognized, at which time the cumulative gains or losses previously recognized in equity are recognized in the income statement. However, interest calculated using the effective interest method is recognized in the income statement.

The Bank uses quoted market prices to determine the fair value for the Bank's investments available-for-sale. If such quotes do not exist, management use appropriate valuation techniques.

When a decline in the fair value of available-for-sale investments has been recognized directly in equity and there is objective evidence that the investments are impaired, the cumulative loss that had been recognized directly in equity is removed from equity and recognized in the income statement even though the securities have not been derecognized. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the income statement, the impairment loss is reversed, with the amount of the reversal recognized in the income statement.

Fixed and intangible assets

Fixed and intangible assets are carried at historical cost less accumulated depreciation and amortization and any recognized impairment loss. Depreciation on assets under construction and those not placed in service commences from the date the assets are ready for their intended use.

Depreciation of fixed assets and amortization of intangible assets is charged on their historical cost and is designed to write off assets over their useful lives. It is calculated on a straight line basis at the following annual rates:

Buildings	5%
Computers	25%
Furniture and equipment	20-25%
Vehicles	20%
Other fixed assets	20%
Intangible assets	10%

The carrying amounts of fixed and intangible assets are reviewed at each balance sheet date to assess whether they are recorded in excess of their recoverable amounts, and where the carrying values exceed the estimated recoverable amounts, the assets are written down to their recoverable amounts. An impairment is recognized in the respective period and is included in operating expenses. After the recognition of an impairment loss the depreciation charge for fixed assets is adjusted in future periods to allocate the assets' revised carrying value, less its residual value (if any), on a systematic basis over its remaining useful life.

Taxation

Income tax expense represents the sum of the current and deferred tax expense.

The current tax expense is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Bank’s current tax expense is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Azerbaijan also has various other taxes, which are assessed on the Bank’s activities. These taxes are included as a component of operating expenses in the income statement.

Deposits from banks and customers

Customer and bank deposits are initially recognized at fair value, which amounts to the issue proceeds less transaction costs incurred. Subsequently amounts due are stated at amortized cost and any difference between net proceeds and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest method.

Debt securities issued

Debt securities issued represent bonds issued by the Bank. They are accounted for according to the same principles used for customer and bank deposits.

Provisions

Provisions are recognized when the Bank has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the obligation can be made.

Share capital

Share capital is recognized at cost. Share capital contributions made in the form of assets other than cash are stated at their fair value at the date of contribution.

(in Azerbaijan Manats and in millions unless otherwise stated)

External costs directly attributable to the issue of new shares, other than on a business combination, are deducted from equity net of any related income taxes.

Dividends on ordinary and preferred shares are recognized in equity as a reduction in the period in which they are declared. Dividends that are declared after the balance sheet date are treated as a subsequent event under International Accounting Standard 10 “Events after the Balance Sheet Date” (IAS 10) and disclosed accordingly.

Retirement and other benefit obligations

In accordance with the requirements of the Azeri legislation, the Bank withholds amounts of pension contributions from employee salaries and pays them to the state pension fund. In addition such pension system provides for the calculation of current payments by the employer as a percentage of current total disbursements to staff. Such expense is charged in the period the related salaries are earned. Upon retirement all retirement benefit payments are made by the state pension fund. The Bank does not have any pension arrangements separate from the state pension system of Azerbaijan, which requires current contributions by employer calculated as a percentage of current gross salary payments. In addition, the Bank has no post-retirement benefits or other significant compensated benefits requiring accrual.

Contingencies

Contingent liabilities are not recognized in the financial statements, but disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the financial statements but disclosed when an inflow of economic benefits is probable.

Recognition of income and expense

Interest income and expense are recognized on an accrual basis using the effective interest rate method. Interest income also includes income earned on investments. Other income is credited to the income statement when the related transactions are completed. Loan origination fees, if significant, are deferred (together with related direct costs) and recognized as an adjustment to the loan’s effective yield. All other commissions are recognized when services are provided.

Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into Azerbaijan Manats at the appropriate spot rates of exchange ruling at the balance sheet date. Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transaction. Profits and losses arising from these translations are included in net gain/(loss) on foreign exchange operations.

Rates of exchange

The exchange rates at the year end used by the Bank in the preparation of the financial statements are as follows:

31 December 2005			31 December 2004		
USD 1	=	AZM 4,593	USD 1	=	AZM 4,903
EUR 1	=	AZM 5,459	EUR 1	=	AZM 6,682
RUR 1	=	AZM 160	RUR 1	=	AZM 177

(in Azerbaijan Manats and in millions unless otherwise stated)

Offset of financial assets and liabilities

Financial assets and liabilities are offset and reported net on the balance sheet when the Bank has a legally enforceable right to set off the recognized amounts and the Bank intends either to settle on a net basis or to realize the asset and settle the liability simultaneously. In accounting for a transfer of a financial asset that does not qualify for derecognition, the Bank does not offset the transferred asset and the associated liability.

Critical judgments in applying the accounting policies

The management of the Bank decided to classify the equity investments in Baku Stock Exchange and JSIB Azerigazbank as investments available-for-sale since these investments are intended to be held for an indefinite period of time.

Changes in IFRS

The International Accounting Standards Board has amended a number of IAS's and issued certain IFRS's effective for the reporting period beginning 1 January 2005. The effect of these changes was not significant for the financial statements of the Bank for the year ended 31 December 2005.

