OJSC Bank of Baku and Subsidiary

Consolidated Financial Statements

Year ended 31 December 2009
Together with Independent Auditors' Report

Contents

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Independent auditors' report

To the Shareholders and Supervisory Board of OJSC Bank of Baku -

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

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of 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.

Auditors' 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 financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2009, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young Holdings (CIS) B.V.

19 April 2010

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2009

(Thousands of Azerbaijani manats)

	Notes	2009	*2008 (Note2)*	*2007 (Note 2)*
Assets				
Cash and cash equivalents	5	21,580	13,892	9,143
Amounts due from credit institutions	6	7,774	5,158	8,703
Loans to customers	7	129,030	132,624	118,992
Investment securities available-for-sale	8	14,369	15,756	2,160
Property and equipment	9	9,290	11,918	12,079
Intangible assets	10	341	361	106
Other assets	11	395	313	814
Total assets		**182,779**	**180,022**	**151,997**
Liabilities				
Amounts due to banks and other financial institutions	12	51,693	56,982	55,768
Amounts due to customers	13	93,360	84,068	64,452
Debt securities issued	14	-	2,021	6,153
Current income tax liability	15	30	1,629	263
Deferred income tax liabilities	15	1,433	1,933	1,945
Other liabilities	11	532	2,609	884
Subordinated debt	16	2,871	2,868	2,113
Total liabilities		**149,919**	**152,110**	**131,578**
Equity				
Share capital	17	6,800	6,800	6,800
Retained earnings		20,904	14,411	6,522
Revaluation reserve for property and equipment	17	5,156	6,701	7,097
Total equity		**32,860**	**27,912**	**20,419**
Total liabilities and equity		**182,779**	**180,022**	**151,997**

Signed and authorized for release on behalf of the Management Board of the Bank

Jalal Gasimov — Chairman of the Management Board

Rena Efendiyeva — Chief Accountant

19 April 2010

The accompanying notes on pages 6 to 40 are an integral part of these consolidated financial statements.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2009

(Thousands of Azerbaijani manats)

	Notes	2009	2008
Interest income			
Loans to customers, excluding finance lease receivables		31,723	34,020
Amounts due from credit institutions		172	107
Investment securities available-for-sale		157	696
Guarantees		142	139
		32,194	**34,962**
Finance lease receivables		720	749
		32,914	**35,711**
Interest expense			
Amounts due to customers		(8,776)	(8,071)
Amounts due to banks and other financial institutions		(5,180)	(6,365)
Debt securities issued		(47)	(633)
Subordinated debt		(396)	(402)
		(14,399)	**(15,471)**
Net interest income		**18,515**	**20,240**
Loan impairment charge	7	(2,489)	(1,139)
Net interest income after loan impairment charge		**16,026**	**19,101**
Net fee and commission income	19	1,206	1,539
Net gains/(losses) from foreign currencies:			
- dealing		442	433
- translation differences		(48)	456
Other income	20	1,703	720
Non-interest income		**3,303**	**3,148**
Personnel expenses	21	(8,982)	(8,449)
Depreciation and amortization	9, 10, 21	(1,418)	(1,328)
Other operating expenses	21	(2,765)	(2,759)
Reversal of other impairment and provisions		-	33
Non-interest expenses		**(13,165)**	**(12,503)**
Profit before income tax expense		**6,164**	**9,746**
Income tax expense	15	(75)	(2,253)
Profit for the year		**6,089**	**7,493**
Attributable to:			
- shareholders of the Bank		6,089	7,493
		6,089	**7,493**

The accompanying notes on pages 6 to 40 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2009

(Thousands of Azerbaijani manats)

	Note	*2009*	*2008*
Profit for the year		**6,089**	**7,493**
Other comprehensive (loss) income			
Revaluation loss on buildings		(1,641)	-
Income tax relating to revaluation on buildings	15	328	-
Other comprehensive loss for the year, net of tax		**(1,313)**	**-**
Total comprehensive income for the year		**4,776**	**7,493**
Attributable to:			
- shareholders of the Bank		4,776	7,493
		4,776	**7,493**

The accompanying notes on pages 6 to 40 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2009

(Thousands of Azerbaijani manats)

	Share capital	*Retained earnings*	*Revaluation reserve for property and equipment*	*Total*
31 December 2007	**6,800**	**6,522**	**7,097**	**20,419**
Total comprehensive income for the year		7,493	-	7,493
Depreciation of revaluation reserve		396	(396)	-
31 December 2008	**6,800**	**14,411**	**6,701**	**27,912**
Total comprehensive income (loss) for the year		6,089	(1,313)	4,776
Depreciation of revaluation reserve		404	(232)	172
31 December 2009	**6,800**	**20,904**	**5,156**	**32,860**

The accompanying notes on pages 6 to 40 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2009

(Thousands of Azerbaijani manats)

	Notes	*2009*	*2008*
Cash flows from operating activities			
Interest received		32,036	35,250
Interest paid		(15,782)	(13,824)
Fees and commissions received		2,318	2,824
Fees and commissions paid		(1,112)	(1,285)
Realized gains less losses from dealing in foreign currencies		442	433
Other income received		1,703	700
Personnel expenses paid		(8,997)	(8,416)
Other operating expenses paid		(2,751)	(2,764)
Cash flows from operating activities before changes in operating assets and liabilities		**7,857**	**12,918**
Net (increase)/decrease in operating assets			
Amounts due from credit institutions		(2,619)	3,385
Loans to customers		1,994	(17,035)
Other assets		(81)	435
Net increase /(decrease) in operating liabilities			
Amounts due to banks and other financial institutions		(5,590)	1,669
Amounts due to customers		10,980	20,987
Other liabilities		(2,077)	1,744
Net cash flows from operating activities before income tax		**10,464**	**24,103**
Income tax paid		(1,674)	(875)
Net cash from operating activities		**8,790**	**23,228**
Cash flows from investing activities			
Purchase of investment securities		(93,089)	(157,486)
Proceeds from sale and redemption of investment securities		94,483	143,909
Purchase of property and equipment		(398)	(1,178)
Proceeds from sale of property and equipment		-	14
Acquisition of intangible assets		(29)	(286)
Dividends received		-	20
Net cash from/(used in) investing activities		**967**	**(15,007)**
Cash flows from financing activities			
Redemption of debt securities issued		(2,021)	(4,000)
Net change in subordinated debt		(1)	795
Net cash used in financing activities		**(2,022)**	**(3,205)**
Effect of exchange rate changes on cash and cash equivalents		(47)	(267)
Net increase in cash and cash equivalents		**7,688**	**4,749**
Cash and cash equivalents, 1 January		**13,892**	**9,143**
Cash and cash equivalents, 31 December	5	**21,580**	**13,892**

The accompanying notes on pages 6 to 40 are an integral part of these consolidated financial statements.

Notes to the 2009 Consolidated Financial Statements

(Thousands of Azerbaijani manats unless otherwise indicated)

1. Principal activities

OJSC Bank of Baku is the parent company of the Group. On 18 February 2005, Open Joint Stock Commercial Bank "Bank of Baku" and Closed Joint Stock Commercial Bank Ilkbank combined and formed a new bank under the name Open Joint Stock Commercial Bank Bank of Baku ("the Bank"). The Bank operates under banking licence number 247 issued by the Central Bank of the Republic of Azerbaijan ("CBA") on 18 February 2005. The Bank changed its name from Open Joint Stock Commercial Bank "Bank of Baku" to Open Joint Stock Company "Bank of Baku" on 15 May 2006.

The Bank accepts deposits from the public and extends credit, transfers payments in Azerbaijan and abroad, exchanges currencies and provides other banking services to its commercial and retail customers. Its main office is in Baku and it has 14 branches (2008: 14) in Baku and other cities in Azerbaijan and 2 servicing outlets (2008: 3). The Bank's registered legal address is 42 Ataturk Avenue, Baku, AZ 1069, Azerbaijan.

Starting from 30 July 2007, the Bank is a member of the deposit insurance system. The system operates under the Law on Deposit Insurance and other regulations and is governed by the Azerbaijan Deposit Insurance Fund. Insurance covers the Bank's liabilities to individual depositors for the amount up to AZN 30 thousand for each individual in case of business failure and revocation of the CBA banking licence.

