OPEN JOINT STOCK COMPANY
RABITABANK

INDEPENDENT AUDITORS' REPORT
AND
CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2009

Open Joint Stock Company Rabitabank

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Statement of Management's Responsibilities for the Preparation and Approval of the Consolidated Financial Statements for the Year Ended 31 December 2009

The following statement, which should be read in conjunction with the independent auditors' responsibilities stated in the independent auditors' report set out on pages 2-3, is made with a view to distinguishing the respective responsibilities of management and those of the independent auditors in relation to the consolidated financial statements of Open Joint Stock Company Rabitabank (the "Group").

Management is responsible for the preparation of the consolidated financial statements that present fairly the financial position of the Group at 31 December 2009, and 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 consolidated financial statements, management is responsible for:

- Selecting suitable accounting principles and applying them consistently;
- Making judgments and estimates that are reasonable and prudent;
- Stating whether IFRS have been followed, subject to any material departures disclosed and explained in the consolidated financial statements; and
- Preparing the consolidated financial statements on a going concern basis, unless it is inappropriate to presume that the Group 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 Group;
- Maintaining proper accounting records that disclose, with reasonable accuracy at any time, the financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with IFRS;
- Maintaining statutory accounting records in compliance with legislation of the Republic of Azerbaijan;
- Taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- Detecting and preventing fraud and other irregularities.

The consolidated financial statements for the year ended 31 December 2009 were authorized for issue on 27 May 2010 by the Management Board.

Approved for issue and signed on behalf of the Management Board on 27 May 2010.

Chairman
Mr. Eldar Aghayev

Finance Director
Mr. Ramiz Ismayilov

«RABITƏBANK» AÇIQ SƏHMDAR CƏMİYYƏTİ AZƏRBAYCAN RESPUBLİKASI «RABITABANK» OPEN JOINT-STOCK COMPANY AZERBAIJAN REPUBLIC AZƏRBAYCAN AZERBAIJAN

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Independent Auditors' Report

To the Shareholders and Board of Directors of Open Joint Stock Company Rabitabank:

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Open Joint Stock Company Rabitabank, which comprise the consolidated statement of financial position as at 31 December 2009, and the consolidated income statement, consolidated statements of changes in equity and cash flows for the year ended 31 December 2009, 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements present fairly, in all material respects, the financial position of Open Joint Stock Company Rabitabank as at 31 December 2009, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

"BDO" JSC
Certified Auditors Commercial Company
Licence No. 112

D.Tunsts
International Liaison Partner

A.Putniņš
The responsible certified auditor
Certificate No. 123

Riga, Latvia
27 May 2010

Consolidated Income Statement for the Year Ended 31 December 2009
(In thousands of Azerbaijan Manats)

	Notes	Year ended 31 December 2009	Year ended 31 December 2008
Interest income	4	12,350	14,149
Interest expense	4	(7,127)	(8,177)
NET INTEREST INCOME BEFORE PROVISION FOR IMPAIRMENT LOSSES ON INTEREST BEARING ASSETS		5,223	5,972
Provision for impairment losses on interest bearing assets	5	(1,057)	(859)
NET INTEREST INCOME		4,166	5,113
Net gain/(loss) on foreign exchange operations	6	173	353
Net gain /(loss) on revaluation of coupon securities		-	(22)
Fee and commission income	7	1,829	2,476
Fee and commission expense	7	(299)	(392)
Other income		37	49
NET NON-INTEREST INCOME		1,740	2,464
OPERATING INCOME		5,906	7,577
OPERATING EXPENSES	8	(6,272)	(6,308)
OPERATING PROFIT/(LOSS)		(366)	1,269
Recovery of provision/(provision) for impairment losses on guarantees and other commitments	5	82	(179)
PROFIT/(LOSS) BEFORE INCOME TAX		(284)	1,090
Income tax benefit/(expense)	9	118	(161)
NET PROFIT/(LOSS)		**(166)**	**929**
EARNINGS / (LOSS) PER SHARE			
Basic and diluted (AZN)	10	(2.27)	1.83

Approved for issue and signed on behalf of the Management Board on 27 May 2010.

Chairman
Mr. Eldar Aghayev

Finance Director
Mr. Ramiz Ismayilov

Open Joint Stock Company Rabitabank

Consolidated Statement of Financial Position for the Year Ended 31 December 2009
(In thousands of Azerbaijan Manats)

	Notes	31 December 2009	31 December 2008
ASSETS			
Cash and balances with the Central Bank of Azerbaijan	11	13,358	9,175
Due from banks	12	7,556	3,227
Loans to customers	13	70,254	69,005
Factoring	14	7	409
Investments available-for-sale	15	1,875	3,287
Property and equipment	18	9,228	8,924
Intangible assets	19	139	97
Other assets	20	2,107	1,849
TOTAL ASSETS		**104,524**	**95,973**
LIABILITIES			
Due to banks and other financial institutions	21	33,823	28,077
Customer accounts	22	53,007	44,507
Debt securities issued	17	-	4,055
Securities Sold under REPO Agreements	16	-	2,000
Finance lease liabilities	23	27	58
Current income tax liability		155	307
Deferred income tax liabilities	9	881	1,138
Other liabilities	24	724	428
TOTAL LIABILITIES		**88,617**	**80,570**
EQUITY			
Share capital	25	10,747	9,247
Revaluation reserve		5,442	5,442
(Accumulated deficit)/retained earnings		(282)	714
TOTAL EQUITY		**15,907**	**15,403**
TOTAL LIABILITIES AND EQUITY		**104,524**	**95,973**

Approved for issue and signed on behalf of the Management Board on 27 May 2010.

Chairman
Mr. Eldar Aghayev

Finance Director
Mr. Ramiz Ismayilov

Consolidated Statement of Changes in Equity for the Year Ended 31 December 2009
(In thousands of Azerbaijan Manats)

	Share capital	Property and equipment revaluation reserve	(Accumulated deficit)/retained earnings	Total equity
31 December 2007	**7,747**	**5,442**	**(15)**	**13,174**
Share capital increase	-	-	-	-
Ordinary shares	1,500	-	-	1,500
Dividends declared	-	-	(200)	(200)
Net Profit	-	-	929	929
31 December 2008	**9,247**	**5,442**	**714**	**15,403**
Share capital increase	-	-	-	-
Ordinary shares	1,500	-	-	1,500
Dividends declared	-	-	(830)	(830)
Net Loss	-	-	(166)	(166)
31 December 2009	**10,747**	**5,442**	**(282)**	**15,907**

Approved for issue and signed on behalf of the Management Board on 27 May 2010.

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Finance Director
Mr. Ramiz Ismayilov

Consolidated Statement of Cash Flows for the Year Ended 31 December 2009
(In thousands of Azerbaijan Manats)

	Notes	Year ended 31 December 2009	Year ended 31 December 2008
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit/(loss) before income tax		(284)	1,090
Adjustments for:			
Provision for impairment losses on loans to customers	5	1,057	859
(Recovery of provision)/provision for claims, guarantees and other commitments	5	(82)	179
Deferred loan origination fees		-	168
Depreciation and amortization		362	782
Loss / (gain) on disposal of property and equipment		(8)	3
Net (gain)/loss arising from changes in foreign currency exchange rates		1	-
Net change in interest accruals		(315)	(1,229)
Cash flows from operating activities before changes in operating assets and liabilities		731	1,852
Changes in operating assets and liabilities			
(Increase)/decrease in operating assets:			
Minimum reserve deposit with the Central Bank of Azerbaijan Republic		2,466	1,600
Due from banks		(3,463)	247
Loans to customers		(1,228)	(18,855)
Factoring		402	(409)
Other assets		(258)	(233)
Increase/(decrease) in operating liabilities:			
Deposits from banks and other institutions		5,797	9,530
Customer accounts		8,590	6,551
Other liabilities		375	(99)
Cash (outflow)/inflow from operating activities before taxation		13,412	184
Income tax paid		(291)	(273)
Net cash (outflow)/inflow from operating activities		**13,121**	**(89)**
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property, equipment and intangible assets		(699)	(862)
REPO transactions		(2,000)	2,000
Sale/(purchase) of investments available-for-sale		1,412	(306)
Net cash inflow / (outflow) from investing activities		**(1,287)**	**832**

Consolidated Statement of Cash Flows for the Year Ended 31 December 2009 (Continued)
(In thousands of Azerbaijan Manats)

	Notes	Year ended 31 December 2009	Year ended 31 December 2008
CASH FLOWS FROM FINANCING ACTIVITIES:			
Issue of ordinary share capital		1,500	1,500
Debt securities issue		(4,055)	(1,219)
Finance lease liabilities		(29)	58
Dividends paid		(830)	(200)
Net cash inflow from financing activities		**(3,414)**	**139**
Effect of foreign exchange rate changes on cash and cash equivalents		(1)	-
NET INCREASE IN CASH AND CASH EQUIVALENTS		**8,419**	**882**
CASH AND CASH EQUIVALENTS, beginning of year	11	**7,276**	**6,394**
CASH AND CASH EQUIVALENTS, end of year	11	**15,695**	**7,276**

Interest paid and received by the Group in cash during the year ended 31 December 2009 amounted to AZN 7,268 thousand and AZN 12,176 thousand, respectively.

Interest paid and received by the Group in cash during the year ended 31 December 2008 amounted to AZN 12,165 thousand and AZN 8,930 thousand, respectively.

Approved for issue and signed on behalf of the Management Board on 27 May 2010.

Chairman
Mr. Eldar Aghayev

Finance Director
Mr. Ramiz Ismayilov

(In thousands of Azerbaijan Manats)

1. Organization

Joint Stock Commercial Bank "Rabitabank" (the "Group") is a joint stock bank, which was established on May 17, 1993. On 26 April 2006 the Group was re-registered as an Open Joint Stock Company. The Group is regulated by the Central Bank of Azerbaijan Republic (the "CBAR") and conducts its business under the general banking license number 136. The Group's principal business activities are commercial and retail banking operations.

The registered office of the Group is located at B.Sardarov Street 1, Baku, AZ 1001, the Republic of Azerbaijan. As at 31 December 2009 and 2008 the Group had 18 branches (and 3 divisions) and 17 branches (and 2 divisions) in the Republic of Azerbaijan.

The Group is a parent company of a banking group (the "Group") which consists of the following enterprises consolidated in the financial statements:

The Groups ownership interest / voting rights, %

Name	**Country of operation**	**2009**	**2008**	**Type of operation**
Kapital Partners LLC	*The Republic of Azerbaijan*	100 %	100%	*Securities market transactions*
AzLizinq LLC	*The Republic of Azerbaijan*	100%	100%	*Leasing operations*

"Kapital Partners" LLC is a limited liability company registered in the Republic of Azerbaijan on 12 November 2007. The company's principal activity is operations with securities, broker and dealer operations.