IAS 39 "Financial Instruments: Recognition and Measurement" was amended during 2005 and is effective for the reporting period beginning 1 January 2006, and IFRS 7 "Financial Instruments: Disclosures" was introduced in August 2005 and is effective for the reporting period beginning 1 January 2007. The management of the Bank has assessed that there will be no significant impact of these changes on its annual financial statements.

4. NET INTEREST INCOME

Net interest income comprises:

	2005	2004
Interest income		
Interest on loans and advances to customers	16,139	9,633
Interest on loans and advances to banks	102	28
Total interest income	16,241	9,661
Interest expense		
Interest on customer accounts	(5,192)	(3,006)
Interest on deposits and loans from banks and other credit institutions	(1,683)	(772)
Interest on debt securities	(144)	(355)
Interest on finance lease received	-	(2)
Total interest expense	(7,019)	(4,135)
Net interest income before allowance for impairment losses on interest bearing assets	**9,222**	**5,526**

(in Azerbaijan Manats and in millions unless otherwise stated)

5. ALLOWANCE FOR IMPAIRMENT LOSSES

The movements in allowance for impairment losses were as follows:

	Loans and advances to banks	Loans and advances to customers	Total
31 December 2003	-	2,319	2,319
Allowance	49	1,959	2,008
Write-off of assets	-	36	36
31 December 2004	49	4,314	4,363
(Recovery of allowance)/allowance	(49)	2,739	2,690
Write-off of assets	-	(649)	(649)
Recovery of assets previously written-off	-	66	66
31 December 2005	-	**6,470**	**6,470**

The movements in provisions for other losses were as follows:

	Other Assets	Guarantees and other commitments	Total
31 December 2003	167	199	366
(Recovery of allowance)/allowance	(15)	843	828
31 December 2004	152	1,042	1,194
(Recovery of allowance)	(110)	(474)	(584)
31 December 2005	**42**	**568**	**610**

6. NET GAIN ON FOREIGN EXCHANGE OPERATIONS

Net gain on foreign exchange operations comprise:

	2005	2004
Dealing differences, net	318	136
Translation differences, net	204	(63)
Total net gain on foreign exchange operations	**522**	**73**

(in Azerbaijan Manats and in millions unless otherwise stated)

7. FEE AND COMMISSION INCOME AND EXPENSE

Fee and commission income and expense comprise:

	2005	2004
Fee and commission income:		
Cash operations	2,602	1,637
Settlements	1,393	1,402
Foreign exchange operations	1,230	1,530
Plastic cards operations	616	422
Documentary operations	289	178
Other	65	176
Total fee and commission income	**6,195**	**5,345**
Fee and commission expense:		
Plastic cards operations	(688)	(550)
Settlements	(171)	(171)
Documentary operations	(133)	(38)
Foreign exchange operations	(113)	(86)
Cash operations	(88)	(54)
Other fee and commission expense	(25)	(11)
Total fee and commission expense	**(1,218)**	**(910)**

8. OPERATING EXPENSES

Operating expenses comprise:

	2005	2004
Salary and bonuses	2,644	1,485
Depreciation and amortization	1,253	342
Communication	760	618
Advertising and marketing expenses	696	394
Occupancy costs	625	434
Social security costs	585	434
Professional services fees	514	442
Office supplies	337	245
Insurance expenses	328	415
Other employees' benefits	309	196
Repairs and maintenance expenses	164	121
Taxes, other than income tax	133	86
Travel expenses	113	202
Sponsorship and charity expenses	52	137
Gift of fixed assets	-	5
Other	208	192
Total operating expenses	**8,721**	**5,748**

(in Azerbaijan Manats and in millions unless otherwise stated)

9. INCOME TAXES

The Bank provides for taxes based on the statutory tax accounts maintained and prepared in accordance with the Azerbaijan statutory tax regulations that differ from International Financial Reporting Standards. The Bank is subject to certain permanent tax differences due to non-tax deductibility of certain expenses.

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences as at 31 December 2005 and 2004 relate mostly to different methods of income and expense recognition as well as to recorded values of certain assets.

Temporary differences as at 31 December 2005 and 2004 comprise:

	2005	2004
Deferred assets:		
Fixed and intangible assets, net	62	341
Loans and advances to customers, net	269	54
Loans and advances from banks and other credit institutions	348	-
Investment securities	19	19
Total deferred assets	698	414
Deferred liabilities:		
Investments securities	-	(60)
Loans and advances to customers, net	(195)	(252)
Other liabilities	(333)	(63)
Total deferred liabilities	(528)	(375)
Net deferred assets	**170**	**39**
Deferred tax assets at the statutory rate of 22 % (2004: 24%)	37	9
Less unrecognized deferred tax assets	(37)	(9)
Net deferred income tax assets	**-**	**-**

(in Azerbaijan Manats and in millions unless otherwise stated)

Relationships between tax expenses and accounting profit for the years ended 31 December 2005 and 2004 are explained as follows:

	2005	**2004**
Profit before income taxes	**3,894**	**1,536**
Statutory tax rate	24%	24%
Theoretical tax at the statutory tax rate	935	369
Tax effect of permanent differences	400	14
Change in unrecognized deferred tax assets	28	9
Effect of changes in income tax rate	3	-
Income tax expense	**1,366**	**392**
Deferred income tax liabilities		
1 January 2005	-	(274)
Decrease in deferred income tax liabilities	-	274
31 December 2005	**-**	**-**