"Bob Broker" Ltd. (the "Subsidiary") is a wholly-owned subsidiary of the Bank and is consolidated in the financial statements of the Bank. The Subsidiary was formed as a limited liability company under the laws of the Republic of Azerbaijan on 28 February 2007. It is principally engaged in brokerage of securities in the Azerbaijan stock market. It possesses a licence for operations with securities from the State Securities Committee of the Republic of Azerbaijan dated 15 May 2007.

As of 31 December, the following shareholders owned the outstanding shares of the Bank:

Shareholder	*2009* %	*2008* %
NAB Holding	40.00	40.00
Azpetrol Neft Shirketi LLC	28.89	28.89
Mr. Rafig Aliyev	11.22	11.22
Mr. Elchin Isayev	10.00	10.00
Azinvest LLC	9.89	9.89
Total	**100.00**	**100.00**

NAB Holding is ultimately controlled by Nader Mohaghegh Oromi, Bahram Mohaghegh Oromi and Shahram Mohaghegh Oromi. The ultimate shareholder of Azpetrol Neft Shirketi LLC is Mammadov Ibrahim; of Azinvest LLC is Mr. Rafig Aliyev. Mr. R. Aliyev owns 21.11% (11.22% of direct ownership and 9.89% through Azinvest LLC) of the share capital of the Bank.

The Management Board (the "Board") of the Bank is composed of the following members:

As of 31 December 2009 and 2008:

Name	Position
Mr. Jalal Gasimov	Chairman
Mr. Khalid Ahadov	Deputy Chairman
Mr. Farid Mammadov	Deputy Chairman
Mr. Farid Alizade	Deputy Chairman
Mr. Farid Huseynov	Deputy Chairman

As of 31 December 2009 and 2008, Mr. Elchin Isayev, a member of the Supervisory Board, controlled 340,000 shares or 10% of the Bank.

Notes to the 2009 Consolidated Financial Statements (Continued)

(Thousands of Azerbaijani manats unless otherwise indicated)

2. Basis of preparation

General

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The Bank is required to maintain its records and prepare its financial statements in Azerbaijani manat and in accordance with IFRS.

The Azerbaijani manat is the reporting and functional currency of the Bank as the majority of the transactions are denominated, measured, or funded in Azerbaijani manat. Transactions in other currencies are treated as transactions in foreign currencies. These consolidated financial statements are presented in thousands of Azerbaijani manats ("AZN"), except per share amounts and unless otherwise indicated.

The consolidated financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below. For example, available-for-sale securities, derivative financial instruments and buildings have been measured at fair value.

The following reclassifications have been made to the 2008 balances to conform to the 2009 presentation:

- Reclassification of obligatory reserve with the CBA from Cash and cash equivalents to Amounts due from credit institutions;
- Reclassification of current accounts with credit institutions from Amounts due from credit institutions to Cash and cash equivalents;
- Reclassification of Intangible assets from Other assets to Intangible assets;
- Reclassification of subordinated debt from Amounts due to banks and other financial institutions to Subordinated debt
- Reclassification of subordinated debt from Amounts due to customers to Subordinated debt
- Reclassification of taxes other than income tax from Current income tax liability to Other liabilities

	As previously reported	*Effect of reclassifications*	*As reclassified*
Cash and cash equivalents	11,307	2,585	13,892
Amounts due from credit institutions	7,743	(2,585)	5,158
Intangible assets	-	361	361
Other assets	674	(361)	313
Amounts due to banks and other financial institutions	59,009	(2,027)	56,982
Amounts due to customers	84,909	(841)	84,068
Current income tax liability	2,186	(557)	1,629
Other liability	2,052	557	2,609
Subordinated debt	-	2,868	2,868

In accordance with IAS 1 "Presentation of financial statements" (Revised), the Bank has presented a comparative consolidated statement of financial position as of 31 December 2007 which is the earliest comparative period, as it has retrospectively reclassified items in the consolidated financial statements.

3. Summary of significant accounting policies

Changes in accounting policies

The Bank has adopted the following amended IFRS and new International Financial Reporting Interpretations Committee ("IFRIC") Interpretations during the year. The principal effects of these changes are as follows:

Improvements to IFRS
In May 2008, the International Accounting Standards Board ("IASB") issued amendments to IFRS, which resulted from the IASB's annual improvements project. They 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, with earlier application permitted. Amendments included in May 2008 "Improvements to IFRS" did not have any impact on the accounting policies, financial position or performance of the Bank.

Notes to the 2009 Consolidated Financial Statements (Continued)

(Thousands of Azerbaijani manats unless otherwise indicated)

3. Summary of accounting policies (continued)

Changes in accounting policies (continued)

IFRS 7 "Financial Instruments: Disclosures"
The amendments to IFRS 7 were issued in March 2009, to enhance fair value and liquidity disclosures. With respect to fair value, the amendments require disclosure of a three-level fair value hierarchy, by class, for all financial instruments recognized at fair value and specific disclosures related to the transfers between levels in the hierarchy and detailed disclosures related to level 3 of the fair value hierarchy. In addition, the amendments modify the required liquidity disclosures with respect to derivative transactions and assets used for liquidity management. Comparative information has not been provided as permitted by the transition provisions of the amendment.

IAS 1 Presentation of Financial Statements (Revised)
A revised IAS 1 was issued in September 2007, and became effective for annual periods beginning on or after 1 January 2009. This revised Standard separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with non-owner changes in equity presented as a single line. In addition, the Standard introduces the statement of comprehensive income: it presents all items of recognized income and expense, either in one single statement, or in two linked statements. The revised standard also requires that the income tax effect of each component of comprehensive income be disclosed. In addition, it requires entities to present a comparative statement of financial position as at the beginning of the earliest comparative period when the entity has applied an accounting policy retrospectively, makes a retrospective restatement, or reclassifies items in the financial statements. The Bank has elected to present comprehensive income in two separate statements: an income statement and a statement of comprehensive income. The Bank has provided a restated comparative statement of financial position for the earliest comparative period, as it has retrospectively reclassified items in the consolidated financial statements.

IAS 23 "Borrowing Costs" (Revised)
A revised IAS 23 Borrowing costs was issued in March 2007, and became effective for financial years beginning on or after 1 January 2009. The standard has been revised to require capitalization of borrowing costs when such costs relate to a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. In accordance with the transitional requirements in the Standard, the Bank adopted this as a prospective change. No changes were made for borrowing costs incurred to 1 January 2009 that have been expensed.

IAS 24 "Related party disclosures" (Revised)
The revised IAS 24, issued in November 2009, simplifies the disclosure requirements for government-related entities and clarifies the definition of a related party. Previously, an entity controlled or significantly influenced by a government was required to disclose information about all transactions with other entities controlled or significantly influenced by the same government. The revised standard requires disclosure about these transactions only if they are individually or collectively significant. The revised IAS 24 is effective for annual periods beginning on or after 1 January 2011, with earlier application permitted. The Bank has decided to early adopt the revised IAS 24 from 1 January 2009. These amendments did not have any impact on the Bank.

Amendments to IAS 32 "Financial Instruments: Presentation" and IAS 1 "Presentation of Financial Statements" – Puttable Financial Instruments and Obligations Arising on Liquidation
These amendments were issued in February 2008, and became effective for annual periods beginning on or after 1 January 2009. The amendments require puttable instruments that represent a residual interest in an entity to be classified as equity, provided they satisfy certain conditions. These amendments did not have any impact on the Bank.

Amendments to IFRS 2 "Share-based Payment"- Vesting Conditions and Cancellations
Amendment to IFRS 2 was issued in January 2008 and became effective for annual periods beginning on or after 1 January 2009. This amendment clarifies the definition of vesting conditions and prescribes the accounting treatment of an award that is effectively cancelled because a non-vesting condition is not satisfied. This amendment did not have any impact on the financial position or performance of the Bank.

IFRS 8 "Operating Segments"
IFRS 8 became effective for annual periods beginning on or after 1 January 2009. This Standard requires disclosure of information about the Bank's operating segments and replaces the requirement to determine primary (business) and secondary (geographical) reporting segments of the Bank. Adoption of this Standard did not have any impact on the financial position or performance of the Bank.