"AzLizinq" LLC registered in the Republic of Azerbaijan on 16 May 2005. On 07 March 2008 parent company acquired 100% shares of "AzLizinq" LLC and it did not conduct any operation during 2008.

As at 31 December 2009 and 2008 the following individuals and legal entities owned the share capital of the Group:

	31 December 2009 Ownership interest, %	**31 December 2008 Ownership interest, %**
Mr. Zakir Nuriyev	36	36
Ms. Dilare Nuriyeva	25	28
Ms. M.Nuriyeva	10	3
Ms. M. Adigozalova	9	11
Mr. A.Xasiyev	8	-
Mr. Kamal Madatov	4	7
Ms. G. Madatova	4	5
Other individuals	3	6
Other legal entities	1	4
Total	**100**	**100**

These consolidated financial statements were authorized for issue by the Management Board on 27 May 2010.

2. Basis of Presentation

Accounting basis

These consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC").

These consolidated financial statements are presented in thousands of Azerbaijan Manats ("AZN") unless otherwise indicated. These consolidated financial statements have been prepared on an accrual basis and under the historical cost conversion, expect for the measurement at fair value of certain financial instruments and revaluation of certain properties according to International Accounting Standards (IAS) No. 16 "Property, Plant and Equipment".

The Group maintains its accounting records in accordance with Azerbaijan law, which in majority complies with IFRS. These consolidated financial statements have been prepared from the Azerbaijan statutory accounting records and have been adjusted to conform to IFRS. These adjustments include certain reclassifications to reflect the economic substance of underlying transactions including reclassifications of certain assets and liabilities, income and expenses to appropriate financial statement captions.

Functional currency

Items included in the financial statements of the Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to that entity (the "functional currency"). The reporting currency of the financial statements is the Azerbaijan Manats ("AZN").

Key assumptions

The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts. Such estimates and assumptions are based on the information available to the Group's management as of the date of the consolidated financial statements. Therefore, actual results could differ from those estimates and assumptions. Estimates that are particularly susceptible to change relate to the provisions for impairment losses and the fair value of financial instruments.

Key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period include:

	31 December 2009	**31 December 2008**
Loans to customers	70,254	69,005
Property and equipment	9,228	8,924
Investments available-for-sale	1,875	3,287
Factoring	7	409

Loans to customers are measured at amortized cost less allowance for impairment losses. The estimation of allowances for impairments involves the exercise of significant judgment. The Group estimates allowances for impairment with the objective of maintaining balance sheet provisions at a level believed by management to be sufficient to absorb losses incurred in the Group's loan portfolio. The calculation of provisions on impaired loans is based on the likelihood of the asset being written off and the estimated loss on such a write-off. These assessments are made using statistical techniques based on historic experience. These determinations are supplemented by the application of management judgment.

The Group considers accounting estimates related to provisions for loans key sources of estimation uncertainty because: (i) they are highly susceptible to change from period to period as the assumptions about future default rates and valuation of losses relating to impaired loans and advances are based on recent performance experience, and (ii) any significant difference between the Group's estimated losses (as reflected in the provisions) and actual losses will require the Group to take provisions which, if significantly different, could have a material impact on its future income statement and its balance sheet. The Group's assumptions about estimated losses are based on past performance, past customer behavior, the credit quality of recent underwritten business and general economic conditions, which are not necessarily an indication of future losses.

Certain property (buildings) is measured at revalued amounts. The date of latest appraisal was 31 December 2007.

Investments available-for-sale are measured at fair value less impairment losses. The estimation of impairment losses involves the exercise of significant management judgment. The accounting policy for the impairment of financial instruments is discussed in Note 3 below.

A deferred tax asset is recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized. Estimation of probabilities is based on management estimation of future taxable profit and involves the exercise of significant management judgment from the Group. Taxation is discussed in Note 9.

3. Summary of Significant Accounting Policies

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Group and entities controlled by the Group (its subsidiaries) made up to 31 December each year. Control is achieved where the Group has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

On acquisition, the assets and liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognized as goodwill. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired (i.e. discount on acquisition) is credited to the consolidated income statement in the period of acquisition. The minority interest is stated at the minority's proportion of the fair values of the assets and liabilities recognized. Subsequently, any losses applicable to the minority interest in excess of the minority interest are allocated against the interests of the parent. The equity attributable to equity holders of the parent and net income attributable to minority shareholders' interests are shown separately in the consolidated balance sheet and income statement, respectively.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group.

All significant intra-group transactions, balances, income and expenses are eliminated on consolidation.

The difference, if any, between the carrying amount of minority interest and the amount received on its purchase is recognized in equity attributable to the equity holders of the parent.

Recognition and measurement of financial instruments

The Group recognizes financial assets and liabilities on its consolidated balance sheet when it becomes a party to the contractual obligation of the instrument. Regular way purchase and sale 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 trade date and 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 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 Central Bank of Azerbaijan Republic with original maturity within 90 days, advances to banks in countries included in the Organization for Economic Cooperation and Development (“OECD”). For the purposes of determining cash flows, the minimum reserve deposit required by the Central Bank of Azerbaijan Republic is not included as a cash equivalent due to restrictions on its availability (Note 13).

Fiduciary activities

The Group provides depositary services to its customers which include transactions with securities on their depositary accounts. Assets accepted and liabilities incurred under the fiduciary activities are not included in the Group’s consolidated financial statements. The Group accepts operational risks relating to these activities, whereas the Group’s customers bear the credit and market risks associated with such operations.

Due from banks

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

Loans to customers

Loans to customers are non-derivative assets with fixed or determinable payments that are not quoted in an active market other than those classified in other categories of financial assets.

Loans to customers granted by the Group with fixed maturities are initially recognized at fair value plus related transaction costs, directly attributable to the acquisition or creation of qualifying financial assets. 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 consolidated income statement according to nature of these losses. Subsequently, loans are carried at amortized cost using the effective interest method. Loans to customers are carried net of any allowance for impairment losses.

The Group will take possession of any collateral held as security when a customer defaults on repayments of the loan and the loan cannot be renegotiated. The Group will engage a third party to dispose of the collateral on their behalf in the open market.

Factoring Assets

Factoring assets are non-derivative assets with determinable payments. These assets are initially recognized at fair value and any costs directly related to creation of qualifying financial assets.

Where the fair value of consideration given does not equal the fair value of the factoring asset the difference between the fair value of consideration given and the fair value of the asset is recognized as a loss on initial recognition of the asset and included in the consolidated income statement according to nature of these losses. Subsequently, factoring assets are carried at amortized cost using the effective interest method and 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 when deemed uncollectible. Loans and advances are written off after management has exercised all possibilities available to collect the amounts due to the Group and after the Group has sold all available collateral. In accordance with the statutory legislation, loans may only be written off with the approval of the Supervisory Board. Subsequent recoveries of amounts previously written off are reflected as an offset to the charge for impairment assets in the income statement in the period of recovery.

Allowance for impairment losses

Assets carried at amortized cost

The Group accounts for impairment losses of financial assets that are not carried at fair value when there is objective evidence that a financial asset or Group of financial assets is impaired. The impairment losses are measured as the difference between carrying amounts 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.

Such impairment losses are not reversed unless 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, such as recoveries, in which case the previously recognized impairment loss is reversed by adjusting an allowance account.

For financial assets carried at cost the impairment losses are 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 Group 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 Group 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 represents debt and equity investments that are intended to be held for an indefinite period of time. Such securities are initially recorded at fair value. Subsequently the securities are measured at fair value, with such re-measurement recognized directly in equity until sold when gain/loss previously recorded in equity recycles through the consolidated income statement, except for impairment losses, foreign exchange gains or losses and interest income accrued using the effective interest method, which are recognized directly in the consolidated income statement. The Group uses quoted market prices to determine the fair value for the Group's investments available-for-sale. If the market for investments is not active, the Group establishes fair value by using a valuation technique. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and other applicable methods. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the Group uses that technique.

Non-marketable debt and equity securities are stated at amortized cost and cost, respectively, less impairment losses, if any, unless fair value can be reliably measured.

When there is objective evidence that such securities have been impaired, the cumulative loss previously recognized in equity is removed from equity and recognized in the consolidated income statement for the period. Reversals of such impairment losses on debt instruments, which are objectively related to events occurring after the impairment, are recognized in the consolidated income statement for the period. Reversals of such impairment losses on equity instruments are not recognized in the consolidated income statement.

Property, Equipment 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.

Since 1 January 2009, the Group has changed the accounting estimate of calculating depreciation. In 2009, the Company has revaluated useful utilization time of fixed assets with regard to each relevant part of the respective fixed asset.

Depreciation of property, equipment 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:

Building	2%
Furniture and equipment	10%
Computers	10%
Vehicles	15%
Other fixed assets	20%
Intangible assets	10%

Leasehold improvements are amortized over the life of the related leased assets. Expenses related to repairs and renewals are charged when incurred and included in operating expenses unless they qualify for capitalization.

The carrying amounts of property, equipment 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.

Impairment is recognized in the respective period and is included in operating expenses. After the recognition of an impairment loss the depreciation charge for property and equipment 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.

Buildings held by the Group are stated in the balance sheet at their revalued amounts, being the fair value at the date of revaluation, determined from market-based evidence by appraisal undertaken by professional valuators, less any subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount of the assets does not differ materially from that which would be determined using fair values at the balance sheet date.

Market value of property is assessed using three methods:

- The comparable sales method which involves analysis of market sales prices for similar real estate property;
- The income-based method which assumes a direct relationship between revenues generated by the property and its market value;
- The cost method which presumes the value of property to be equal to its recoverable amount less any depreciation charges.

Any revaluation increase arising on the revaluation of property is credited to the property, plant and equipment and equipment revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognized as an expense in the consolidated income statement, in which case the increase is credited to the consolidated income statements to the extent of the decrease previously charged. A decrease in carrying amount of an asset arising on the revaluation is charged as an expense to the income statement to the extent that it exceeds the balance, if any, held in the property, plant and equipment revaluation reserve relating to a previous revaluation of that asset.

Depreciation on revalued buildings is charged to income statement. On the subsequent sale or retirement of revalued property, the attributable revaluation surplus remaining in the properties revaluation reserve is transferred directly to retained earnings.

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 Group’s current tax expense is calculated using tax rates that have been enacted or substantively 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 consolidated 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 recognized for taxable temporary differences arising on investment in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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.

A deferred tax liability arising on revaluation of buildings is recognized at the time subsequent to the period when revaluation was made since the effect of revaluation on accounting and taxable profit was not significant in the period when the revaluation was made.

Deferred tax assets and deferred income tax liabilities are offset reported in net on the balance sheet if:

- The Group has a legally enforceable right to set off the current tax assets against current income tax liabilities; and
- Deferred tax assets and deferred income tax liabilities relate to income taxes levied by the same taxation authority on the same taxable entity.