Income tax assets and liabilities consist of the following:

	2005	**2004**
Current income tax liability	780	376
Total income tax liabilities	**780**	**376**

10. EARNINGS PER SHARE

Earnings per share are calculated as follows:

	2005	**2004**
Net income for the year	2,528	1,144
Less dividends declared on preference shares	(574)	-
Net income for the year attributable to ordinary shareholders	1,954	1,144
Weighted average number of ordinary shares for basic and diluted earnings per share	139,561	110,691
Earnings per share (basic and diluted), AZM	**14,001**	**10,335**

(in Azerbaijan Manats and in millions unless otherwise stated)

11. CASH AND BALANCES WITH THE NATIONAL BANK OF AZERBAIJAN

Cash and balances with the National Bank of Azerbaijan comprise:

	2005	2004
Cash on hand	13,281	9,936
Balances with the National Bank of Azerbaijan	12,533	22,227
Total cash and balances with the National Bank of Azerbaijan	**25,814**	**32,163**

The balances with the NBA as at 31 December 2005 and 2004 include AZM 3,605 million and AZM 4,936 million, respectively, which represent the minimum reserve deposits required by the NBA. The Bank is required to maintain the reserve balance at the NBA at all times.

Cash and cash equivalents for the purposes of the statement of cash flows comprise:

	2005	2004
Cash and balances with the National Bank of Azerbaijan	25,814	32,163
Loans and advances to banks in OECD countries	1,996	3,117
	27,810	35,280
Less minimum reserve deposit with the National Bank of Azerbaijan	(3,605)	(4,936)
Less restricted deposits to banks in OECD countries	(94)	(343)
Total cash and cash equivalents	**24,111**	**30,001**

12. LOANS AND ADVANCES TO BANKS

Loans and advances to banks comprise:

	2005	2004
Loans to banks	4,593	2,452
Correspondent accounts with other banks	2,118	4,202
Restricted deposits	94	343
Accrued interest income on loans and advances to banks	1	-
	6,806	6,997
Less allowance for impairment losses	-	(49)
Total loans and advances to banks, net	**6,806**	**6,948**

Movements in allowance for impairment losses for the years ended 31 December 2005 and 2004 are disclosed in Note 5.

As at 31 December 2005 and 2004 the Bank had restricted deposits totaling AZM 94 million and AZM 343 million related to a letter of credit with Raiffeisen Centrobank, Austria.

As at 31 December 2005 and 2004 the maximum credit risk exposure of loans and advances to banks amounted to AZM 6,806 million and AZM 6,997 million, respectively.

(in Azerbaijan Manats and in millions unless otherwise stated)

13. LOANS AND ADVANCES TO CUSTOMERS

Loans and advances to customers comprise:

	2005	2004
Originated loans	117,177	98,358
Accrued interest income on loans and advances to customers	2,292	1,169
	119,469	99,527
Less allowance for impairment losses	(6,470)	(4,314)
Total loans and advances to customers, net	**112,999**	**95,213**

	2005	2004
Loans collateralized by real estate	50,419	39,473
Unsecured loans	28,787	30,043
Loans collateralized by equipment	17,985	8,951
Loans collateralized by corporate guarantees	12,252	10,990
Loans collateralized by securities	6,494	6,834
Loans collateralized by gold	1,231	652
Loans collateralized by deposits	9	1,415
Accrued interest income on loans and advances to customers	2,292	1,169
	119,469	99,527
Less allowance for impairment losses	(6,470)	(4,314)
Total loans and advances to customers, net	**112,999**	**95,213**

Movements in allowances for impairment losses for the years ended 31 December 2005 are disclosed in Note 5.

	2005	2004
Analysis by industry		
Trading	51,302	28,950
Individuals	49,010	17,259
Manufacturing	12,963	26,627
Agriculture	3,072	7,218
Construction	381	10,274
Communication	110	8,030
Other	339	-
Accrued interest income on loans and advances to customers	2,292	1,169
	119,469	99,527
Less allowance for impairment losses	(6,470)	(4,314)
Total loans and advances to customers, net	**112,999**	**95,213**

As at 31 December 2005 and 2004 the Bank had credit exposures to 1 and 4 borrowers totaling AZM 3,631 million and AZM 15,366 million respectively, which individually exceeded 10% of the Bank's equity.

As at 31 December 2005 and 2004 maximum credit risk exposure of loans and advances to customers amounted to AZM 119,469 million and AZM 99,527 million, respectively.

(in Azerbaijan Manats and in millions unless otherwise stated)

INVESTMENTS AVAILABLE-FOR-SALE

Investments available for sale comprise:

Name	Country of incorporation	Ownership interest	2005	2004
CB Azinvestbank	Azerbaijan	-	-	550
JSIB Azerigazbank	Azerbaijan	1.56%	453	453
Baku Stock Exchange	Azerbaijan	2.77%	150	150
Total investments available-for-sale			**603**	**1,153**

14. FIXED ASSETS

	Buildings	Computers	Furniture and equipment	Vehicles	Leasehold improvements	Total
At cost or revalued amount						
31 December 2004	8,816	1,036	2,337	505	250	12,944
Additions	-	429	1,191	529	23	2,172
Disposals	-	(57)	(31)	(168)	-	(256)
Transfers	-	(4)	4	-	-	-
31 December 2005	8,816	1,404	3,501	866	273	14,860
Accumulated depreciation						
31 December 2004	-	615	1,228	127	-	1,970
Charge for the year	441	195	471	146	-	1,253
Disposals	-	(57)	(31)	(43)	-	(131)
Transfers	-	(1)	1	-	-	-
31 December 2005	441	752	1,669	230	-	3,092
Net book value						
31 December 2005	**8,375**	**652**	**1,832**	**636**	**273**	**11,768**
Net book value						
31 December 2004	**8,816**	**421**	**1,109**	**378**	**250**	**10,974**

All buildings of the Bank were revalued by independent appraisers at 31 December 2004 and their revalued amounts reflect the market values of these buildings as at that date.