Notes to the 2009 Consolidated Financial Statements (Continued)

(Thousands of Azerbaijani manats unless otherwise indicated)

3. Summary of accounting policies (continued)

Changes in accounting policies (continued)

IFRIC 13 "Customer Loyalty Programmes"
IFRIC Interpretation 13 was issued in June 2007 and became effective for annual periods beginning on or after 1 July 2008. This Interpretation requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted and therefore part of the fair value of the consideration received is allocated to the award credits and deferred over the period that the award credits are fulfilled. This interpretation did not have any impact on the Bank's consolidated financial statements as no such schemes currently exist.

IFRIC 15 "Agreements for the Construction of Real Estate"
IFRIC Interpretation 15 was issued in July 2008 and is applicable retrospectively for annual periods beginning on or after 1 January 2009. IFRIC 15 clarifies when and how revenue and related expenses from the sale of a real estate unit should be recognized if an agreement between a developer and a buyer is reached before the construction of the real estate is completed. The interpretation also provides guidance on how to determine whether an agreement is within the scope of IAS 11 "Construction Contracts" or IAS 18 "Revenue" and supersedes the current guidance for real estate in the Appendix to IAS 18. This interpretation did not have any impact on the Bank's consolidated financial statements.

IFRIC 16 "Hedges of a Net Investment in a Foreign Operation"
IFRIC Interpretation 16 was issued in July 2008 and is applicable for annual periods beginning on or after 1 October 2008. This Interpretation provides guidance on identifying the foreign currency risks that qualify for hedge accounting in the hedge of net investment, where within the group the hedging instrument can be held and how an entity should determine the amount of foreign currency gain or loss, relating to both the net investment and the hedging instrument, to be recycled on disposal of the net investment. This interpretation did not have any impact on the Bank's consolidated financial statements.

Amendments to IFRIC 9 "Reassessment of Embedded Derivatives"
The amendments require entities to assess whether to separate an embedded derivative from a host contract in the case where the entity reclassifies a hybrid financial asset out of the fair value through profit or loss category. This assessment is to be made based on circumstances that existed on the later of the date the entity first became a party to the contract and the date of any contract amendments that significantly change the cash flows of the contract. The amendments are applicable for annual periods ending on or after 30 June 2009. The application of the amendment did not have a significant impact on the Bank's consolidated financial statements.

IFRIC 18 Transfers of Assets from Customers
IFRIC 18 was issued in January 2009 and becomes effective for transfers of assets from customers received on or after 1 July 2009 with early application permitted, provided valuations were obtained at the date those transfers occurred. This interpretation should be applied prospectively. IFRIC 18 provides guidance on accounting for agreements in which an entity receives from a customer an item of property, plant and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services or to do both. This interpretation did not have any impact on the financial position or performance of the Bank as the Bank has no transfers of assets from its customers.

Subsidiaries

Subsidiaries, which are those entities in which the Bank has an interest of more than one half of the voting rights, or otherwise has power to exercise control over their operations, are consolidated. Subsidiaries are consolidated from the date on which control is transferred to the Bank and are no longer consolidated from the date that control ceases. All intra-group transactions, balances and unrealized gains on transactions between group companies are eliminated in full; unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Bank.

Financial assets

Initial recognition

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. When financial assets are recognized initially, they are measured at fair value, and, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Bank determines the classification of its financial assets upon initial recognition, and subsequently can reclassify financial assets in certain cases as described below.

Notes to the 2009 Consolidated Financial Statements (Continued)

(Thousands of Azerbaijani manats unless otherwise indicated)

3. Summary of accounting policies (continued)

Financial assets (continued)

Date of recognition

All regular way purchases and sales of financial assets are recognized on the settlement date. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category ‘financial assets at fair value through profit or loss’. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated and effective hedging instruments. Gains or losses on financial assets held for trading are recognized in the consolidated income statement.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Bank has the positive intention and ability to hold them to maturity. Investments intended to be held for an undefined period are not included in this classification. Held-to-maturity investments are subsequently measured at amortized cost. Gains and losses are recognized in the consolidated income statement when the investments are impaired, as well as through the amortization process.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as trading securities or designated as investment securities available-for-sale. Such assets are carried at amortized cost using the effective interest method. Gains and losses are recognized in the consolidated income statement when the loans and receivables are derecognized or impaired, as well as through the amortization process.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition available-for sale financial assets are measured at fair value with gains or losses being recognized in other comprehensive income until the investment is derecognized or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in other comprehensive income is reclassified to the consolidated income statement. However, interest calculated using the effective interest method is recognized in the consolidated income statement.

Determination of fair value

The fair value for financial instruments traded in active market at the reporting date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, options pricing models and other relevant valuation models.

Offsetting

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the consolidated statement of financial position.

Notes to the 2009 Consolidated Financial Statements (Continued)

(Thousands of Azerbaijani manats unless otherwise indicated)

3. Summary of accounting policies (continued)

Financial assets (continued)

Reclassification of financial assets

If a non-derivative financial asset classified as held for trading is no longer held for the purpose of selling in the near term, it may be reclassified out of the fair value through profit or loss category in one of the following cases:

- a financial asset that would have met the definition of loans and receivables above may be reclassified to loans and receivables category if the Bank has the intention and ability to hold it for the foreseeable future or until maturity;
- other financial assets may be reclassified to available for sale or held to maturity categories only in rare circumstances.

A financial asset classified as available for sale that would have met the definition of loans and receivables may be reclassified to loans and receivables category of the Bank has the intention and ability to hold it for the foreseeable future or until maturity.

Financial assets are reclassified at their fair value on the date of reclassification. Any gain or loss already recognized in profit or loss is not reversed. The fair value of the financial asset on the date of reclassification becomes its new cost or amortized cost, as applicable.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, amounts due from the CBA excluding obligatory reserves, and amounts due from credit institutions that mature within ninety days of the date of origination and are free from contractual encumbrances.

Repurchase and reverse repurchase agreements

Sale and repurchase agreements ("repos") are treated as secured financing transactions. Securities sold under sale and repurchase agreements are retained in the consolidated statement of financial position and, in case the transferee has the right by contract or custom to sell or repledge them, reclassified as securities pledged under sale and repurchase agreements. The corresponding liability is presented within amounts due to credit institutions or customers. Securities purchased under agreements to resell ("reverse repo") are recorded as amounts due from credit institutions or loans to customers as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of repo agreements using the effective yield method.

Derivative financial instruments

In the normal course of business, the Bank enters into derivative financial instruments such as forwards. Such financial instruments are held for trading and are recorded at fair value. The fair values are estimated based on quoted market prices. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses resulting from these instruments are included in the consolidated income statement as net gains/(losses) from foreign currencies dealing.

Derivatives embedded in other financial instruments are treated as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contract, and the host contract is not itself held for trading or designated at fair value through profit or loss. The embedded derivatives separated from the host are carried at fair on the trading portfolio with changes in fair value recognized in the consolidated income statement.

Borrowings

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity instruments. Such instruments include amounts due to the Central bank and Government, amounts due to credit institutions, amounts due to customers and debt securities issued. After initial recognition, borrowings are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in the consolidated income statement when the borrowings are derecognized as well as through the amortization process.

Notes to the 2009 Consolidated Financial Statements (Continued)

(Thousands of Azerbaijani manats unless otherwise indicated)

3. Summary of accounting policies (continued)

Leases

i. Finance - Bank as lessee

The Bank recognizes finance leases as assets and liabilities in the consolidated statement of financial position at the date of commencement of the lease term at amounts equal to the fair value of the leased property or, if lower, at the present value of the minimum lease payments. In calculating the present value of the minimum lease payments the discount factor used is the interest rate implicit in the lease, when it is practicable to determine; otherwise, the Bank's incremental borrowing rate is used. Initial direct costs incurred are included as part of the asset. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to periods during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

The costs identified as directly attributable to activities performed by the lessee for a finance lease, are included as part of the amount recognized as an asset under the lease.

ii. Finance - Bank as lessor

The Bank recognizes lease receivables at value equal to the net investment in the lease, starting from the date of commencement of the lease term. Finance income is based on a pattern reflecting a constant periodic rate of return on the net investment outstanding. Initial direct costs are included in the initial measurement of the lease receivables.

iii. Operating - Bank as lessee

Leases of assets under which the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Lease payments under an operating lease are recognized as expenses on a straight-line basis over the lease term and included into other operating expenses.

iv. Operating - Bank as lessor

The Bank presents assets subject to operating leases in the consolidated statement of financial position according to the nature of the asset. Lease income from operating leases is recognized in the consolidated income statement on a straight-line basis over the lease term as other income. The aggregate cost of incentives provided to lessees is recognized as a reduction of rental income over the lease term on a straight-line basis. Initial direct costs incurred specifically to earn revenues from an operating lease are added to the carrying amount of the leased asset.