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 realized. 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.

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

Finance leases

Financial leases are leases that transfer substantially all the risks and rewards incident to ownership of an asset. Title may or may not eventually be transferred. Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form of the contract. The lease is classified as finance lease if:

- The lease transfers ownership of the asset to the lessee by the end of the lease term;
- The lessee has the option to purchase the asset at a price which is expected to be sufficiently lower than the fair value at the date the option becomes exercisable such that, at the inception of the lease, it is reasonably certain that the option will be exercised;
- The lease term is for the major part of the economic life of the asset even if the title is not transferred;
- At the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset; and
- The leased assets are of a specialized nature such that only the lessee can use them without major modifications being made.

At the commencement of the lease term the Group as a lessee recognizes finance leases as assets and liabilities in its balance sheets at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. Subsequently, the minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Depreciation of the lease property is charged in accordance with depreciation policy that is applied to property owned by the Group.

Due to banks and customer accounts

Due to banks, other institutions and debt securities issued are initially recognized at fair value. Subsequently amounts due are stated at amortized cost and any difference between net proceeds and redemption value is recognized in the income statement over the period of the borrowings using the effective interest method.

Provisions

Provisions are recognized when the Group 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.

Contingencies

Contingent liabilities are not recognized in the balance sheet but are disclosed unless the possibility of any outflow in settlement is remote. A contingent asset is not recognized in the consolidated balance sheet but disclosed when an inflow of economic benefits is probable.

Financial guarantee contracts issued and letters of credit

Financial guarantee contracts issued by the Group are credit insurance that provides for specified payments to be made to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due under the original or modified terms of a debt instrument. Such financial guarantee contracts issued are initially recognized at fair value. Subsequently they are measured at the higher of (a) the amount recognized as a provision in accordance with IAS 37 “Provision, Contingent Liabilities and Contingent Assets” and (b) the amount initially recognized less (where appropriate) cumulative amortization of initial premium revenue received over the financial guarantee contracts or the letter of credit.

Share capital

Share capital is recognized at cost. 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 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 Azerbaijan legislation, certain percentages of pension payments are withheld from total disbursements to staff to be transferred to pension fund, such that a portion of salary expense is withheld from the employee and instead paid to a pension on behalf of the employees. This expense is charged in the period in which the related salaries are earned. 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 Group does not have any pension arrangements separate from the state pension system of the Republic of Azerbaijan. In addition, the Group has no post-retirement benefits or other significant compensated benefits requiring accrual.

Recognition of income and expense

Interest income and expense are recognized on an accrual basis using effective interest method. The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

Once a financial asset or a group of similar financial assets has been written down (partly 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.

Impaired financial assets include all financial assets, recorded at amortized cost with provision over 0%.

Interests earned on assets at fair value are classified within interest income.

Interest income also includes income earned on investments in securities. Other income is credited to the income statement when the related transactions are completed.

(In thousands of Azerbaijan Manats)

Loan origination fees are deferred, together with the related direct costs, and recognized as an adjustment to the effective interest rate of the loan. Where it is probable that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are deferred, together with the related direct costs, and recognized as an adjustment to the effective interest rate of the resulting loan. Where it is unlikely that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are recognized in the consolidated income statement over the remaining period of the loan commitment. Where a loan commitment expires without resulting in a loan, the loan commitment fee is recognized in the consolidated income statement on expiry. Loan servicing fees are recognized as revenue as the services are provided. 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 on foreign exchange operations.

Rates of exchange

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

31 December 2009	31 December 2008
USD 1 = AZN 0.8031	USD 1 = AZN 0.8010
EUR 1 = AZN 1.1499	EUR 1 = AZN 1.1292
GBP 1 = AZN 1.2759	GBP 1 = AZN 1.1621
RUR 1 = AZN 0.0266	RUR 1 = AZN 0.0272

Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment) or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. Segments with a majority of revenue earned from sales to external customers and whose, revenue, results are ten per cent or more of all the segments are reported separately. Geographical segments of the Group have been reported separately within these consolidated financial statements based on the ultimate domicile of the counterparty, e.g. based on economic risk rather than the legal risk of the counterparty.

Offset of financial assets and liabilities

Financial assets and liabilities are offset and reported net on the consolidated balance sheet when the Group has a legally enforceable right to set off the recognized amounts and the Group 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 Group does not offset the transferred asset and the associated liability.

Areas of significant management judgment and sources of estimation uncertainty

The preparation of the Group's financial statements requires management to make estimates and judgments that affect the reported amounts of assets and liabilities at the balance sheet date and the reported amount of income and expenses during the period ended. Management evaluates its estimates and judgments on an ongoing basis. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. The following estimates and judgments are considered important to the portrayal of the Group's financial condition.

Allowance for impairment of loans and receivables

The Group regularly reviews its loans and receivables to assess for impairment. The Group's loan impairment provisions are established to recognize incurred impairment losses in its portfolio of loans and receivables. The Group considers accounting estimates related to allowance for impairment of loans and receivables a key source of estimation uncertainty because (i) they are highly susceptible to change from period to period as the assumptions about future default rates and valuation of potential losses relating to impaired loans and receivables are based on recent performance experience, and (ii) any significant difference between the Group's estimated losses and actual losses would require the Group to record provisions which could have a material impact on its financial statements in future periods.

The Group uses management's judgment to estimate the amount of any impairment loss in cases where a borrower has financial difficulties and there are few available sources of historical data relating to similar borrowers. Similarly, the Group estimates changes in future cash flows based on past performance, past customer behavior, observable data indicating an adverse change in the payment status of borrowers in a group, and national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans and receivables. The Group uses management's judgment to adjust observable data for a group of loans or receivables to reflect current circumstances not reflected in historical data.

The allowances for impairment of financial assets in the consolidated financial statements have been determined on the basis of existing economic and political conditions. The Group is not in a position to predict what changes in conditions will take place in the Republic of Azerbaijan and what effect such changes might have on the adequacy of the allowances for impairment of financial assets in future periods.

The carrying amount of the allowance for impairment of loans to customers is AZN 3,377 thousand and AZN 2,320 thousand as at 31 December 2009 and 2008.

Sale and repurchase agreements and lending of securities

Sale and repurchase agreements ("repo agreements") which effectively provide a lender's return to the counterparty are treated as secured financing transactions. Securities sold under such sale and repurchase agreements are not derecognised. The securities are not reclassified in the balance sheet unless the transferee has the right by contract or custom to sell or re-pledge the securities, in which case they are reclassified as repurchase receivables. The corresponding liability is presented within amounts due to other banks or other borrowed funds.

Securities purchased under agreements to resell ("reverse repo agreements") which effectively provide a lender's return to the Group are recorded as due from other banks or loans and advances to customers, as appropriate. The difference between the sale and repurchase price is treated as interest income and accrued over the life of repo agreements using the effective interest method.

Securities lent to counterparties for a fixed fee are retained in the consolidated financial statements in their original balance sheet category unless the counterparty has the right by contract or custom to sell or repledge the securities, in which case they are reclassified and presented separately. Securities borrowed for a fixed fee are not recorded in the consolidated financial statements, unless these are sold to third parties, in which case the purchase and sale are recorded in profit or loss within gains less losses arising from trading securities. The obligation to return the securities is recorded at fair value in other borrowed funds.

Valuation of Financial Instruments

Financial instruments that are classified as available for sale. The fair value of such financial instruments is the estimated amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. If a quoted market price is available for an instrument, the fair value is calculated based on the market price. When valuation parameters are not observable in the market or cannot be derived from observable market prices, the fair value is derived through analysis of other observable market data appropriate for each product and pricing models which use a mathematical methodology based on accepted financial theories. Pricing models take into account the contract terms of the securities as well as market-based valuation parameters, such as interest rates, volatility, exchange rates and the credit rating of the counterparty. Where market-based valuation parameters are not directly observable, management will make a judgment as to its best estimate of that parameter in order to determine a reasonable reflection of how the market would be expected to price the instrument. In exercising this judgment, a variety of tools are used including proxy observable data, historical data, and extrapolation techniques. The best evidence of fair value of a financial instrument at initial recognition is the transaction price unless the instrument is evidenced by comparison with data from observable markets. Any difference between the transaction price and the value based on a valuation technique is not recognized in the consolidated income statement on initial recognition. Subsequent gains or losses are only recognized to the extent that it arises from a change in a factor that market participants would consider in setting a price.

The Group considers that the accounting estimate related to valuation of financial instruments where quoted markets prices are not available is a key source of estimation uncertainty because: (i) it is highly susceptible to change from period to period because it requires management to make assumptions about interest rates, volatility, exchange rates, the credit rating of the counterparty, valuation adjustments and specific feature of the transactions and (ii) the impact that recognizing a change in the valuations would have on the assets reported on its balance sheet as well as its profit/(loss) could be material.

Had management used different assumptions regarding the interest rates, volatility, exchange rates, the credit rating of the counterparty and valuation adjustments, a larger or smaller change in the valuation of financial instruments where quoted market prices are not available would have resulted that could have had a material impact on the Group’s reported net income.

Adoption of new or revised standards and interpretations and new accounting pronouncements

Certain new IFRSs became effective for the Group from 1 January 2009. Listed below are those new or amended standards or interpretations which are relevant to the Group’s operations and the nature of their impact on the Group’s accounting policies.

Amendments to IFRS 7, ‘Financial instruments: (Effective for annual periods beginning or after 1 January 2009) – Disclosures’ The IASB published amendments to IFRS 7 in March 2009. The amendment requires enhanced disclosures about fair value measurements and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. The adoption of the amendment results in additional disclosures but does not have an impact on the financial position or the comprehensive income of the Group.

IAS 1 (revised), 'Presentation of financial statements': (Effective for annual periods beginning or after 1 January 2009) – A revised version of IAS 1 was issued in September 2007. It prohibits the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity in a statement of comprehensive income. As a result, the Group presents in the consolidated statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income. Comparative information has been re-presented so that it also conforms with the revised standard. According to the amendment of IAS 1 in January 2008, each component of equity, including each item of other comprehensive income, should be reconciled between carrying amount at the beginning and the end of the period. Since the change in accounting policy only impacts presentation aspects, there is no impact on retained earnings.

Certain new standards and interpretations have been published that become effective for the accounting periods beginning on or after 1 January 2010 or later periods and which are relevant to the Group but not early adopted by the Group.

IFRS 1 and IAS 27, 'Cost of an investment in a subsidiary, jointly-controlled entity or associate' (Effective for annual periods beginning on or after 1 July 2009) - The amended standard allows first-time adopters to use a deemed cost of either fair value or the carrying amount under previous accounting practice to measure the initial cost of investments in subsidiaries, jointly controlled entities and associates in the separate financial statements. The amendment also removes the definition of the cost method from IAS 27 and requires an entity to present dividends from investments in subsidiaries, jointly controlled entities and associates as income in the separate financial statements of the investor.