(in Azerbaijan Manats and in millions unless otherwise stated)

15. INTANGIBLE ASSETS

	2005	2004
At cost		
31 December	-	29
Additions	432	-
Disposals	-	(29)
31 December	432	-
Accumulated amortization		
31 December	-	14
Charge for the year	-	15
Disposals		(29)
31 December	-	-
Net book value		
31 December	**432**	-

Intangible assets include various software purchased by the Bank during December 2005.

16. OTHER ASSETS

Other assets comprise:

	2005	2004
Prepayments for purchase of tangible assets	203	-
Receivables from Western Union	164	164
Properties received in satisfaction of non-performing loans	84	194
Prepaid expenses	69	-
Settlements on plastic cards	35	18
Prepayments and receivables on other transactions	27	38
Accrued dividends receivable	-	63
	582	477
Allowance for impairment of other assets	(42)	(152)
Total other assets, net	**540**	**325**

17. LOANS AND ADVANCES FROM BANKS AND OTHER CREDIT INSTITUTIONS

Loans and advances from banks and other credit institutions comprise:

	2005	2004
Loans from banks and other credit institutions	32,577	27,874
Correspondent accounts of other banks	5,270	3,923
Accrued interest expense	348	97
Total loans and advances from banks and other credit institutions	**38,195**	**31,894**

(in Azerbaijan Manats and in millions unless otherwise stated)

As at 31 December 2005 and 2004 included in loans from banks and other credit institutions are 4 loans from the National Bank of Azerbaijan amounting to AZM 4,000 million and AZM 4,200 million, respectively. Two of these loans have a 5 day maturity period and bear annual interest rates of 7 and 7.5%. The remaining two loans have a 180 day maturity period and bear annual interest rates of 8 and 9 %.

18. CUSTOMER ACCOUNTS

Customer accounts comprise:

	2005	2004
Time deposits	44,019	37,161
Repayable on demand	41,639	46,873
Accrued interest expense on customer accounts	1,133	698
Total customer accounts	**86,791**	**84,732**

Analysis of customer accounts by sector:

	2005	2004
Individuals	44,833	39,222
Trade	21,870	9,186
Construction	6,692	15,417
Transport and Communication	5,113	14,855
Energy	4,704	13
Agriculture	132	654
Manufacturing	34	4,333
Other	2,280	354
Accrued interest expense on customer accounts	1,133	698
Total customer accounts	**86,791**	**84,732**

19. DEBT SECURITIES ISSUED

Debt securities issued comprise:

	2005	2004
Certificate of deposit	-	5,000
Total debt securities issued	-	**5,000**

(in Azerbaijan Manats and in millions unless otherwise stated)

20. OTHER LIABILITIES

Other liabilities comprise:

	2005	2004
Allowance for guarantees and other commitments	568	1,042
Dividends payable on preferred shares	361	-
Payable for banking software	312	-
Payable for ATM machine	308	-
Taxes payable, other than income tax	73	60
Professional fees payable	68	69
Settlements on plastic cards	12	15
Temporary accounts	5	-
Accrued expenses payable	1	54
Total other liabilities	**1,708**	**1,240**

The movement in the allowance for guarantees and other commitments is disclosed in Note 5.

21. SHARE CAPITAL

As at 31 December 2005 the Bank's share capital comprised the following:

	Authorized share capital	Unpaid share capital	Total issued and paid up share capital
Ordinary shares	17,400	(2,500)	14,900
Preferred shares	4,500	-	4,500
Effect of hyperinflation	3,735	-	3,735
Total	**25,635**	**(2,500)**	**23,135**

As at 31 December 2004 the Bank's share capital comprised the following:

	Authorized share capital	Unpaid share capital	Total issued and paid up share capital
Ordinary shares	12,400	(1,000)	11,400
Preferred shares	2,000	-	2,000
Effect of hyperinflation	3,735	-	3,735
Total	**18,135**	**(1,000)**	**17,135**

As at 31 December 2005 issued and fully paid share capital comprised of 45,000 preferred and 149,000 ordinary shares with a par value of AZM 100,000 each. As at 31 December 2004 issued and fully paid share capital comprised of 20,000 preferred and 114,000 ordinary shares with par value AZM 100,000 each. All ordinary shares are ranked equally and carry one vote. The preferred shares are non-voting.

(in Azerbaijan Manats and in millions unless otherwise stated)

During the year ended 31 December 2005 the Bank issued 35,000 ordinary and 25,000 preferred shares with par value of AZM 100,000 in accordance with the requirements of the National Bank of Azerbaijan.