Impairment of financial assets

The Bank assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Amounts due from credit institutions and loans to customers

For amounts due from credit institutions and loans to customers carried at amortized cost, the Bank first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risks characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

Notes to the 2009 Consolidated Financial Statements (Continued)

(Thousands of Azerbaijani manats unless otherwise indicated)

3. Summary of accounting policies (continued)

Impairment of financial assets (continued)

Amounts due from credit institutions and loans to customers (continued)

If there is an objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the consolidated income statement. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Bank. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the consolidated income statement.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Bank's internal credit grading system that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the years on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the group or their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Held-to-maturity financial investments

For held-to-maturity investments the Bank assesses individually whether there is objective evidence of impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced and the amount of the loss is recognized in the consolidated income statement. If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, any amounts formerly charged are credited to the consolidated income statement.

Available-for-sale financial investments

For available-for-sale financial investments, the Bank assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition coast and the current fair value, less any impairment loss on that investment previously recognized in the consolidated income statement – is reclassified from other comprehensive income to the consolidated income statement. Impairment losses on equity investments are not reversed through the consolidated income statement; increases in their fair value after impairment are recognized in other comprehensive income.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded in the consolidated income statement. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the consolidated income statement, the impairment loss is reversed through the consolidated income statement.

Notes to the 2009 Consolidated Financial Statements (Continued)

(Thousands of Azerbaijani manats unless otherwise indicated)

3. Summary of accounting policies (continued)

Impairment of financial assets (continued)

Renegotiated loans

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized where:

- the rights to receive cash flows from the asset have expired;
- the Bank has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; and
- the Bank either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Bank has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Bank's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Bank 's continuing involvement is the amount of the transferred asset that the Bank may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Bank 's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the consolidated income statement.

Financial guarantees

In the ordinary course of business, the Bank gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognized in the consolidated financial statements at fair value, in 'Other liabilities', being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amortized premium and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is taken to the consolidated income statement. The premium received is recognized in the consolidated income statement on a straight-line basis over the life of the guarantee.

Notes to the 2009 Consolidated Financial Statements (Continued)

(Thousands of Azerbaijani manats unless otherwise indicated)

3. Summary of accounting policies (continued)

Taxation

The current income tax expense is calculated in accordance with the regulations of the Republic of Azerbaijan.

Deferred tax assets and liabilities are calculated in respect of temporary differences using the liability method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted at the reporting date.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Azerbaijan also has various operating taxes that are assessed on the Bank’s activities. These taxes are included as a component of other operating expenses.

Property and equipment

Equipment is carried at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and any accumulated impairment. Such cost includes the cost of replacing part of equipment when that cost is incurred if the recognition criteria are met.

The carrying values of equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Following initial recognition at cost, buildings are carried at a revalued amount, which is the fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

Accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Any revaluation surplus is credited to the revaluation reserve for property and equipment included in other comprehensive income, except to the extent that it reverses a revaluation decrease of the same asset previously recognized in the consolidated income statement, in which case the increase is recognized in the consolidated income statement. A revaluation deficit is recognized in the consolidated income statement, except that a deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the revaluation reserve for property and equipment.

An annual transfer from the revaluation reserve for property and equipment to retained earnings is made for the difference between depreciation based on the revalued carrying amount of the assets and depreciation based on the assets original cost. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

Depreciation of an asset begins when it is available for use. Depreciation is calculated on a straight-line basis using the following rates:

	%
Buildings	5%
Furniture and equipment	20%
Computers and communication equipment	25%
Vehicles	20%
Others	20%

The asset’s residual values, useful lives and methods are reviewed, and adjusted as appropriate, at each financial year-end.

Costs related to repairs and renewals are charged when incurred and included in other operating expenses, unless they qualify for capitalization.

Notes to the 2009 Consolidated Financial Statements (Continued)

(Thousands of Azerbaijani manats unless otherwise indicated)

3. Summary of accounting policies (continued)

Intangible assets

Intangible assets include computer software and licences. Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic lives of 10 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortization periods and methods for intangible assets with indefinite useful lives are reviewed at least at each financial year-end. Intangible assets with indefinite useful lives are not amortized, but tested for impairment annually.

Provisions

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

Retirement and other employee benefit obligations

The Bank does not have any pension arrangements separate from the state pension system of the Republic of Azerbaijan, which requires current contributions by the employer calculated as a percentage of current gross salary payments; such expense is charged in the period the related salaries are earned. In addition, the Bank has no post-retirement benefits.

Share capital

Share capital

Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity. Any excess of the fair value of consideration received over the par value of shares issued is recognized as additional paid-in capital.

Dividends

Dividends are recognized as a liability and deducted from equity at the reporting date only if they are declared before or on the reporting date. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the financial statements are authorized for issue.

Segment reporting

The Bank's operations are in Azerbaijan and constitute a single industry segment - commercial banking. Accordingly for purposes of IFRS 8 "Operating Segments" the Bank is treated as one operating segment.

Contingencies

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

Recognition of income and expenses

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue and expense is recognized:

Interest and similar income and expense

For all financial instruments measured at amortized cost and interest bearing securities classified as trading or available-for-sale, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses.

Notes to the 2009 Consolidated Financial Statements (Continued)

(Thousands of Azerbaijani manats unless otherwise indicated)

3. Summary of accounting policies (continued)

Recognition of income and expenses (continued)

Interest and similar income and expense (continued)

The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense. Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognized using the original effective interest rate applied to the new carrying amount.

Fee and commission income and expense

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 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 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.

Dividend income

Revenue is recognized when the Bank's right to receive the payment is established.

Foreign currency translation

The consolidated financial statements are presented in Azerbaijani manat, which is the Bank's functional and presentation currency. Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognized in the consolidated income statement as gains less losses from foreign currencies - translation differences. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Differences between the contractual exchange rate of a transaction in a foreign currency and the Central Bank exchange rate on the date of the transaction are included in gains less losses from dealing in foreign currencies.

The Bank used the following official exchange rates in the preparation of these consolidated financial statements:

	19 April 2010 (*)	**2009**	**2008**
1 US Dollar	0.8035 AZN	0.8031 AZN	0.8010 AZN
1 Euro	1.0819 AZN	1.1499 AZN	1.1292 AZN
1 Pound sterling	1.2261 AZN	1.2759 AZN	1.1621 AZN

(*) date of issue of the consolidated financial statements

Future changes in accounting policies

Standards and interpretations issued but not yet effective

Up to the date of approval of the financial statements, certain relevant new standards, interpretations and amendments to existing standards have been published that are not yet effective for the current reporting period and which the Bank has not early adopted, as follows:

Amendment to IAS 39 "Financial Instruments: recognition and measurement" - Eligible Hedged Items
The amendment to IAS 39 was issued in August 2008, and becomes effective for annual periods beginning on or after 1 July 2009. The amendment addresses the designation of a one-sided risk in a hedged item, and designation of inflation as a hedged risk or portion in particular situations. It clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as hedged item. Management does not expect the amendment to IAS 39 to affect the Bank's consolidated financial statements as the Bank has not entered into any such hedges.