IFRS 3, 'Business combinations' (Effective for annual periods beginning on or after 1 July 2009) - The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the income statement. There is a choice, on an acquisition-by-acquisition basis, to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The Group will apply IFRS 3 (revised) prospectively to all business combinations from 1 January 2010.

IAS 27, 'Consolidated and separate financial statements' (Effective for annual periods beginning on or after 1 July 2009) - The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost; any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognized in profit or loss. The Group will apply IAS 27 (revised) prospectively to transactions with non-controlling interests from 1 January 2010. In the future, this guidance will also tend to produce higher volatility in equity and/or earnings in connection with the acquisition of interests by the Group.

IAS 39, 'Financial instruments: Recognition and measurement – Eligible hedged items' (Effective for annual periods beginning on or after 1 July 2009) - The amendment 'Eligible hedged items' was issued in July 2008. It provides guidance for two situations. On the designation of a one-sided risk in a hedged item, IAS 39 concludes that a purchased option designated in its entirety as the hedging instrument of a one-sided risk will not be perfectly effective. The designation of inflation as a hedged risk or portion is not permitted unless in particular situations. This will not give rise to any changes to the Group's financial statements.

IFRIC 17, 'Distribution to non-cash assets to owners' (Effective for annual periods beginning on or after 1 July 2009) - FRIC 17 was issued in November 2008. It addresses how the non-cash dividends distributed to the shareholders should be measured. A dividend obligation is recognized when the dividend was authorized by the appropriate entity and is no longer at the discretion of the entity. This dividend obligation should be recognized at the fair value of the net assets to be distributed. The difference between the dividend paid and the amount carried forward of the net assets distributed should be recognized in profit and loss Additional disclosures are to be made if the net assets being held for distribution to owners meet the definition of a discontinued operation. The application of IFRIC 17 has no impact on the financial statements of the Group.

IFRIC 18, 'Transfers of assets from customers' (Effective for annual periods beginning on or after 1 July 2009) - IFRIC 18 was issued in January 2009. It clarifies how to account for transfers of items of property, plant and equipment by entities that receive such transfers from their customers. The interpretation also applies to agreements in which an entity receives cash from a customer when that amount of cash must be used only to construct or acquire an item of property, plant and equipment, and the entity must then use that item to provide the customer with ongoing access to supply of goods and/or services. The Group is not impacted by applying IFRIC 18.

Improvements to IFRS 'Improvements to IFRS' were issued in May 2008 (endorsed by the EU on 23 January 2009) and April 2009 (not yet endorsed). They contain numerous amendments to IFRS that the IASB considers non-urgent but necessary. 'Improvements to IFRS' comprise amendments that result in accounting changes for presentation, recognition or measurement purposes, as well as terminology or editorial amendments related to a variety of individual IFRS standards. Most of the amendments are effective for annual periods beginning on or after 1 January 2009 and 1 January 2010 respectively, with earlier application permitted. No material changes to accounting policies are expected as a result of these amendments.

IFRS 9, 'Financial instruments part 1: Classification and measurement' (Effective for annual periods beginning on or after 1 July 2009) - IFRS 9 was issued in November 2009 and replaces those parts of IAS 39 relating to the classification and measurement of financial assets. Key features are as follows:

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortized cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. An instrument is subsequently measured at amortized cost only if it is a debt instrument and both the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and the asset's contractual cash flows represent only payments of principal and interest (that is, it has only 'basic loan features'). All other debt instruments are to be measured at fair value through profit or loss.

- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognize unrealized and realized fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.

- While adoption of IFRS 9 is mandatory from 1 January 2013, earlier adoption is permitted.

The Group is considering the implications of the standard, the impact on the Group and the timing of its adoption by the Group.

The Group did not early-adopt new or amended standards in 2009.

(In thousands of Azerbaijan Manats)

4. Net Interest Income

Net interest income comprise:

	Year ended 31 December 2009	Year ended 31 December 2008
Interest income comprises		
interest income on financial assets recorded at amortized cost:		
- interest income on impaired financial assets	12,154	13,739
- interest income on unimpaired financial assets	196	410
Total Interest income	**12,350**	**14,149**
Interest income on financial assets recorded at amortized cost comprises:		
Interest on loans to customers	12,183	13,761
Interest on due from banks	148	213
Interest on debt securities	19	172
Interest on repo transactions	-	3
Total interest income on financial assets recorded at amortized cost	**12,350**	**14,149**
Interest expense comprises:		
Interest on customer accounts	(5,615)	(4,796)
Interest on due to banks and other financial institutions	(1,315)	(2,617)
Interest on debt securities issued	(189)	(760)
Interest expense on finance lease	(5)	(4)
Interest expense on other operations	(3)	-
Total interest expense on financial assets recorded at amortized cost	**(7,127)**	**(8,177)**
Net interest income before provision for impairment losses on interest bearing assets	**5,223**	**5,972**

(In thousands of Azerbaijan Manats)

5. Allowance For Impairment Losses, Other Provisions

The movements in allowance for impairment losses on interest earning assets were as follows:

	Loans to customers
31 December 2007	**1,461**
Provision	859
31 December 2008	**2,320**
Provision	1,057
31 December 2009	**3,377**

The movements in provision for impairment losses on guarantees and other commitments were as follows:

	Other assets	**Guarantees and other commitments**	**Factoring**	**Total**
31 December 2007	**8**	**40**	**-**	**48**
(Recovery of provision) / provision	(8)	179	8	179
31 December 2008	**-**	**219**	**8**	**227**
Recovery of provision	-	(74)	(8)	(82)
31 December 2009	**-**	**145**	**-**	**145**

6. Net Gain on Foreign Exchange Operations

Net gain on foreign exchange operations comprise:

	Year ended 31 December 2009	**Year ended 31 December 2008**
Dealing differences, net	174	149
Translation differences, net	(1)	204
Total net gain on foreign exchange operations	**173**	**353**

(In thousands of Azerbaijan Manats)

7. Fee and Commission Income and Expense

Fee and commission income and expense comprise:

	Year ended 31 December 2009	Year ended 31 December 2008
Fee and commission income:		
Cash operations	904	1208
Plastic cards operations	328	264
Settlements	232	313
Foreign exchange operations	155	220
Documentary operations	119	137
Other	91	334
Total fee and commission income	**1,829**	**2,476**
Fee and commission expense:		
Plastic cards operations	(177)	(195)
Settlements	(37)	(54)
Documentary operations	(20)	(35)
Cash operations	(6)	(14)
Foreign exchange operations	(2)	(2)
Other	(57)	(92)
Total fee and commission expense	**(299)**	**(392)**

8. Operating Expenses

Operating expenses comprise:

	Year ended 31 December 2009	Year ended 31 December 2008
Salary and bonuses	2,666	2,408
Occupancy costs	1,053	935
Social security costs	587	546
Communication expenses	359	323
Depreciation expenses	347	587
Professional services fees	255	231
Advertising and marketing expenses	176	250
Taxes, other than income tax	135	126
Travel expenses	106	82
Office supplies	95	99
Repairs and maintenance expenses	95	91
Vehicle running cost	50	48
Other employee benefits	48	77
Insurance expenses	43	32
Loss/gain on disposal of fixed assets	23	75
Azerbaijan Deposit Insurance Fund	91	165
Other	143	233
Total operating expenses	**6,272**	**6,308**

(In thousands of Azerbaijan Manats)

9. Income Taxes

The Group provides for taxes based on the tax accounts maintained and prepared in accordance with the tax regulations of countries where the Group and its subsidiaries operate and which may differ from International Financial Reporting Standards.

The Group is subject to certain permanent tax differences due to non-tax deductibility of certain expenses and a tax free regime for certain income. The statutory income tax rate is 22%.

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 2009 and 2008 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 2009 and 2008 comprise:

	31 December 2009	**31 December 2008**
Deductible temporary differences:		
Allowance for losses on loans to customers	695	229
Loans origination fee	43	228
Accrued interest on loans to customers	108	-
Other liabilities	42	42
Total deductible temporary differences	888	499
Taxable temporary differences:		
Property and equipment	(4,780)	(5,660)
Financial lease liability	(5)	(10)
Other assets	(110)	-
Total taxable temporary differences	(4,895)	(5,670)
Net deferred deductible temporary differences	(4,007)	(5,171)
Net deferred tax asset at the statutory tax rate (22%)	(881)	(1,138)
Less: deferred tax assets not recognized	-	-
Net deferred tax asset	**(881)**	**(1,138)**

(In thousands of Azerbaijan Manats)

Relationships between tax expenses and accounting profit for the years ended 31 December 2009 and 2008 are explained as follows:

	31 December 2009	31 December 2008
Profit/(loss) before income tax	(284)	1,090
Tax at the statutory tax rate (22%)	63	240
Tax effect of permanent differences	(181)	(79)
Income tax (benefit) / expense	**(118)**	**161**
Current income tax expense	138	520
Provision for deferred income tax assets	(256)	(359)
Income tax (benefit) / expense	**(118)**	**161**

Deferred income tax assets	**31 December 2009**	**31 December 2008**
Beginning of the period	**1,138**	**1,493**
Change in the income tax assets for the period charged to profit	(256)	(355)
End of the period	**881**	**1,138**

10. Earnings Per Share

The earnings per share are calculated as follows:

	Year ended 31 December 2009	Year ended 31 December 2008
Net profit/(loss) for the year:	(166)	929
Less dividends declared on preference shares	(830)	(200)
Net income for the year attributable to ordinary shareholders	(996)	729
Weighted average number of ordinary shares for basic earnings per share	438	398
Earnings/(loss) per share – basic and diluted (AZN)	**(2.27)**	**1.83**

(In thousands of Azerbaijan Manats)

11. Cash and balances with the Central Bank of Azerbaijan Republic

Cash and balances with the Central Bank of Azerbaijan Republic comprise:

	31 December 2009	31 December 2008
Cash on hand	5,681	3,507
Balances with the Central Bank of Azerbaijan Republic	7,677	5,668
Total cash and balances with the Central Bank of Azerbaijan Republic	**13,358**	**9,175**

The balances with the CBAR as at 31 December 2009 and 2008 include AZN 227 thousand, and AZN 2,693 thousand, respectively, which represent the minimum reserve deposits required by the CBAR. The Group is required to maintain the reserve balance at the CBAR at all time.