As at 31 December 2005 and 2004 included in share capital is an adjustment of AZM 3,735 million resulting from the restatement of share capital due to the hyperinflationary period of the Azerbaijan economy between 1990 and end of 1997.

The holders of ordinary shares are entitled to dividends after the holders of preference shares are paid dividends as decided by the shareholders' meeting. The holders of preference shares are entitled to receive dividends but are not entitled to vote at shareholders' meetings.

22. FINANCIAL COMMITMENTS AND CONTINGENCIES

In the normal course of business the Bank is a party to financial instruments with off-balance sheet risk in order to meet the needs of its customers. These instruments, involving varying degrees of credit risk, are not reflected in the balance sheet. The risk-weighted amount is obtained by applying credit conversion factors and counterparty risk weightings according to the principles employed by the Basel Committee on Banking Supervision.

As at 31 December 2005 and 2004, the nominal or contract amounts and the risk amounts were:

	2005		2004	
	Nominal Amount	**Risk Weighted Amount**	**Nominal Amount**	**Risk Weighted Amount**
Commitments on credits and unused credit lines	24,762	4,248	14,716	3,275
Guarantees issued and similar commitments	16,298	16,298	11,880	11,880
Letters of credit and other transaction related contingent obligations	-	-	343	-
Total contingent liabilities and credit commitments	**41,061**	**20,546**	**26,939**	**15,155**

***Legal proceedings* -** From time to time and in the normal course of business, claims against the Bank are received from customers and counterparties. Management is of the opinion that no material unaccrued losses will be incurred and accordingly no provision has been made in these financial statements.

***Capital commitments* -** The Bank had no material commitments for capital expenditures outstanding as at 31 December 2005.

***Taxes* -** Azerbaijan commercial legislation and tax legislation in particular may give rise to varying interpretations and amendments. In addition, as management's interpretation of tax legislation may differ from that of the tax authorities, transactions may be challenged by the tax authorities, and as a result the Bank may be assessed additional taxes, penalties and interest. The Bank believes that it has already made all tax payments, and therefore no allowance has been made in the financial statements. Tax years remain open to review by the tax authorities for three years.

Pensions and retirement plans - Employees receive pension benefits from the Republic of Azerbaijan in accordance with the laws and regulations of the country. As at 31 December 2005 the Bank was not liable for any supplementary pensions, post-retirement health care, insurance benefits, or retirement indemnities to its current or former employees.

Operating Environment - The Bank's principal business activities are within Azerbaijan. Laws and regulations affecting the business environment in Azerbaijan are subject to rapid changes and the Bank's assets and operations could be at risk due to negative changes in the political and business environment.

23. SUBSEQUENT EVENTS

The Azerbaijan Manat was denominated on 1 January 2006 and, starting from that date, AZM 5 million is equal to 1 New Azerbaijan Manat ("AZN").

On 12 April 2006 the Shareholders' Assembly made a decision to issue 79,500 ordinary shares and 26,500 preferred shares with a par value of 20 AZN each.

24. TRANSACTIONS WITH RELATED PARTIES

Related parties or transactions with related parties, as defined by IAS 24 "Related party disclosures", represent:

(a) Enterprises that directly, or indirectly through one or more intermediaries, control, or are controlled by, or are under common control with, the Bank (this includes holding companies, subsidiaries and fellow subsidiaries);

(b) Associates – enterprises in which the Bank has significant influence and which is neither a subsidiary nor a joint venture of the investor;

(c) Individuals owning, directly or indirectly, an interest in the voting power of the Bank that gives them significant influence over the Bank;

(d) Key management personnel, that is, those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, including directors and officers of the Bank (also non-executive directors and close members of the families of such individuals);

(e) Enterprises in which a substantial interest in the voting power is owned, directly or indirectly, by any person described in (c) or (d) or over which such a person is able to exercise significant influence. This includes enterprises owned by directors or major shareholders of the Bank and enterprises that have a member of key management in common with the Bank;

(f) Parties with joint control over the Bank;

(g) Joint ventures in which the Bank is a venture; and

(h) Post-employment benefit plans for the benefit of employees of the Bank, or of any entity that is a related party to the Bank.

(in Azerbaijan Manats and in millions unless otherwise stated)

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form. The Bank had the following transactions outstanding with related parties:

	2005		**2004**	
	Related party transactions	**Total category as per financial statements caption**	**Related party transactions**	**Total category as per financial statements caption**
Loans to customers, gross		119,469		99,527
- *shareholders and entities with significant control over the Bank*	11		-	
- *key management personnel*	58		51	
Allowance for impairment losses	(1)	(6,470)	-	(4,314)
Loans to customers, net	**68**	**112,999**	**51**	**95,213**
Customer accounts		86,791		84,732
- *shareholders and entities with significant control over the Bank*	4,949		1,719	
- *key management personnel*	223		73	
Total customer accounts	**5,172**	**86,791**	**1,792**	**84,732**

(in Azerbaijan Manats and in millions unless otherwise stated)

Included in the income statement for the years ended 31 December 2005 and 2004 are the following amounts, which arose due to transactions with related parties:

	2005		2004	
	Related party transactions	**Total category as per financial statements caption**	**Related party transactions**	**Total category as per financial statements caption**
Interest income		16,241		9,661
- shareholders and entities with significant control over the Bank	2		-	
- key management personnel	9		2	
Interest expense		(7,019)		(4,135)
- shareholders and entities with significant control over the Bank	(785)		(25)	
- key management personnel	(42)		(27)	
Fees and commission income		6,195		5,345
- shareholders and entities with significant control over the Bank	2		6	
- key management personnel	1		-	
Operating expenses		(8,721)		(5,748)
- shareholders and entities with significant control over the Bank	(54)		(479)	
Key management personnel compensation		(3,485)		(1,919)
- short-term employee benefits	(254)		(195)	

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25. FAIR VALUE OF FINANCIAL INSTRUMENTS

Estimated fair value disclosures of financial instruments is made in accordance with the requirements of IAS 32 "Financial Instruments: Disclosure and Presentation" and IAS 39 "Financial Instruments: Recognition and Measurement". Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in forced or liquidation sale. As no readily available published price quotations in an active market exist for a large part of the Bank's financial instruments, judgment is necessary in arriving at fair value using a valuation technique, based on current economic conditions and specific risks attributable to the instrument.

The fair value of financial assets and liabilities compared with the corresponding carrying amount in the balance sheet of the Bank is presented below:

	31 December 2005		31 December 2004	
	Carrying value	Fair value	Carrying value	Fair value
Cash and balances with the National Bank of Azerbaijan	25,814	25,814	32,163	32,163
Loans and advances to banks, net	6,806	6,806	6,948	6,948
Loans and advances from banks and other institutions	38,195	38,195	31,894	31,894
Customer accounts	86,791	86,791	84,732	84,732

The fair value of loans and advances to customers cannot be measured reliably as it is not practicable to obtain market information or apply any other valuation techniques on such instruments.

The fair value of investments available for sale cannot be measured reliably. These represent equity investments in JSIB Azerigazbank and Baku Stock Exchange. Since these shares are not publicly traded and the range of reasonable fair value estimates is significant it is not possible to estimate fair value.

26. REGULATORY MATTERS

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (as set forth in the table below) of total (8%) and tier 1 capital (4%) to risk weighted assets.

The ratio was calculated according to the principles employed by the Basel Committee by applying the following risk estimates to the assets and off-balance sheet commitments net of allowances for impairment losses:

Estimate	Description of position
0%	Cash and balances with the National Bank of Azerbaijan
0%	State debt securities
20%	Loans and advances to banks for up to 1 year
100%	Loans and advances to customers
100%	Other assets
100%	Guarantees
50%	Obligations and commitments on unused loans with the initial maturity of over 1 year

(in Azerbaijan Manats and in millions unless otherwise stated)

The Bank's actual capital amounts and ratios are presented in the following table:

Capital amounts and ratios	Actual Amount	For Capital Adequacy purposes Amount	Ratio For Capital Adequacy purposes	Minimum Required Ratio
As at 31 December 2005				
Total capital	31,488	31,035	22%	8%
Tier 1 capital	24,918	24,465	17%	4%
As at 31 December 2004				
Total capital	23,534	22,531	18%	8%
Tier 1 capital	16,964	15,961	13%	4%

27. RISK MANAGEMENT POLICIES

Management of risk is fundamental to the banking business and is an essential element of the Bank's operations. The main risks inherent to the Bank's operations are those related to credit exposures, liquidity and market movements in interest rates and foreign exchange rates. A description of the Bank's risk management policies in relation to those risks follows.

The Bank manages the following risks:

Liquidity risk

Liquidity risk refers to the availability of sufficient funds to meet deposit withdrawals and other financial commitments associated with financial instruments as they actually fall due. In order to manage liquidity risk, the Bank performs daily monitoring of expected future cash flows on clients' and banking operations, which is a part of the assets/liabilities management process. The Assets and Liabilities Management Committee sets limits on the minimum proportion of maturing funds available to meet deposit withdrawals and on the minimum level of interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

Cash flow interest rate risk

Cash flow interest rate risk arises from the possibility that changes in interest rates will affect the value of the financial instruments. The following table presents an analysis of interest rate risk and thus the potential of the Bank for gain or loss. Effective interest rates are presented by categories of financial assets and liabilities to determine interest rate exposure and effectiveness of the interest rate policy used by the Bank.

		2005			2004	
	AZM	USD	Other	AZM	USD	Other
ASSETS						
Loans and advances to banks, net	-	10%	-	-	10%	-
Loans and advances to customers, net	11.87%	20.69%	8.83%	13%	19%	-
LIABILITIES						
Loans and advances from banks and other institutions	3%	6%	-	6%	10%	-
Customer accounts	13%	13%	12%	8%	12%	12%

(in Azerbaijan Manats and in millions unless otherwise stated)

The analysis of interest rate and liquidity risk on balance sheet transactions is presented in the following table:

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Overdue	Maturity undefined	2005 Total
ASSETS								
Loans and advances to banks, net	4,593	-	-	-	-	-	-	4,593
Loans and advances to customers, net	5,010	7,357	36,543	50,047	8	14,024	10	112,999
Total interest bearing assets	9,603	7,357	36,543	50,047	8	14,024	10	117,592
Cash and balances with the National Bank of Azerbaijan	22,209	-	-	-	-	-	3,605	25,814
Loans and advances to banks, net	2,213	-	-	-	-	-	-	2,213
Investments available-for-sale, net	-	-	-	-	-	-	603	603
Fixed assets, net	-	-	-	-	-	-	11,768	11,768
Intangible assets, net	-	-	-	-	-	-	432	432
Other assets	258	-	34	-	-	-	248	540
TOTAL ASSETS	**34,283**	**7,357**	**36,577**	**50,047**	**8**	**14,024**	**16,666**	**158,962**
LIABILITIES								
Loans and advances from banks and other credit institutions	1,392	2,000	4,636	24,897	-	-	-	32,925
Customer accounts	5,323	2,450	16,519	20,793	72	-	-	45,157
Total interest bearing liabilities	6,715	4,450	21,155	45,690	72	-	-	78,082
Loans and advances from banks and other credit institutions	5,270	-	-	-	-	-	-	5,270
Customer accounts	41,634	-	-	-	-	-	-	41,634
Current income tax liabilities	-	-	780	-	-	-	-	780
Other liabilities	501	52	810	262	-	83	-	1,708
TOTAL LIABILITIES	**54,120**	**4,502**	**22,745**	**45,952**	**72**	**83**	**-**	**127,474**
Liquidity gap	(19,837)	2,855	13,832	4,095	(64)			
Interest sensitivity gap	2,888	2,907	15,388	4,357	(64)			
Cumulative interest sensitivity gap	2,888	5,795	21,183	25,540	25,476			
Cumulative interest sensitivity gap as a percentage of total assets	2%	4%	13%	16%	16%			

(in Azerbaijan Manats and in millions unless otherwise stated)

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Overdue	Maturity undefined	2004 Total
ASSETS								
Loans and advances to customers, net	11,532	9,750	45,088	25,332	574	2,937	-	95,213
Total interest bearing assets	11,532	9,750	45,088	25,332	574	2,937	-	95,213
Cash and balances with the National Bank of Azerbaijan	27,228	-	-	-	-	-	4,935	32,163
Loans and advances to banks, net	6,605	343	-	-	-	-	-	6,948
Investments available-for-sale, net	-	-	-	-	-	-	1,153	1,153
Fixed assets, net	-	-	-	-	-	-	10,974	10,974
Other assets	220	63	194	-	-	-	(152)	325
TOTAL ASSETS	**45,585**	**10,156**	**45,282**	**25,332**	**574**	**2,937**	**16,910**	**146,776**
LIABILITIES								
Loans and advances from banks and other credit institutions	2,653	2,097	3,690	19,732	1,226	-	-	29,398
Customer accounts	3,377	2,144	17,895	14,378	65	-	-	37,859
Debt securities issued	-	-	5,000	-	-	-	-	5,000
Total interest bearing liabilities	6,030	4,241	26,585	34,110	1,291	-	-	72,257
Loans and advances from banks and other credit institutions	2,496	-	-	-	-	-	-	2,496
Customer accounts	46,873	-	-	-	-	-	-	46,873
Current income tax liabilities	-	-	376	-	-	-	-	376
Other liabilities	346	260	402	110	122	-	-	1,240
TOTAL LIABILITIES	**55,745**	**4,501**	**27,363**	**34,220**	**1,413**	**-**	**-**	**123,242**
Liquidity gap	(10,160)	5,655	17,919	(8,888)	(839)			
Interest sensitivity gap	5,502	5,509	18,503	(8,778)	(717)			
Cumulative interest sensitivity gap	5,502	11,011	29,514	20,736	20,019			
Cumulative interest sensitivity gap as a percentage of total assets	4%	8%	20%	14%	14%			

(in Azerbaijan Manats and in millions unless otherwise stated)

The majority of the Bank's interest earning assets and interest bearing liabilities are at fixed rates of interest.

Asset and liability maturity periods and the ability to replace interest liabilities at an acceptable cost when they mature are crucial in determining the Bank's liquidity and its susceptibility to fluctuations in interest rates and exchange rates.

Currency risk

Currency risk is defined as the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Bank is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

The Management Board sets limits on the level of exposure by currencies. These limits also comply with the minimum requirements of the NBA. The Bank's exposure to foreign currency exchange rate risk is presented in the table below:

	AZM	**USD** 1 USD= AZM 4,593	**EUR** 1 EUR= AZM 5,459	**Other currencies**	**2005 Total**
ASSETS					
Cash and balances with the National Bank of Azerbaijan	21,988	3,687	96	43	25,814
Loans and advances to banks, net	-	6,542	3	261	6,806
Loans and advances to customers, net	59,296	53,639	64	-	112,999
Investments available-for-sale, net	603	-	-	-	603
Fixed assets, net	11,768	-	-	-	11,768
Intangible assets, net	432	-	-	-	432
Other assets	319	221	-	-	540
TOTAL ASSETS	**94,406**	**64,089**	**163**	**304**	**158,962**
LIABILITIES					
Loans and advances from banks and other institutions	21,429	16,766	-	-	38,195
Customer accounts	41,049	44,372	1,115	255	86,791
Current income tax liabilities	780	-	-	-	780
Other liabilities	1,103	604	1	-	1,708
TOTAL LIABILITIES	**64,361**	**61,742**	**1,116**	**255**	**127,474**
OPEN POSITION	**30,045**	**2,347**	**(953)**	**49**	

(in Azerbaijan Manats and in millions unless otherwise stated)