Notes to the 2009 Consolidated Financial Statements (Continued)

(Thousands of Azerbaijani manats unless otherwise indicated)

3. Summary of accounting policies (continued)

Future changes in accounting policies (continued)

Standards and interpretations issued but not yet effective (continued)

IFRS 3 "Business Combinations" (revised in January 2008) and IAS 27 "Consolidated and Separate Financial Statements" (revised in January 2008)
The revised standards were issued in January 2008 and become effective for financial years beginning on or after 1 July 2009. Revised IFRS 3 introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs, and future reported results. Revised IAS 27 requires that a change in the ownership interest of a subsidiary is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give raise to a gain or loss. Furthermore, the revised standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes introduced by the revised Standards must be applied prospectively and will affect only future acquisitions and transactions with minority interests. The Bank expects that this amendment will have no impact on the Bank's consolidated financial statements.

IFRS 2 Share-based Payment: Group Cash-settled Share-based Payment Transactions
The amendment to IFRS 2 was issued in June 2009 and become effective for financial years beginning on or after 1 January 2010. The amendment clarifies the scope and the accounting for group cash-settled share-based payment transactions. This amendment also supersedes IFRIC 8 and IFRIC 11. The Bank expects that this amendment will have no impact on the Bank's consolidated financial statements.

IFRIC 17 "Distribution of Non-Cash Assets to Owners"
IFRIC Interpretation 17 was issued on 27 November 2008 and is effective for annual periods beginning on or after 1 July 2009. IFRIC 17 applies to pro rata distributions of non-cash assets except for common control transactions and requires that a dividend payable should be recognized when the dividend is appropriately authorized and is no longer at the discretion of the entity; an entity should measure the dividend payable at the fair value of the net assets to be distributed; an entity should recognize the difference between the dividend paid and the carrying amount of the net assets distributed in profit or loss. The Interpretation also requires an entity to provide additional disclosures if the net assets being held for distribution to owners meet the definition of a discontinued operation. The Bank expects that this interpretation will have no impact on the Bank's consolidated financial statements.

Improvements to IFRSs
In April 2009 the IASB issued the second omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. Most of the amendments are effective for annual periods beginning on or after 1 January 2010. There are separate transitional provisions for each standard. Amendments included in April 2009 "Improvements to IFRS" will have no impact on the accounting policies, financial position or performance of the Bank, except the following amendments resulting in changes to accounting policies, as described below:

- IFRS 8 Operating Segment Information: clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker. As the Bank's chief operating decision maker does review segment assets and liabilities, the Bank will continue to disclose this information.
- IAS 7 Statement of Cash Flows: Explicitly states that only expenditure that results in recognising an asset can be classified as a cash flow from investing activities.

Amendments to IAS 32 "Financial instruments: Presentation": Classification of Rights Issues"
In October 2009, the IASB issued amendment to IAS 32. Entities shall apply that amendment for annual periods beginning on or after 1 February 2010. Earlier application is permitted. The amendment alters the definition of a financial liability in IAS 32 to classify rights issues and certain options or warrants as equity instruments. This is applicable if the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, in order to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. The Bank expects that this amendment will have no impact on the Bank's consolidated financial statements.

IFRS 9 "Financial Instruments"
In November 2009 the IASB issued the first phase of IFRS 9 Financial instruments. This Standard will eventually replace IAS 39 Financial Instrument: Recognition and Measurement. IFRS 9 becomes effective for financial years beginning on or after 1 January 2013. Entities may adopt the first phase for reporting periods ending on or after 31 December 2009. The first phase of IFRS 9 introduces new requirements on classification and measurement of financial assets. In particular, for subsequent measurement all financial assets are to be classified at amortized cost or at fair value through profit or loss with the irrevocable option for equity instruments not held for trading to be measured at fair value through other comprehensive income. The Bank is currently evaluating the impact of the adoption of the new Standard and is considering the initial application date.

Notes to the 2009 Consolidated Financial Statements (Continued)

(Thousands of Azerbaijani manats unless otherwise indicated)

4. Significant accounting judgment and estimates

In the process of applying the Bank's accounting policies, management has used its judgments and made estimates in determining the amounts recognized in the consolidated financial statements. The most significant use of judgments and estimates are as follows:

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values.

Taxation

The Bank uses its judgment in its understanding of the new amendments to the Tax Code which allow financial institutions to be exempted from payment of profit tax starting 1 January 2009 (for three consecutive years), if the current year's profit is capitalized.

Allowance for loan impairment

The Bank regularly reviews its loans and receivables to assess impairment. The Bank uses its judgment to estimate the amount of any impairment loss in cases where a borrower is in financial difficulties and there are few available sources of historical data relating to similar borrowers. Similarly, the Bank estimates changes in future cash flows based on the observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or 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 Bank uses its judgment to adjust observable data for a group of loans or receivables to reflect current circumstances.

5. Cash and cash equivalents

Cash and cash equivalents comprise:

	2009	*2008*
Cash on hand	6,810	4,671
Current accounts with the Central Bank of the Republic of Azerbaijan	2,962	1,582
Current accounts with other credit institutions	11,808	7,639
Cash and cash equivalents	**21,580**	**13,892**

As of 31 December 2009, current accounts with other credit institutions included AZN 11,021 thousands placed with two internationally recognized Organization for Economic Co-operation and Development ("OECD") banks (2008 – AZN 7,353 thousand placed with three internationally recognized OECD banks).

6. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	2009	*2008*
Time deposits for more than 90 days	5,507	104
Loan to a credit institution	1,500	-
Obligatory reserve with the Central Bank of the Republic of Azerbaijan	412	5,054
Blocked accounts	355	-
Amounts due from credit institutions	**7,774**	**5,158**

As of 31 December 2009, time deposits included AZN 5,175 thousand placed with one (2008: one) internationally recognized OECD bank with effective annual interest rate of 0.6% maturing in March 2010.

As of 31 December 2009, loan to a credit institution of AZN 1,500 thousand (2008 – AZN nil) was placed with one Azerbaijani bank with an effective annual interest rate of 15.0% maturing in January 2010 (2008 - nil).

Notes to the 2009 Consolidated Financial Statements (Continued)

(Thousands of Azerbaijani manats unless otherwise indicated)

6. Amounts due from credit institutions (continued)

Credit institutions in Azerbaijan are required to maintain a non-interest earning cash deposit (obligatory reserve) with the CBA, the amount of which depends on the level of funds attracted by the credit institution. The Bank's ability to withdraw such deposit is significantly restricted by the statutory legislation.

Blocked accounts represent security deposits placed to secure settlement operations through Visa International.

7. Loans to customers

Loans to customers comprise:

	2009	*2008*
Auto loans	50,314	50,567
Business loans	35,682	38,354
Consumer loans	28,607	27,287
Microloans	14,344	13,071
Cards	6,912	8,202
Gross loans to customers	**135,859**	**137,481**
Less – Allowance for impairment	(6,829)	(4,857)
Loans to customers	**129,030**	**132,624**

Allowance for impairment of loans to customers

A reconciliation of the allowance for impairment of loans to customers by class is as follows:

	Auto loans 2009	*Business loans 2009*	*Consumer loans 2009*	*Microloans 2009*	*Cards 2009*	*Total 2009*
At 1 January 2008	**1,459**	**983**	**1,190**	**377**	**848**	**4,857**
Charge (reversal) for the year	(412)	1,769	799	515	(182)	2,489
Amounts written off	(127)	-	-	-	(531)	(658)
Recoveries	3	-	1	9	128	141
At 31 December 2009	**923**	**2,752**	**1,990**	**901**	**263**	**6,829**
Individual impairment	-	404	-	-	-	404
Collective impairment	923	2,348	1,990	901	263	6,425
	923	**2,752**	**1,990**	**901**	**263**	**6,829**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	-	3,344	-	-	-	3,344

	Auto loans 2008	*Business loans 2008*	*Consumer loans 2008*	*Microloans 2008*	*Cards 2008*	*Total 2008*
At 1 January 2008	**962**	**512**	**1,515**	**109**	**749**	**3,847**
Charge (reversal) for the year	598	471	(316)	287	99	1,139
Amounts written off	(101)	-	(9)	(19)	-	(129)
At 31 December 2008	**1,459**	**983**	**1,190**	**377**	**848**	**4,857**
Individual impairment	-	715	-	-	-	715
Collective impairment	1,459	268	1,190	377	848	4,142
	1,459	**983**	**1,190**	**377**	**848**	**4,857**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	-	6,668	-	-	-	6,668

Notes to the 2009 Consolidated Financial Statements (Continued)

(Thousands of Azerbaijani manats unless otherwise indicated)

7. Loans to customers (continued)

Individually impaired loans

Interest income accrued on loans, for which individual impairment allowances have been recognized, for the year ended 31 December 2009, comprised AZN 126 thousand (2008 – AZN 83 thousand).