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

	31 December 2009	31 December 2008
Cash and balances with the Central Bank of Azerbaijan Republic	13,358	9,175
Due from banks in OECD countries	2,564	794
	15,922	**9,969**
Less minimum reserve deposit with the Central Bank of Azerbaijan Republic	(227)	(2,693)
Total cash and cash equivalents	**15,695**	**7,276**

12. Due from Banks

Due from banks comprise:

	31 December 2009	31 December 2008
Correspondent accounts with other banks	4,761	1,643
Loans to banks	2,795	1,584
Total due from banks	**7,556**	**3,227**

As at 31 December 2009 and 2008 the Group had a due from 2 and 2 banks, respectively, which individually exceeded 10% of the Group's equity.

As at 31 December 2009 and 2008 accrued interest income included in due from banks amounted to AZN 17 thousand and AZN 921 thousand, respectively.

(In thousands of Azerbaijan Manats)

13. Loans to Customers

Loans to customers comprise:

	31 December 2009	31 December 2008
Loans to customers	73,631	71,325
Less allowance for impairment losses	(3,377)	(2,320)
Total loans to customers	**70,254**	**69,005**

As at 31 December 2009 and 2008 accrued interest income included in loans to customers amounted to AZN 3,910 thousand and AZN 2,832 thousand, respectively.

Movements in allowances for impairment losses for the years ended 31 December 2009 and 2008 are disclosed in Note 5.

The table below summarizes the amount of loans secured by collateral, rather than the fair value of the collateral itself:

	31 December 2009	31 December 2008
Loans collateralized by real estate	35,379	35,672
Loans collateralized by equipment	12,615	14,986
Loans collateralized by guarantees	9,431	7,528
Loans collateralized by deposits	1,604	1,663
Loans collateralized by precious metals	670	913
Loans collateralized by securities	308	418
Unsecured loans	13,624	10,145
	73,631	71,325
Less allowance for impairment losses	(3,377)	(2,320)
Total loans to customers	**70,254**	**69,005**

	31 December 2009	31 December 2008
Analysis by sector:		
Individuals	29,265	26,666
Trading	25,862	22,965
Manufacturing	7,123	6,187
Communication	3,687	2,329
Agriculture	6,570	2,359
Construction	895	1,650
Other	229	9,169
	73,631	71,325
Less allowance for impairment losses	(3,377)	(2,320)
Total loans to customers	**70,254**	**69,005**

(In thousands of Azerbaijan Manats)

During the years ended 31 December 2009 and 2008 the Group received financial and non-financial assets by taking possession of collateral it held as security (or calling on other credit enhancements, e.g. guarantees). As 31 December 2009 and 2008 such assets in amount of 759 AZN thousand and AZN 683 thousand, respectively, are included on other assets.

Loans to individuals comprise the following products:

	31 December 2009	31 December 2008
Consumer loans	14,761	17,088
Trading	8,859	-
Mortgage loans	2,877	730
Agriculture	1,629	-
Car loans	1,069	856
Other	70	7,992
Total loans to individuals	**29,265**	**26,666**

As at 31 December 2009 and 2008 the bank granted loans 8 and 1 customers totaling AZN 17,608 thousand and 1,800 thousand respectively, which individually exceed 10% of the Group's equity.

As at 31 December 2009 and 2008 loans to customers included loans in amount of AZN 303 thousand and AZN 344 thousand, respectively, whose terms have been renegotiated. Otherwise these loans would be past due or impaired.

As at 31 December 2009 and 2008 loans to customers included loans in amount of AZN 4,378 thousand and AZN 2,111 thousand, respectively, that were individually determined to be impaired.

As at 31 December 2009 and 2008 such loans were collateralized by real estate and moveable property with a fair value of AZN 8,941 thousand and AZN 4,623 thousand, respectively.

As at 31 December 2009 and 2008 100% of loans are granted to companies operating in the Republic of Azerbaijan, which represents significant geographical concentration in one region.

As at 31 December 2009 and 2008 a maximum credit risk exposure on loans to customers amounted to AZN 70,254 thousand and AZN 69,005 thousand, respectively.

14. Factoring

Factoring comprises:

	31 December 2009	31 December 2008
Factoring operations with the customers	7	417
Less allowance for impairment losses.	-	(8)
Total factoring	**7**	**409**

Movements in allowances for impairment losses for the years ended 31 December 2009 and 2008 are disclosed in Note 5. As at 31 December 2008 100% of factoring amount is given to 2 entities. As at 31 December 2009, 100% of the factoring amount relates to company operating in the Republic of Azerbaijan, which represents significant geographical concentration in one region.

(In thousands of Azerbaijan Manats)

15. Investments Available-for-Sale

Group's investments available-for-sale comprise:

	31 December 2009	31 December 2008
Debt securities	1,680	3,016
Equity securities	195	271
Total investments available-for-sale	**1,875**	**3,287**

	Interest to nominal %	31 December 2009	Interest to nominal %	31 December 2008
Debt Securities of Group				
Central Bank of Azerbaijan Republic	1%	1,598	4,13%	3,016
AK BARS Bank	-	82	-	-
		1,680		**3,016**

As at 31 December 2009 and 2008 accrued interest income included in investments available for-sale amounted to 0.04 thousand and AZN 5 thousand, respectively.

	Country of Incorporation	Ownership interest	31 December 2009	Ownership interest	31 December 2008
Equity investments of Group					
Milli Kart LLC	Azerbaijan	3%	120	3%	120
JSIB Azerigazbank	Azerbaijan	1%	-	1%	91
Baku Stock Exchange	Azerbaijan	5%	60	5%	60
Master Card International		0.0001%	15	-	-
			195		**271**

16. Securities sold under REPO agreements

Securities sold under REPO agreements comprise:

Figures are in AZN	31 December 2009	31 December 2008
Sold amount	-	1,999,834
Repurchase amount	-	2,000,335

In 2008, Group sold 10,012 Notes of CBAR under repo agreements on Baku Stock Exchange 99.87% of nominal amount (the nominal amount is 200 AZN) per security. In 06 January 2009, Group repurchased those securities in 99.92% of nominal amount including interest expense of 501 AZN.

(In thousands of Azerbaijan Manats)

17. Debt securities issued

Debt securities issued comprise:

	Maturity date month/year	Annual coupon rate %	31 December 2009	Annual coupon rate %	31 December 2008
Bonds issued in USD	30 November 2010	-	-	13,5%	4,055
Bonds issued in AZN	14 September 2008	-	-	14,5%	-
Total Debt securities issued			**-**		**4,055**

In November 2007 the Group issued 5,000 bonds with the nominal value of USD 1,000 on Latvian market by way of private placement. Out of 5,000 bonds issued 1,150 bonds were purchased by the Group itself and were then sold in February 2008. These bonds have a maturity date of 30 November 2010.

In June 2007 the Group issued 10,000 bonds with the nominal value of AZN 200, which were purchased by one investor.

As at 31 December 2009 and 2007 accrued interest expense included in customer accounts amounted to AZN 50 thousand and AZN 62 thousand, respectively.

Based on mutual agreement in 2009, those bonds were repurchased back in amount of AZN 4,016 thousand.

(In thousands of Azerbaijan Manats)

18. Property and Equipment

	Land	Buildings	Computers	Furniture & Equipment	Vehicles	Fixed Assets in Progress	TOTAL
At cost or revalued amount							
31 December 2007	2	7,125	542	1,216	303	668	9,856
Additions	66	674	141	307	155	181	1,524
Disposals	(2)	-	-	-	(18)	-	(20)
Transfers	-	-	-	-	-	(674)	(674)
31 December 2008	66	7,799	683	1,523	440	175	10,686
Additions	-	-	107	118	81	336	642
Disposals	-	-	-	-	(18)	-	(18)
31 December 2009	66	7,799	790	1,641	503	511	11,310
Accumlated Depreciation							
31 December 2007	**-**	**-**	**(260)**	**(626)**	**(121)**	**-**	**(1,007)**
Charge for the year	-	(359)	(118)	(226)	(70)	-	(773)
Disposals	-	-	-	-	18	-	18
31 December 2008	**-**	**(359)**	**(378)**	**(852)**	**(173)**	**-**	**(1,762)**
Charge for the year	-	(89)	(56)	(123)	(65)	-	(333)
Disposals	-	-	-	-	13		13
31 December 2009	**-**	**(448)**	**(434)**	**(975)**	**(225)**	**-**	**(2,082)**
NBV at 31 December 2008	**66**	**7,440**	**305**	**671**	**267**	**175**	**8,924**
NBV at 31 December 2009	**66**	**7,351**	**356**	**666**	**278**	**511**	**9,228**

(In thousands of Azerbaijan Manats)

19. Intangible assets

Intangible assets include software and licenses.

	Year ended 31 December 2009	Year ended 31 December 2008
At cost		
1 January	118	106
Additions	56	12
31 December	174	118
Accumulated amortization		
1 January	(21)	(12)
Charge for the year	(14)	(9)
31 December	(35)	(21)
Net book value		
31 December	**139**	**97**

20. Other Assets

Other assets comprise:

	31 December 2009	31 December 2008
Properties received in satisfaction of non-performing loans	759	684
Deferred expenses	735	929
Receivables from Western Union	310	90
Prepayments and receivables on other transactions	141	133
Prepaid expenses	74	9
Prepaid taxes	57	-
Prepayments for purchase of tangible assets	31	4
Total other assets	**2,107**	**1,849**

21. Due to Banks and Other Financial Institutions

Due to banks and government agencies comprise:

	31 December 2009	31 December 2008
Loans received	19,948	25,408
Loans from CBAR	10,000	-
Term deposits	3,872	2,479
Demand deposits	3	190
Total due to banks and Other financial institutions	**33,823**	**28,077**

(In thousands of Azerbaijan Manats)

As at 31 December 2009 and 2008 accrued interest expense included in due to banks and other finance institutions amounted to AZN 133 thousand and AZN 110 thousand, respectively.

As at 31 December 2009 and 2008 the Group received loans from 3 and 3 banks and financial institutions, respectively, which individually exceed 10% of the Group's equity which is a concentration of sources of funds.

22. Customer Accounts

Customer accounts comprise:

	31 December 2009	31 December 2008
Time deposits	46,594	36,160
Repayable on demand	6,413	8,347
Total customer accounts	**53,007**	**44,507**

As at 31 December 2009 and 2008 accrued interest expense included in customer accounts amounted to AZN 1,741 thousand and AZN 1,650 thousand respectively.

As at 31 December 2009 and 2008 customer accounts amounting to AZN 13,064 thousand and AZN 4,675 thousand were due to 10 customers representing a significant concentration, being approximately 25% and 62%, respectively.

As at 31 December 2009 and 2008 the group received advances from 3 customers totaling AZN 6,712 thousand and AZN 1,088 thousand respectively, which individually exceeded 10% of the Group's equity.