	AZM	USD 1 USD= AZM 4,903	EUR 1 EUR= AZM 6,682	Other currencies	2004 Total
ASSETS					
Cash and balances with the National Bank of Azerbaijan	27,333	4,758	70	2	32,163
Loans and advances to banks, net	-	6,898	-	50	6,948
Loans and advances to customers, net	50,123	45,090	-	-	95,213
Investments available-for-sale, net	1,153	-	-	-	1,153
Fixed assets, net	10,974	-	-	-	10,974
Other assets	153	172	-	-	325
TOTAL ASSETS	**89,736**	**56,918**	**70**	**52**	**146,776**
LIABILITIES					
Loans and advances from banks and other institutions	19,049	12,845	-	-	31,894
Customer accounts	40,987	42,528	1,165	52	84,732
Debt securities issued	5,000	-	-	-	5,000
Current income tax liabilities	376	-	-	-	376
Other liabilities	846	394	-	-	1,240
TOTAL LIABILITIES	**66,258**	**55,767**	**1,165**	**52**	**123,242**
OPEN POSITION	**23,478**	**1,151**	**(1,095)**	**-**	

Price Risk

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices whether those changes are caused by factors specific to the individual security or its issuer or factors affecting all securities traded in the market. The Bank is exposed to price risks of its products which are subject to general and specific market fluctuations.

The Bank manages price risk through periodic estimations of potential losses that could arise from adverse changes in market conditions and establishing and maintaining appropriate stop-loss limits and margin and collateral requirements. With respect to undrawn loan commitments the Bank is potentially exposed to loss in an amount equal to the total amount of such commitments. However, the likely amount of loss is less than that, since most commitments are contingent upon certain conditions set out in the loan agreements.

Fair value interest rate risk

Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates.

The Bank manages fair value interest rate risk through periodic estimation of potential losses that could arise from adverse changes in market conditions. The Management Board of the Bank conducts monitoring of the Bank's current financial performance, estimates the Bank's sensitivity to changes in fair value interest rates and its influence on the Bank's profitability.

Credit risk

The Bank is exposed to credit risk which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers.

Limits on the level of credit risk by borrower are reviewed and approved by the Supervisory Board twice a year. Actual exposure per borrower against limits is monitored on new loans granted. The Credit Committee may initiate a change in the limits, however this must be approved by the Supervisory Board.

Where appropriate, and in the case of most loans, the Bank obtains collateral and corporate guarantees. The credit risks are monitored on a continuous basis and are subject to annual or more frequent reviews, especially where no such security can be obtained.

Commitments to extend credit represent unused portions of credit in the form of loans, guarantees or letters of credit. The credit risk on off-balance sheet financial instruments is defined as a probability of losses due to the inability of the counterparty to comply with the contractual terms and conditions. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank applies the same credit policy to the contingent liabilities as it does to the balance sheet financial instruments, i.e. the one based on the procedures for approving the grant of loans, using limits to mitigate the risk, and current monitoring. The Bank monitors the term to maturity of credit commitments because longer term commitments generally have a greater degree of credit risk than shorter term commitments.

(in Azerbaijan Manats and in millions unless otherwise stated)

Geographical concentration

The Assets and Liabilities Management Committee exercises control over the risk in the legislation and regulatory arena and assess its influence on the Bank’s activities. This approach allows the Bank to minimize potential losses from investment climate fluctuations in Azerbaijan.

The geographical concentration of assets and liabilities is set out below:

	Azerbaijan	Other CIS countries	OECD countries	Other non-OECD countries	2005 Total
ASSETS					
Cash and balances with the National Bank of Azerbaijan	25,814	-	-	-	25,814
Loans and advances to banks, net	4,640	169	1,997	-	6,806
Loans and advances to customers, net	112,999	-	-	-	112,999
Investments available-for-sale	603	-	-	-	603
Fixed assets, net	11,768	-	-	-	11,768
Intangible assets, net	432	-	-	-	432
Other assets, net	377	163	-	-	540
TOTAL ASSETS	**156,633**	**332**	**1,997**	**-**	**158,962**
LIABILITIES					
Loans and advances from banks and other institutions	29,217	-	5,297	3,681	38,195
Customer accounts	85,435	91	255	1,010	86,791
Current income tax liability	780	-	-	-	780
Other liabilities	1,708	-	-	-	1,708
TOTAL LIABILITIES	**117,140**	**91**	**5,552**	**4,691**	**127,474**
NET POSITION	**39,493**	**241**	**(3,555)**	**(4,691)**	

(in Azerbaijan Manats and in millions unless otherwise stated)

	Azerbaijan	Other CIS countries	OECD countries	2004 Total
ASSETS				
Cash and balances with the National Bank of Azerbaijan	32,163	-	-	32,163
Loans and advances to banks, net	3,784	47	3,117	6,948
Loans and advances to customers, net	95,213	-	-	95,213
Investments available-for-sale, net	1,153	-	-	1,153
Fixed assets, net	10,974	-	-	10,974
Other assets	145	8	172	325
TOTAL ASSETS	**143,432**	**55**	**3,289**	**146,776**
LIABILITIES				
Deposits from banks and other credit institutions	23,258	2,655	5,981	31,894
Customer accounts	84,732	-	-	84,732
Debt securities issued	5,000	-	-	5,000
Current income tax liabilities	376	-	-	376
Other liabilities	1,240	-	-	1,240
TOTAL LIABILITIES	**114,606**	**2,655**	**5,981**	**123,242**
NET POSITION	**28,826**	**(2,600)**	**(2,692)**	