The fair value of collateral that the Bank holds relating to loans individually determined to be impaired at 31 December 2009 amounts to AZN 8,447 thousand (2008: AZN 17,857 thousand). In accordance with the CBA requirements, loans may only be written off with the approval of the Supervisory Board and, in certain cases, with the respective decision of the Court.

Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- For auto lending, cash, lienss over vehicles, third party guarantees,
- For business lending, charges over real estate, inventory and trade receivables, third party guarantees,
- For consumer lending, cash, charges over credited consumer appliances, third party guarantees, mortgages over residential properties,
- For microloans, cash, inventory and trade receivables, third party guarantees, charges over real estate
- For card lending, cash, third party guarantees

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for loan impairment.

During the year, the Bank took possession of buildings and vehicles with an estimated value of AZN 272 thousand and AZN 120 thousand, respectively. As of 31 December 2009, the outstanding amount of properties is AZN 87 thousand, which the Bank is in the process of selling. It is the Bank's policy to dispose repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the Bank does not occupy repossessed properties for business use.

Loans have been extended to the following types of customers:

	2009	*2008*
Individuals	118,980	99,127
Private companies	15,275	36,604
State-owned companies	1,604	1,750
Gross loans to customers	**135,859**	**137,481**

Loans are made principally within Azerbaijan in the following industry sectors:

	2009	*2008*
Individuals	118,980	99,127
Trade and services	9,463	26,110
Manufacturing	2,877	7,112
Real estate construction	1,954	3,081
Agriculture and food processing	1,362	1,401
Other	1,223	650
Gross loans to customers	**135,859**	**137,481**

Notes to the 2009 Consolidated Financial Statements (Continued)

(Thousands of Azerbaijani manats unless otherwise indicated)

7. Loans to customers (continued)

Finance lease receivables

Included in the corporate lending portfolio are finance lease receivables. The analysis of finance lease receivables at 31 December 2009 is as follows:

	Not later than 1 year	*Later than 1 year and not later than 5 years*	*Later than 5 years*	*Total*
Gross investment in finance leases	2,862	1,051	-	3,913
Unearned future finance income on finance leases	(447)	(140)	-	(587)
Net investment in finance leases	**2,415**	**911**	**-**	**3,326**

The analysis of finance lease receivables at 31 December 2008 is as follows:

	Not later than 1 year	*Later than 1 year and not later than 5 years*	*Later than 5 years*	*Total*
Gross investment in finance leases	2,496	2,183	-	4,679
Unearned future finance income on finance leases	(657)	(254)	-	(911)
Net investment in finance leases	**1,839**	**1,929**	**-**	**3,768**

8. Investment securities available-for-sale

Available-for-sale securities comprise:

	2009	*2008*
Treasury bills of the Ministry of Finance of the Republic of Azerbaijan	8,072	-
Notes issued by the Central Bank of the Republic of Azerbaijan	5,948	15,597
Corporate bond	200	-
Other	149	159
Available-for-sale securities	**14,369**	**15,756**

Nominal interest rates and maturities of these securities are as follows:

	2009		**2008**	
	Annual interest rate	**Maturity**	**Annual interest rate**	**Maturity**
Treasury bills of the Ministry of Finance of the Republic of Azerbaijan	0.4%-1.7%	1-5 months	-	-
Notes issued by the Central Bank of the Republic of Azerbaijan	1.0%	1 month	4.1%-5.2%	1 month
Corporate bond	14.0%	12 months	-	-

Notes to the 2009 Consolidated Financial Statements (Continued)

(Thousands of Azerbaijani manats unless otherwise indicated)

9. Property and equipment

The movements in property and equipment were as follows:

	Land and Buildings	*Furniture and equipment*	*Computers and communication equipment*	*Vehicles*	*Others*	*Total*
Cost or revalued amount						
31 December 2008	**13,606**	**1,784**	**1,533**	**336**	**14**	**17,273**
Additions	49	164	136	60	2	411
Disposals	(22)	(2)	(6)	-	-	(30)
Transfers	-	(14)	-	-	9	(5)
Effect of revaluation	(2,392)	-	-	-	-	(2,392)
31 December 2009	**11,241**	**1,932**	**1,663**	**396**	**25**	**15,257**
Accumulated depreciation	**(3,603)**	**(882)**	**(757)**	**(107)**	**(6)**	**(5,355)**
31 December 2008						
Depreciation charge	(679)	(320)	(305)	(62)	(3)	(1,369)
Eliminated on revaluation	751	-	-	-	-	751
Disposals	3	1	2	-	-	6
31 December 2009	**(3,528)**	**(1,201)**	**(1,060)**	**(169)**	**(9)**	**(5,967)**
Net book value:						
31 December 2008	**10,003**	**902**	**776**	**229**	**8**	**11,918**
31 December 2009	**7,713**	**731**	**603**	**227**	**16**	**9,290**

	Land and Buildings	*Furniture and equipment*	*Computers and communication equipment*	*Vehicles*	*Others*	*Total*
Cost or revalued amount						
31 December 2007	**13,629**	**1,420**	**1,085**	**90**	**14**	**16,238**
Additions	-	430	487	256	5	1,178
Disposals	(23)	(79)	(26)	(10)	(5)	(143)
Transfers	-	13	(13)	-	-	-
31 December 2008	**13,606**	**1,784**	**1,533**	**336**	**14**	**17,273**
Accumulated depreciation						
31 December 2007	**(2,919)**	**(646)**	**(513)**	**(74)**	**(7)**	**(4,159)**
Depreciation charge	(686)	(296)	(271)	(42)	(2)	(1,297)
Disposals	2	61	26	9	3	101
Transfers	-	(1)	1	-	-	-
31 December 2008	**(3,603)**	**(882)**	**(757)**	**(107)**	**(6)**	**(5,355)**
Net book value:						
31 December 2007	**10,710**	**774**	**572**	**16**	**7**	**12,079**
31 December 2008	**10,003**	**902**	**776**	**229**	**8**	**11,918**

As of 31 December 2009, included in property and equipment were fully depreciated assets of AZN 899 thousand (2008: AZN 237 thousand)

The Bank engaged an independent appraiser to determine the fair value of its buildings. Fair value is determined by reference to comparable and term and reversion appraisal approaches. The date of the revaluation was 21 December 2009.

If the buildings were measured using the cost model, the carrying amounts would be as follows:

	2009	*2008*
Cost	2,022	1,995
Accumulated depreciation and impairment	(446)	(300)
Net carrying amount	**1,576**	**1,695**

Notes to the 2009 Consolidated Financial Statements (Continued)

(Thousands of Azerbaijani manats unless otherwise indicated)

10. Intangible assets

The movements in intangible assets were as follows:

	Licenses	*Computer software*	*Total*
Cost			
31 December 2008	**143**	**331**	**474**
Additions	8	21	29
31 December 2009	**151**	**352**	**503**
Accumulated amortization			
31 December 2008	**(38)**	**(75)**	**(113)**
Amortization charge	(16)	(33)	(49)
31 December 2009	**(54)**	**(108)**	**(162)**
Net book value:			
31 December 2008	**105**	**256**	**361**
31 December 2009	**97**	**244**	**341**

	Licenses	*Computer software*	*Total*
Cost			
31 December 2007	**78**	**110**	**188**
Additions	65	221	286
31 December 2008	**143**	**331**	**474**
Accumulated amortization			
31 December 2007	**(28)**	**(54)**	**(82)**
Amortization charge	(10)	(21)	(31)
31 December 2008	**(38)**	**(75)**	**(113)**
Net book value:			
31 December 2007	**50**	**56**	**106**
31 December 2008	**105**	**256**	**361**

11. Other assets and liabilities

Other assets comprise:

	2009	*2008*
Items in the course of settlement	180	164
Deferred expenses	74	94
Prepayments for purchase of property and equipment	20	22
Other	121	33
Other assets	**395**	**313**

Other liabilities comprise:

	2009	*2008*
Dividends payable to shareholders of the Bank	269	269
Liabilities in the course of settlement	241	298
Accrued expenses	16	1,426
Taxes other than income tax	-	557
Other	6	59
Other liabilities	**532**	**2,609**

Notes to the 2009 Consolidated Financial Statements (Continued)

(Thousands of Azerbaijani manats unless otherwise indicated)

12. Amounts due to banks and other financial institutions

Amounts due to banks and other financial institutions comprise:

	2009	*2008*
Demand deposits	604	4,172
Time deposits	17,144	10,944
Loans from financial institutions	28,922	41,866
Blocked accounts	5,023	-
	51,693	**56,982**

As of 31 December 2009, demand deposits included balances of AZN 456 thousand (2008 – AZN 3,905 thousand) due to two Azerbaijani financial institutions.