	31 December 2009	31 December 2008
Individuals	49,024	35,641
Trade	1,336	1,138
Transport and communication	838	3,454
Agriculture	768	2
Energy	268	-
Construction	218	1,059
Manufacturing	164	246
Public organizations	107	1,774
Insurance	47	378
Other	237	815
Total customer accounts	**53,007**	**44,507**

(In thousands of Azerbaijan Manats)

23. Finance Lease Liabilities

Finance Lease Liabilities comprise:

	Minimum lease payments		Present value of minimum lease payments	
	31 December 2009	**31 December 2008**	**31 December 2009**	**31 December 2008**
Less than 1 year	29	38	27	30
Over one year but less than 5 years	-	30	-	28
	29	**68**	**27**	**58**
Less: future finance charges	(2)	(10)	-	-
Present value of finance lease liability	**27**	**58**	**27**	**58**
Less: Amounts due for settlement within 12 months	-	-	(27)	(30)
Amounts due for settlement in more than 12 months but less than 5 years	**-**	**-**	**-**	**28**

In 2008 the Group entered into the finance lease arrangement to purchase 3 ATMs. The finance lease is for the term of 2 years and with effective annual interest rate of 18%. The payments under finance lease are made through equal monthly installments.

24. Other Liabilities

Other liabilities comprise:

	31 December 2009	**31 December 2008**
Items in course of settlement	443	101
Allowance for credit lines and guarantees	153	217
Payables to shareholders on ordinary shares	72	47
Payable for ATM machine	36	35
Payables to employees	11	11
Settlements on plastic cards	7	16
Deferred income	2	1
Total other liabilities	**724**	**428**

25. Share Capital

As at 31 December 2009 issued and fully paid share capital comprised of 428,500 ordinary shares and 71,500 preferred shares with a par value of AZN 20 each.

As at 31 December 2008 issued and fully paid share capital comprised of 353,500 ordinary shares and 71,500 preferred shares with a par value of AZN 20 each.

(In thousands of Azerbaijan Manats)

As at 31 December 2009 the Group's share capital comprised.

	Authorized share capital	**Total share capital**
Ordinary shares	8,570	8,570
Preference shares	1,430	1,430
Effect of hyperinflation before 1997	747	747
Total	**10,747**	**10,747**

As at 31 December 2008 the Group's share capital comprised.

	Authorized share capital	**Total share capital**
Ordinary shares	7,070	7,070
Preference shares	1,430	1,430
Effect of hyperinflation before 1997	747	747
Total	**9,247**	**9,247**

As at 31 December 2009 and 2008 included in share capital is an adjustment of AZN 747 thousand 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.

26. Financial Commitments and Contingencies

In the normal course of business, the Group 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 consolidated balance sheet.

The Group's maximum exposure to credit loss under contingent liabilities and commitments to extend credit, in the event of non-performance by the other party where all counterclaims, collateral or security prove valueless, is represented by the contractual amounts of those instruments.

The Group's uses the same credit control and management policies in undertaking off-balance sheet commitments as it does for on-balance operations.

(In thousands of Azerbaijan Manats)

As at 31 December 2009 and 2008, the nominal or contract amounts and the risk amounts were:

Contingent liabilities and credit commitments	**31 December 2009**	**31 December 2008**
Guarantees issued and similar commitments	471	3,453
Commitments on credits and unused credit lines	6,450	3,426
Own securities repurchased	4,016	-
Total contingent liabilities and credit commitments	**10,937**	**6,879**

Capital commitments – The Group had no material commitments for capital expenditures outstanding as at 31 December 2009.

Legal proceedings - From time to time and in the normal course of business, claims against the Group 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 consolidated financial statements.

The Group is receiving claims from individual customers with respect to certain commissions withheld by the Group for loan agreements service. Management is of the opinion that such claims would not have adverse consequences for the Group, and is in the process of establishing procedures on disclosing additional information in loan agreements in compliance with the CBAR instruction.

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 Group may be assessed additional taxes, penalties and interest. Tax years remain open to review by the tax authorities for three years. Management believes that the Group has already made all tax payments that are due, and therefore no provisions have been made in these consolidated financial statements for any potential liabilities.

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 2009 the Group 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 Group's principal business activities are within Azerbaijan. Laws and regulations affecting the business environment in Azerbaijan are subject to rapid changes and the Group's assets and operations could be at risk due to negative changes in the political and business environment.

(In thousands of Azerbaijan Manats)

27. Transactions with Related Parties

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

(a) Parties that directly, or indirectly through one or more intermediaries: control, or are controlled by, or are under common control with, the Group (this includes parents, subsidiaries and fellow subsidiaries); have an interest in the Group that gives then significant influence over the Group; and that have joint control over the Group;
(b) Associates – enterprises in which the Group has significant influence and which is neither a subsidiary nor a joint venture of the investor;
(c) Members of key management personnel of the Group or its parent;
(d) Close members of the family of any individuals referred to in (a) or (c);
(e) Parties that are entities controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (c) or (d).
(f) Post-employment benefit plans for the benefit of employees of the Group, or of any entity that is a related party to the Group.

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form. The Group had the following transactions outstanding as at 31 December 2009 and 2008 with related parties:

	31 December 2009		**31 December 2008**	
	Related party balances	**Total category as per financial statements caption**	**Related party balances**	**Total category as per financial statements caption**
Loans to customers		70,254		69,005
- shareholders and entities in which a substantial interest is owned by shareholders of the Group	-	-	2	-
- key management personnel	431	-	165	-
Allowance for impairment losses		(3,377)		(2,320)
- shareholders and entities in which a substantial interest is owned by shareholders of the Group	-	-	-	-
- key management personnel	(11)	-	(5)	-
Customer accounts		53,007		44,507
- shareholders and entities in which a substantial interest is owned by shareholders of the Group	-	-	2	-
- key management personnel	36	-	22	-
Other liabilities		724		428
- shareholders and entities in which a substantial interest is owned by shareholders of the Group	-	-	20	-
-key management personnel	-	-	1	-
Unused loan commitments		6,450		7,258
- shareholders and entities in which a substantial interest is owned by shareholders of the Group	-	-	15	-
-key management personnel	199	-	122	-

(In thousands of Azerbaijan Manats)

Included in the consolidated income statement for the years ended 31 December 2009 and 2008 are the following amounts which arose due to transactions with related parties:

	31 December 2009		**31 December 2008**	
	Related party Transactions	**Total category as per financial statements caption**	**Related party Transactions**	**Total category as per financial statements caption**
Interest income		12,350		14,149
- shareholders and entities in which a substantial interest is owned by shareholders of the Group	-	-	1	-
- key management personnel of the entity	67	-	15	-
Interest expense		(7,127)		(8,177)
- shareholders and entities in which a substantial interest is owned by shareholders of the Group	-	-	(1)	-
- key management personnel of the entity	(278)	-	(62)	-
Fee and commission income		1,829		2,476
- shareholders and entities in which a substantial interest is owned by shareholders of the Group	-	-	-	-
- key management personnel of the entity	5	-	3	-
Operating expense		(6,272)	-	(6,308)
- shareholders and entities with significant control over	(830)	-	(158)	-
- key management personnel of the entity	(72)	-	(25)	-
-short-term employee benefits	-	-	(1)	-

(In thousands of Azerbaijan Manats)

28. Segment Reporting

Business segments

The Group organized on the basis two main business segments:

- Retail banking- representing private banking services, private customer current accounts, savings, deposits, investment savings products, custody, credit and debit cards, consumer loans and mortgages.
- Corporate banking – representing direct debit facilities, current accounts, deposits, overdrafts, loan and other credit facilities, foreign currency and derivative products.

There are no other material items of income or expense between the business segments. Internal charges and transfer pricing adjustments have been reflected in the performance of each business. Revenue sharing agreements are used to allocate external customer revenues to a business segment on a reasonable basis.

Segment information about these business is presented below.

	Retail banking	**Corporate banking**	**Unallocated**	**31 December 2009 Total**
Interest income	6,472	5,543	335	12,350
Interest expense	(3,961)	(51)	(3,115)	(7,127)
Provision for impairment losses on interest bearing assets	(369)	(740)	52	(1,057)
Net gain on foreign exchange operations	-	-	173	173
Fee and commission income	564	1,119	146	1,829
Fee and commission expense	-	-	(299)	(299)
Other income	-		37	37
Operating income	2,706	5,871	(2,671)	5,906
Operating expenses	(3,077)	(3,195)	-	(6,272)
Recovery of provision for impairment losses on other transactions		82		82
Loss before income tax	(371)	2,758	(2,671)	(284)
Income tax expense	-	-	118	118
Net profit	**(371)**	**2,758**	**(2,553)**	**(166)**
Segment assets	**36,583**	**38,674**	**29,267**	**104,524**
Segment liabilities	**38,105**	**9,748**	**40,764**	**88,617**

(In thousands of Azerbaijan Manats)

	Retail banking	Corporate banking	Unallocated	31 December 2008 Total
Interest income	7,415	6,351	383	14,149
Interest expense	(4,544)	(59)	(3,574)	(8,177)
Provision for impairment losses on interest bearing assets	(330)	(574)	45	(859)
Net gain on foreign exchange operations	-	-	353	353
Gain/(loss) on revaluation of coupon securities	-	-	(22)	(22)
Fee and commission income	764	1,515	197	2,476
Fee and commission expense	(192)	(200)	-	(392)
Other income	-		49	49
Operating income	3,113	7,033	(2,569)	7,577
Operating expenses	(3,090)	(3,218)	-	(6,308)
Provision for impairment losses on other transactions	-	(179)	-	(179)
Profit before income tax	23	3,636	(2,569)	1,090
Income tax expense	-	-	(161)	(161)
Net profit	**23**	**3,636**	**(2,730)**	**929**
Segment assets	**33,745**	**35,307**	**26,921**	**95,973**
Segment liabilities	**34,530**	**8,478**	**37,562**	**80,570**

29. Fair Value of Financial Instruments

Estimated fair value disclosures of financial instruments are 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. The estimates presented herein are not necessarily indicative of the amounts the Group could realize in a market exchange from the sale of its full holdings of a particular instrument.

(In thousands of Azerbaijan Manats)

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

	31 December 2009		**31 December 2008**	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Cash and balances with the Central Bank of Azerbaijan Republic	13,358	13,358	9,175	9,175
Due from banks	7,556	7,556	3,227	3,227
Investments available-for-sale	1,875	1,875	3,287	3,287
Due to banks and other financial institutions	33,823	33,823	28,077	28,077
Customer accounts	53,007	53,007	44,507	44,507
Debt securities issued	-	-	4,055	4,055

The fair value of loans 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 equity securities included in investments available-for-sale cannot be measured reliably. As at 31 December 2009 and 2008 the cost of them was AZN 195 thousand and AZN 271 thousand, respectively. Since these shares are not publicly traded and the range of reasonable fair value estimates is significant, it is not possible to estimate their fair value.