As of 31 December 2009, time deposits and loans included balances of AZN 37,242 thousand (2008 – AZN 41,630 thousand) due to ten OECD and non-OECD financial institutions.

Blocked accounts represent amounts placed by a counterparty company as security for loans granted and guaranteed by that company.

Demand and time deposits include accounts with the following types of institutions:

	2009	*2008*
Insurance companies	10,147	8,458
Investment companies	3,309	3,036
Banks	3,058	3,622
Other financial institutions	1,234	-
Demand and time deposits	**17,748**	**15,116**

As of 31 December 2009, time deposits were due to financial institutions with effective annual interest rates of 7.0% - 16.3% (2008 – 7.0% - 16.5%) and mature in 2010 - 2011 (2008: 2009 - 2010).

Loans from financial institutions include accounts with the following types of institutions:

	2009	*2008*
The National Fund for Entrepreneurship Support	7,791	8,008
European Bank for Reconstruction and Development	6,595	9,791
Banks	4,738	10,145
German Azerbaijan Fund	2,943	2,835
Asian Development Bank	2,189	3,721
Investment companies	1,920	-
Azerbaijan Mortgage Fund	1,833	1,972
Other financial institutions	913	5,394
Loans from financial institutions	**28,922**	**41,866**

Nominal interest rates and maturities of these loans are as follows:

	2009		*2008*	
	Annual interest rate	*Maturity*	*Annual interest rate*	*Maturity*
The National Fund for Entrepreneurship Support	1.0%	2010 – 2014	0.5%-1.0%	2009-2013
European Bank for Reconstruction and Development	2.5% - 16.0%	2010 – 2013	6.2%-16.0%	2009-2013
Banks	14.5% - 16.0%	2010	16.0-16.5%	2009
German Azerbaijan Fund	4.4% - 4.8%	2010 - 2015	6.4%	2009-2015
Asian Development Bank	4.8% - 6.9%	2010 - 2012	5.7%-8.3%	2009-2012
Investment companies	17.0% - 18.0%	2011 – 2012	-	-
Azerbaijan Mortgage Fund	2.0%	2014 – 2032	2.0%	2009-2032
Other financial institutions	15.5%	2010	15.5%	2010

Notes to the 2009 Consolidated Financial Statements (Continued)

(Thousands of Azerbaijani manats unless otherwise indicated)

13. Amounts due to customers

The amounts due to customers include the following:	*2009*	*2008*
Current accounts	19,118	17,528
Time deposits	74,242	66,540
Amounts due to customers	**93,360**	**84,068**
Held as security against guarantees	11	9
Held as security against loans	180	59
Held as security against other operations	1,246	204

As of 31 December 2009, time deposits were due to customers with effective annual interest rates of 2.0% - 21.0 % (2008 – 2.0% - 21.0%) and mature in 2010-2024 (2008: mature in 2009-2024).

As of 31 December 2009, amounts due to customers of AZN 23,397 thousand (25%) were due to the ten largest customers of the Bank (2008 – AZN 30,957 thousand (36%)).

Included in time deposits are deposits of individuals in the amount of AZN 72,205 thousand (2008 – AZN 64,212 thousand). In accordance with the Azerbaijan Civil Code, the Bank is obliged to repay such deposits upon demand of a depositor. In the event that a term deposit is repaid upon demand of the depositor prior to maturity, interest on it is paid based on the interest rate for demand deposits, unless a different interest rate is specified in the agreement.

Amounts due to customers include accounts with the following types of customers:

	2009	*2008*
Individuals	77,717	68,492
Private enterprises	14,381	1,248
Employees	1,034	1,013
State and budgetary organizations	140	13,201
Other	88	114
Amounts due to customers	**93,360**	**84,068**

An analysis of customer accounts by economic sector follows:

	2009	*2008*
Individuals	78,751	69,505
Trade and service	6,241	6,833
Energy	5,783	5,909
Constructions	1,291	876
Agriculture	699	10
Transport and communication	379	118
Manufacturing	205	208
Other	11	609
Amounts due to customers	**93,360**	**84,068**

14. Debt securities issued

AZN denominated bonds issued by the Bank with an annual coupon rate of 13.5% - 14.0% have an outstanding balance of AZN 2,021 thousand as of 31 December 2008. They matured and were settled in 2009.

Notes to the 2009 Consolidated Financial Statements (Continued)

(Thousands of Azerbaijani manats unless otherwise indicated)

15. Taxation

The corporate income tax expense comprises:

	2009	*2008*
Current tax charge	(75)	(2,265)
Deferred tax credit – reversal of temporary differences	-	12
Income tax expense	**(75)**	**(2,253)**

Deferred tax related to items charged or credited to other comprehensive income during the year is as follows:

	2009	**2008**
Revaluation of buildings	328	-
Income tax charged to other comprehensive income	**328**	**-**

Azerbaijani legal entities must file individual tax declarations. The tax rate for banks and other companies on profits was 22% for 2009 and 2008.

In accordance with the Law of the Republic of Azerbaijan on enhancement of the activities of banks, insurance and reinsurance companies (N710-IIIQ and dated 28 October 2008), financial institutions are exempt from payment of Profit Tax with effect from 1 January 2009 for a period of three consecutive years, if the current year's profit is capitalized. As a result, based on the shareholders' meeting held on 24 February 2009, the Bank decided to avail itself of the tax exemption in accordance with the law for the years 2009 – 2011.

On 19 June 2009, an amendment to the Tax Code was enacted to reduce the corporate income tax rate from 22% to 20% effective from 1 January 2010. The tax rate for banks on profits was 22% for 2009 and 2008. There is no deferred tax effect of the change in tax rates as of 31 December 2009 in view of the availabiltyof the tax exemption.

The effective income tax rate differs from the statutory income tax rates. A reconciliation of the income tax expense based on statutory rates with actual is as follows:

	2009	*2008*
Profit before tax	**6,164**	**9,746**
Statutory tax rate	22%	22%
Theoretical income tax expense at the statutory rate	**(1,356)**	**(2,144)**
Tax-exempt income	1,356	-
Non-deductible expenses	(75)	(109)
Income tax expense	**(75)**	**(2,253)**

Current income tax liability as of 31 December 2009 amounted to AZN 30 (2008 – AZN 1,629).

Deferred tax assets and liabilities as of 31 December and their movements for the respective years comprise:

		Origination and reversal of temporary differences			*Origination and reversal of temporary differences*		
	2007	*In the income statement*	*In other comprehen-sive income / equity*	*2008*	*In the income statement*	*In other comprehen-sive income / equity*	*2009*
Tax effect of deductible temporary differences:							
Allowance for loan impairment	95	79	-	174	(175)	-	-
Property and equipment	81	(77)	-	4	(4)	-	-
Deferred tax assets	**176**	**2**	**-**	**178**	**(178)**	**-**	**-**
Tax effect of taxable temporary differences:							
Property and equipment	(1,999)	55	-	(1,944)	11	500	(1,433)
Provision for credit lines and guarantees	(111)	(36)	-	(147)	147	-	-
Loans from credit institutions	-	(20)	-	(20)	20	-	-
Deferred tax liabilities	**(2,121)**	**10**	**-**	**(2,111)**	**178**	**500**	**(1,433)**
Net deferred tax liabilities	**(1,945)**	**12**	**-**	**(1,933)**	**-**	**500**	**(1,433)**

Notes to the 2009 Consolidated Financial Statements (Continued)

(Thousands of Azerbaijani manats unless otherwise indicated)

16. Subordinated debt

	2009	*2008*
NAB Dış Ticaret		
(US dollars 1,000,000 semi-annual payment, with annual interest rate of six month LIBOR plus 17.5%, issued on 19 March 2008, maturing on 19 March 2018)	843	841
JSC Bank of Georgia (US dollars 2,500,000 semi-annual payment, with annual interest rate of six month LIBOR plus 10.0%, issued on 18 November 2007, maturing on 18 November 2017)	2,028	2,027
Subordinated debt	**2,871**	**2,868**

In the event of bankruptcy or liquidation of the Bank, repayment of these loans is subordinate to the repayment of the Bank's liabilities to all other creditors.