30. Regulatory Matters

Quantitative measures established by regulation to ensure capital adequacy require the Group 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:

Weighting	Description
0%	Cash and cash equivalents
20%	Nostro in OECD
100%	Nostro in NON-OECD
20%	Loans and advances to banks for up to 1 year
100%	Loans and advances to customers
100%	Other assets
50%	Obligations and commitments on unused loans with the initial maturity of over 1 year
100%	Guarantees

As at 31 December 2009 the Group’s total capital amount for Capital Adequacy purposes was AZN 15,933 thousand and tier 1 capital amount was AZN 10,491 thousand with ratios of 11% and 17%, respectively.

As at 31 December 2008 the Group's total capital amount for Capital Adequacy purposes was AZN 9,864 thousand and the tier 1 capital amount was AZN 9,864 thousand with ratios of 10.52% and 10.52% respectively.

In addition, the Group has to maintain a statutory capital adequacy ratio based on the Central Bank of Azerbaijan Republic requirements. During the years ended 31 December 2009 and 2008 the Group was in compliance with the minimum capital requirements imposed by the CBAR.

31. Capital Management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance.

The Management Board reviews the capital structure on a semi-annual basis. As a part of this review, the Board considers the cost of capital and the risks associated with each class of capital. Based on recommendations of the Board, the Group balances its overall capital structure through the payment of dividends, new share issues as well as the issue of new debt or the redemption of existing debt.

The Group's overall capital risk management policy remains unchanged from 2008.

32. Risk Management Policies

Management of risk is fundamental to the banking business and is an essential element of the Group's operations. The main risks inherent to the Group's operations are those related to:

- Credit risk
- Liquidity risk
- Market risk

The Group manages the following risks:

Credit risk

The Group 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.

Risk management and monitoring is performed within set limits of authority, by the Credit Committees and the Group's Management Board. Before any application is made by the Credit Committee, all recommendations on credit processes (borrower's limits approved, or amendments made to loan agreements, etc.) are reviewed and approved by the experts of Credit Department. Daily risk management is performed by the Head of Credit Departments and Branch Credit Divisions.

The Group structures the level of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or Banks of borrowers, and to industry (and geographical) segments. Limits on the level of credit risk by a borrower and a product (by industry sector, by region) are approved monthly (quarterly) by the Management Board. The exposure to any one borrower including banks and brokers is further restricted by sub-limits covering on and off-balance sheet exposures which are set by the Credit Committee. Actual exposures against limits are monitored daily.

Where appropriate, and in the case of most loans, the Group obtains collateral and corporate and personal guarantees but a significant portion is personal lending, where no such facilities can be obtained. Such risks are monitored on a continuous basis and subject to annual or more frequent reviews.

(In thousands of Azerbaijan Manats)

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 counterparty to comply with the contractual terms and conditions. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to a loss in an amount equal to the total unused commitments. However, the likely amount of the loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group 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 Group monitors the term to maturity of off balance sheet contingencies because longer term commitments generally have a greater degree of credit risk than short-term commitments.

Maximum Exposure

The Groups maximum exposure to credit risk varies significantly and is dependent on both individual risks and general market economy risks. The following table presents the maximum exposure to credit risk of financial assets and contingent liabilities. For financial assets the maximum exposure equals to a carrying value of those assets prior to any offset or collateral. For financial guarantees and other contingent liabilities the maximum exposure to credit risk is the maximum amount the Group would have to pay if the guarantee was called on or in the case of commitments, if the loan amount was called on.

				31 December 2009
	Maximum exposure	Net exposure after offset	Collateral Pledged	Net exposure after offset and collateral
Due from banks	7,556	7,556	-	7,556
Loans to customers	70,254	70,254	56,630	13,624
Factoring	7	7	-	7
Investments available-for-sale	1,875	1,875	-	1,875

				31 December 2008
	Maximum exposure	Net exposure after offset	Collateral Pledged	Net exposure after offset and collateral
Due from banks	3,227	3,227	-	3,227
Loans to customers	69,005	69,005	61,179	7,826
Factoring	409	409	-	409
Investments available-for-sale	3,287	3,287	-	3,287

Financial assets are graded according to the current credit rating they have been issued by an internationally regarded agency. The highest possible rating is AAA. Investment grade financial assets have ratings from AAA to BBB. Financial assets which have ratings lower than BBB are classed as speculative grade.

(In thousands of Azerbaijan Manats)

The following table details the credit ratings of financial assets held by the Group:

	AAA	AA	A	BBB	<BBB	Not rated	31 December 2009 Total
Due from banks	-	2,505	-	1,123	-	3,928	7,556
Loans to customers	-	-	-	-	-	70,254	70,254
Factoring	-	-	-	-	-	7	7
Investments available-for-sale	-	-	-	-	-	1,875	1,875

	AAA	AA	A	BBB	<BBB	Not rated	31 December 2008 Total
Due from banks	-	794	-	132	-	2,301	3,227
Loans to customers	-	-	-	-	-	69,005	69,005
Factoring	-	-	-	-	-	409	409
Investments available-for-sale	-	-	-	-	-	3,287	3,287

The banking industry is generally exposed to credit risk through its financial assets and contingent liabilities. Credit risk exposure of the Group is concentrated within the Republic of Azerbaijan. The exposure is monitored on a regular basis to ensure that the credit limits and credit worthiness guidelines established by the Group's risk management policy are not breached.

Rating model

The Group has developed internal rating model, which allow it to determine the rating of counterparties. The rating of corporate borrower is based on an analysis of the financial ratios of the borrower, and an analysis of the market and industry sector, in which the borrower operates. The model also takes into consideration various qualitative factors, such as management efficiency and borrower's market share.

The application of the internal rating model results in a standardized approach in the analysis of corporate borrowers and provides a quantitative assessment of the creditworthiness of a borrower that does not have a rating from an international rating agency. The model takes into account specific local market conditions.

The quality of the internal rating model is examined on a regular basis through an assessment of both its effectiveness and validity. The Group revises the model when deficiencies are identified.

The Group applies internal rating methodologies to specific corporate loans and groups of retail and small business loans, which incorporate various underlying master scales that are different from that used by international rating agencies. As a result, it is not possible to make a cross-product score comparison which would agree to the outstanding balance of loans to customers per the balance sheet. As such, more detailed information is not being presented.

(In thousands of Azerbaijan Manats)

The following table details the carrying value of assets that are impaired and the ageing of those that are past due but not impaired:

		Financial assets past due but not impaired				31 December 2009	
	Neither past due nor impaired	0-3 months	3-6 months	6 months to 1 year	Greater than one year	Financial assets that have been impaired	Total
Due from banks	7,556	-	-	-	-	-	7,556
Loans to customers	160	-	-	-	-	70,094	70,254
Factoring	-	-	7	-	-	-	7
Investments available-for-sale	1,875	-	-	-	-	-	1,875

		Financial assets past due but not impaired				31 December 2008	
	Neither past due nor impaired	0-3 months	3-6 months	6 months to 1 year	Greater than one year	Financial assets that have been impaired	Total
Due from banks	3,227	-	-	-	-	-	3,227
Loans to customers	62	-	-	-	-	68,943	69,005
Factoring	-	-	-	-	-	409	409
Investments available-for-sale	3,287	-	-	-	-	-	3,287

(In thousands of Azerbaijan Manats)

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 Group's activity. This approach allows the Group to minimize potential losses from the investment climate fluctuations in the Republic of Azerbaijan. The Group's Management Board sets up country limits, which mainly applies to banks of the Commonwealth of Independent States and Baltic countries.

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

	The Republic of Azerbaijan	CIS countries	OECD countries	31 December 2009 Total
ASSETS				
Cash and balances with the CBAR	13,358	-	-	13,358
Due from banks	4,239	808	2,509	7,556
Loans to customers	70,254			70,254
Factoring	7			7
Investments available-for-sale	1,793	82	-	1,875
Property and equipment	9,228	-	-	9,228
Intangible assets	139	-	-	139
Deferred income tax asset	-	-	-	-
Other assets	2,107			2,107
TOTAL ASSETS	**101,125**	**890**	**2,509**	**104,524**
LIABILITIES				
Due to banks and other financial institutions	28,589	-	5,234	33,823
Customer accounts	53,007	-	-	53,007
Debt securities issued	-	-	-	-
Securities Sold under REPO Agreements	-	-	-	-
Finance lease liabilities	27	-	-	27
Current income tax liabilities	155			155
Deferred income tax liabilities	881			881
Other liabilities	724			724
TOTAL LIABILITIES	**83,383**	**-**	**5,234**	**88,617**
NET POSITION	**17,742**	**890**	**(2,725)**	

(In thousands of Azerbaijan Manats)

	The Republic of Azerbaijan	CIS countries	OECD countries	31 December 2008 Total
ASSETS				
Cash and balances with the CBAR	9,175	-		9,175
Due from banks	2,301	794	132	3,227
Loans to customers	69,005	-	-	69,005
Factoring	409	-	-	409
Investments available-for-sale	3,287	-	-	3,287
Property and equipment	8,924	-	-	8,924
Intangible assets	97	-	-	97
Deferred income tax asset	-	-	-	-
Other assets	1,849	-	-	1,849
TOTAL ASSETS	**95,047**	**794**	**132**	**95,973**
LIABILITIES				
Due to banks and other financial institutions	28,077	-	-	28,077
Customer accounts	44,507	-	-	44,507
Debt securities issued	-	-	4,055	4,055
Securities Sold under REPO Agreements	2,000	-	-	2,000
Finance lease liabilities	58	-	-	58
Current income tax liabilities	307	-	-	307
Deferred income tax liabilities	1,138	-	-	1,138
Other liabilities	428	-	-	428
TOTAL LIABILITIES	**76,515**	**-**	**4,055**	**80,570**
NET POSITION	**18,532**	**794**	**(3,923)**	

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 Group 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.

(In thousands of Azerbaijan Manats)

	Weighted average effective interest rate	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	Total 31 December 2009
ASSETS								
Due from banks	9.14%	6,237	-	1,156	-	-	-	**7,393**
Loans to customers	23.16%	2,807	4,405	20,040	43,002	-	-	**70,254**
Investments available-for-sale	1.23%	1,574	-	80	-	-	221	**1,875**
Total interest bearing assets at fixed rates		10,618	4,405	21,276	43,002	-	221	**79,522**
Cash and balances with CBAR		13,358	-	-	-	-	-	**13,358**
Due from banks		163	-	-	-	-	-	**163**
Other assets		-	-	-	-	-	2,107	**2,107**
Total Assets		**24,139**	**4,405**	**21,276**	**43,002**	**-**	**2,328**	**95,150**
LIABILITIES								
Due to banks and other financial institutions	6.20%	1,527	390	3,768	28,138	-	-	**33,823**
Customer accounts	14.90%	6,221	2,701	12,158	21,750	-	-	**42,830**
Total interest bearing liabilities at fixed rates		7,748	3,091	15,926	49,888	-	-	**76,653**
Customer accounts		10,177	-	-	-	-	-	**10,177**
Finance lease liabilities		-	-	27	-	-	-	**27**
Current income tax liabilities		155	-	-	-	-	-	**155**
Other liabilities		724	-	-	-	-	-	**724**
Guarantees issued and similar commitments		-	-	471	-	-	-	**471**
Commitments on credits and unused credit lines		890	958	4,067	535	-	-	**6,450**
Own securities repurchased		4,016	-	-	-	-	-	**4,016**
Total Liabilities		**23,710**	**4,049**	**20,491**	**50,423**	**-**	**-**	**98,673**
Liquidity gap		429	356	785	(7,421)	-		
Interest sensitivity gap for fixed rate instruments		2,870	1,314	5,350	(6,886)	-		
Interest sensitivity gap		2,870	1,314	5,350	(6,886)	-		
Cumulative interest sensitivity gap		**2,870**	**4,184**	**9,534**	**2,648**	**2,648**		

(In thousands of Azerbaijan Manats)

	Weighted average effective interest rate	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	Total 31 December 2008
ASSETS								
Due from banks	15,96%	1,580	-	-	-	-	-	1,580
Loans to customers	22,04%	5,941	11,789	27,983	22,693	599	-	69,005
Investments available-for-sale	4,13%	3,020	-	-	-	-	-	3,020
Factoring	24,00%	-	-	409	-	-	-	409
Total interest bearing assets at fixed rates		10,541	11,789	28,392	22,693	599	-	74,014
Cash and balances with CBAR		9,175	-	-	-	-	-	9,175
Due from banks		1,502	-	-	-	-	145	1,647
Investments available for sale		-	-	-	-	-	267	267
Other assets		1,849	-	-	-	-	-	1,849
		23,067	**11,789**	**28,392**	**22,693**	**599**	**412**	**86,952**
LIABILITIES								
Due to banks and other financial institutions	8,01%	785	8,128	2,909	6,716	1,932	-	19,148
Customer accounts	15,35%	2,715	2,958	15,672	13,509	206	959	36,019
Debt securities issued	13,50%	-	-	-	4,055	-	-	4,055
Total interest bearing liabilities at fixed rates		2,878	10,511	17,953	23,556	2,138	2,186	59,221
Due to banks and other financial institutions		46	330	1,545	4,131	1,556	-	7,608
Customer accounts		8,488	-	-	-	-	-	8,488
Securities Sold under REPO Agreements		2,000	-	-	-	-	-	2,000
Finance lease liabilities		3	5	23	27	-	-	58
Current income tax liabilities		307	-	-	-	-	-	307
Other liabilities		429	-	-	-	-	-	429
Guarantees issued and similar commitments		655	1,697	1,102	-	-	-	3,454
Commitments on credits and unused credit lines		473	509	2,160	284	-	-	3,426
		15,901	**13,626**	**23,412**	**28,722**	**3,694**	**959**	**86,313**
Liquidity gap		7,166	(1,837)	4,980	(6,029)	(3,095)		
Interest sensitivity gap for fixed rate instruments		7,042	704	9,811	(1,587)	(1,539)		
Interest sensitivity gap		7,042	704	9,811	(1,587)	(1,539)		
Cumulative interest sensitivity gap		**7,402**	**7,745**	**17,556**	**15,969**	**14,431**		

(In thousands of Azerbaijan Manats)

Market Risk

Market risk covers interest rate risk, currency risk and other pricing risks to which the Group is exposed. There have been no changes as to the way the Group measures risk or to the risk it is exposed in 2009.

The Group is exposed to interest rate risks as entities in the Group borrow funds at both fixed and floating rates. The risk is managed by the Group maintaining an appropriate mix between fixed and floating rate borrowings.

The ALMC also manages interest rate and market risks by matching the Group's interest rate position, which provides the Group with a positive interest margin. The Department of Financial Control conducts monitoring of the Group's current financial performance, estimates the Group's sensitivity to changes in interest rates and its influence on the Group's profitability.

The majority of the Group's loan contracts and other financial assets and liabilities that bear interest are either variable or contain clauses enabling the interest rate to be changed at the option of the lender. The Group monitors its interest rate margin and consequently does not consider itself exposed to significant interest rate risk or consequential cash flow risk.

Interest rate risk

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

The following table presents a sensitivity analysis of interest rate risk, which has been determined based on "reasonably possible changes in the risk variable". The level of these changes is determined by management and is contained within the risk reports provided to key management personnel.

Impact on profit before tax:

	As at 31 December 2009		**As at 31 December 2008**	
	Interest rate +1%	**Interest rate -1%**	**Interest rate +1%**	**Interest rate -1%**
Assets:				
Due from banks	74	(74)	16	(16)
Loans to customers	703	(703)	690	(690)
Factoring	19	(19)	30	(30)
Investment available-for-sale	-	-	4	(4)
Liabilities:				
Due to banks and other financial institutions	(338)	338	(191)	191
Customer accounts	(428)	428	(360)	360
Debt securities issued	-	-	(41)	41
Net impact on profit before tax	**30**	**(30)**	**148**	**(148)**

(In thousands of Azerbaijan Manats)

Impact on shareholders equity:

	As at 31 December 2009		As at 31 December 2008	
	Interest rate +1%	**Interest rate -1%**	**Interest rate +1%**	**Interest rate -1%**
Assets:				
Due from banks	74	(74)	16	(16)
Loans to customers	703	(703)	690	(690)
Factoring	19	(19)	30	(30)
Investment available-for-sale	-	-	4	(4)
Liabilities:				
Due to banks and other financial institutions	(338)	338	(191)	191
Customer accounts	(428)	428	(360)	360
Debt securities issued	-	-	(41)	41
Net impact on shareholders equity	**30**	**(30)**	**148**	**(148)**

(In thousands of Azerbaijan Manats)

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 Group 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 CBAR. The Group's exposure to foreign currency exchange rate risk is presented in the table below:

	AZN	USD	EUR	Other currency	Total 31 December 2009
ASSETS					
Cash and cash equivalents	11,813	1,197	246	102	13,358
Due from banks	-	6,567	942	47	7,556
Loans to customers	46,555	20,966	2,733	-	70,254
Factoring	7	-	-	-	7
Investments available for sale	1,778	97	-	-	1,875
Property and equipment	9,228	-	-	-	9,228
Intangible assets	139	-	-	-	139
Deferred income tax asset	-	-	-	-	-
Other assets	1,358	665	55	29	2,107
TOTAL ASSETS	**70,878**	**29,492**	**3,976**	**178**	**104,524**
LIABILITIES					
Due to banks and other financial institutions	25,168	7,500	1,155	0	33,823
Customer accounts	27,692	22,520	2,790	5	53,007
Debt securities issued	-	-	-	-	-
Securities Sold under REPO Agreements	-	-	-	-	-
Finance lease liabilities	(5)	32	-	-	27
Current income tax liabilities	155	-	-	-	155
Deferred income tax liabilities	881	-	-	-	881
Other liabilities	391	268	39	26	724
TOTAL LIABILITIES	**54,282**	**30,320**	**3,984**	**31**	**88,617**
OPEN BALANCE SHEET POSITION	**16,596**	**(828)**	**(8)**	**147**	

(In thousands of Azerbaijan Manats)

	AZN	USD	EUR	Other currency	Total 31 December 2008
ASSETS					
Cash and cash equivalents	7,226	1,460	466	23	9,175
Due from banks	1,501	1,675	15	36	3,227
Loans to customers	47,795	18,421	2,789	-	69,005
Factoring	409	-	-	-	409
Investments available for sale	3,287	-	-	-	3,287
Property and equipment	8,924	-	-	-	8,924
Intangible assets	97	-	-	-	97
Deferred income tax asset	-	-	-	-	-
Other assets	1,326	477	45	1	1,849
TOTAL ASSETS	**70,565**	**22,033**	**3,315**	**60**	**95,973**
LIABILITIES					
Due to banks and other financial institutions	18,891	8,051	1,135	-	28,077
Customer accounts	32,077	10,312	2,111	7	44,507
Debt securities issued	-	4,055	-	-	4055
Securities Sold under REPO Agreements	2,000	-	-	-	2,000
Finance lease liabilities	(9)	67	-	-	58
Current income tax liabilities	307	-	-	-	307
Deferred income tax liabilities	1,138	-	-		1,138
Other liabilities	296	98	34	-	428
TOTAL LIABILITIES	**54,700**	**22,583**	**3,280**	**7**	**80,570**
OPEN BALANCE SHEET POSITION	**15,865**	**(550)**	**35**	**53**	

(In thousands of Azerbaijan Manats)

Currency risk sensitivity

The following table details the Group's sensitivity to a 10% increase and decrease in the USD and Euro against the AZN. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign currency exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the period for a 10% change in foreign currency rates. The sensitivity analysis includes external loans as well as loans to foreign operations within the Group where the denomination of the loan is in a currency other than the currency of the lender or the borrower.

	As at 31 December 2009		**As at 31 December 2008**	
	AZN/USD +10%	AZN/USD -10%	AZN/USD +10%	AZN/USD -10%
Impact on profit or loss	83	(83)	55	(55)

	As at 31 December 2009		**As at 31 December 2008**	
	AZN/EURO +10%	AZN/EURO -10%	AZN/EURO +10%	AZN/EURO -10%
Impact on profit or loss	1	(1)	(3)	3

Limitations of sensitivity analysis

The above tables demonstrate the effect of a change in a key assumption while other assumptions remain unchanged. In reality, there is a correlation between the assumptions and other factors. It should also be noted that these sensitivities are non-linear, and larger or smaller impacts should not be interpolated or extrapolated from these results.

The sensitivity analyses do not take into consideration that the Group's assets and liabilities are actively managed. Additionally, the financial position of the Group may vary at the time that any actual market movement occurs. For example, the Group's financial risk management strategy aims to manage the exposure to market fluctuations. As investment markets move past various trigger levels, management actions could include selling investments, changing investment portfolio allocation and taking other protective action. Consequently, the actual impact of a change in the assumptions may not have any impact on the liabilities, whereas assets are held at market value on the balance sheet. In these circumstances, the different measurement bases for liabilities and assets may lead to volatility in shareholder equity.

Other limitations in the above sensitivity analyses include the use of hypothetical market movements to demonstrate potential risk that only represent the Group's view of possible near-term market changes that cannot be predicted with any certainty; and the assumption that all interest rates move in an identical fashion.

Other price risks

The Group is exposed to equity price risks arising from equity investments. Equity investments are held for strategic rather than trading purposes. The Group does not actively trade these investments.