17. Equity

The number of authorized ordinary shares is 3,400,000 with a nominal value per share of AZN 2 thousand. One share equals one vote. All authorized shares have been issued and fully paid.

The share capital of the Bank was contributed by the shareholders in Azerbaijani manat and they are entitled to dividends and any capital distribution in Azerbaijani manat.

Revaluation reserve for property and equipment

The revaluation reserve for property and equipment is used to record increases in the fair value of buildings and decreases to the extent that such decrease relates to an increase on the same asset previously recognized in equity.

18. Commitments and contingencies

Operating environment

Azerbaijan continues economic reforms and development of its legal, tax and regulatory frameworks. The future stability of the Azerbaijan economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

The Azerbaijani economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. The global financial crisis has resulted in a decline in the gross domestic product, deterioration of liquidity in the banking sector, and tighter credit conditions within Azerbaijan. While the Government of Azerbaijan has introduced a range of stabilization measures aimed at providing liquidity to Azerbaijan banks and companies, there continues to be uncertainty regarding the access to capital and cost of capital for the Bank's counterparties and borrowers in particular, which could affect the Bank's financial position, results of operations and business prospects. In addition, changes in economic conditions have resulted in deterioration in the value of collateral held against loans and other obligations. To the extent that information is available, the Bank has reflected revised estimates of expected future cash flows in its impairment assessment.

While management believes it is taking appropriate measures to support the sustainability of the Bank's business in the current circumstances, unexpected further deterioration in the areas described above could negatively affect the Bank's results and financial position in a manner not currently determinable.

Legal

In the ordinary course of business, the Bank is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations of the Bank.

Notes to the 2009 Consolidated Financial Statements (Continued)

(Thousands of Azerbaijani manats unless otherwise indicated)

18. Commitments and contingencies (continued)

Taxation

Azerbaijani tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Bank may be challenged by the relevant regional and federal authorities. Recent events within the Republic of Azerbaijan suggest that the tax authorities are taking a more assertive position in its interpretation of the legislation and assessments and, as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. As such, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years proceeding the year of review. The last tax audit of the Bank was completed in January 2010 and covered the period up to 30 September 2009.

As at 31 December 2009, management believes that its interpretation of the relevant legislation is appropriate and that the Bank's tax, currency and customs positions will be sustained.

Commitments and contingencies

As of 31 December, the Bank's commitments and contingencies comprised the following:

	2009	*2008*
Credit-related commitments		
Undrawn loan commitments	5,098	7,202
Guarantees	2,601	3,512
Other contingent liabilities	231	248
Commitments and contingencies	**7,930**	**10,962**

Insurance

The Bank has not currently obtained insurance coverage related to liabilities arising from errors or omissions. Liability insurance is generally not available in Azerbaijan at present.

19. Net fee and commission income

Net fee and commission income comprises:

	2009	*2008*
Cash operations	1,244	1,313
Plastic card operations	638	544
Currency conversion operations	214	360
Settlements operations	209	528
Guarantees	4	7
Other	9	72
Fee and commission income	**2,318**	**2,824**
Settlements operations	(364)	(393)
Plastic card operations	(358)	(438)
Cash operations	(128)	(330)
Guarantees	(66)	(18)
Securities operations	(60)	(78)
Currency conversion operations	(5)	(2)
Other	(131)	(26)
Fee and commission expense	**(1,112)**	**(1,285)**
Net fee and commission income	**1,206**	**1,539**

20. Other income

	2009	*2008*
Fines and penalties received in relation to loans to customers	1,537	692
Dividend income	20	20
Other	146	8
Total other income	**1,703**	**720**

Notes to the 2009 Consolidated Financial Statements (Continued)

(Thousands of Azerbaijani manats unless otherwise indicated)

21. Personnel and other operating expenses

Personnel and other operating expenses comprise:	***2009***	***2008***
Salaries and bonuses	(7,289)	(6,844)
Social security costs	(1,581)	(1,518)
Other employment expenses	(112)	(87)
Personnel expenses	**(8,982)**	**(8,449)**
Depreciation charge (note 9)	(1,369)	(1,297)
Amortization charge (note 10)	(49)	(31)
Depreciation and amortization	**(1,418)**	**(1,328)**
Occupancy and rent	(797)	(759)
Marketing and advertising	(440)	(516)
Deposit insurance fee	(271)	(317)
Legal and consultancy	(242)	(180)
Security	(224)	(195)
Office supplies	(147)	(148)
Communications	(143)	(125)
Utilities	(82)	(69)
Operating taxes	(78)	(73)
Repair and maintenance of property and equipment	(77)	(93)
Printing	(37)	(58)
Business travel and related	(33)	(37)
Insurance	(32)	(10)
Vehicle running costs	(30)	(30)
Membership	(29)	(21)
Loss on disposal of property and equipment	(14)	(28)
Other	(89)	(100)
Other operating expenses	**(2,765)**	**(2,759)**

22. Risk management

Introduction

Various risks are inherent in the Bank's activities and managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's sustainability and profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The Bank is exposed to credit risk, liquidity risk, market risk and operating risks.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Bank's strategic planning process.

Risk management structure

Supervisory Board

The Supervisory Board is responsible for the overall risk management approach and for approving risk strategies and principles.

Audit Committee

The Audit Committee has the responsibility of reviewing the internal auditing reports and critically evaluate the findings, recommendations, and management's response. It accomplishes its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

Notes to the 2009 Consolidated Financial Statements (Continued)

(Thousands of Azerbaijani manats unless otherwise indicated)

22. Risk management (continued)

Introduction (continued)

Risk Committee

The Risk Committee has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits. It is responsible for the fundamental risk issues and manages and monitors relevant risk decisions.

Management Board

The Management Board has the responsibility to monitor the overall risk process within the Bank.

The Assets and Liabilities Management Committee ("ALMC")

The ALMC is responsible for the development and implementation of strategy and tools related to all aspects of financial management of the Bank.

The Risk Management Department

The Risk Management Department is responsible for implementing and maintaining risk related procedures to ensure an independent control process.

Treasury Department

The Treasury Department is primarily responsible for the funding and liquidity risks of the Bank.

Assets and Liabilities Management Department

The Assets and Liabilities Management Department is responsible for managing the Bank's assets and liabilities and the overall financial structure.

Internal Audit

Risk management processes throughout the Bank are audited annually by the internal audit function that examines both the adequacy of the procedures and the Bank's compliance with the procedures. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Audit Committee.

Risk measurement and reporting systems

The Bank's credit risks are measured using a roll-rate method which reflects both the expected loss likely to arise in normal circumstances, which are an estimate of the ultimate actual loss based on statistical models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. The Bank also utilizes the vintage-par methodology that measures the past-due amounts in relation to the specific period of loan issuance. Additionally, on a quarterly basis, the Bank conducts and submits to the CBA extensive stress tests and models the quality of the portfolio as well as major regulatory covenants in various scenarios.

Monitoring and controlling risks is primarily performed based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept, with additional emphasis on selected products. Information compiled from all the businesses is examined and processed in order to analyze, control and identify early risks. This information is presented to the Risk Committee, that develops the risk management methodology and limits which are in turn are approved by the Supervisory Board. The execution of the limits is controlled by the Management Board of the Bank.

On a daily basis, the Risk Management Department analyses reports that contain detailed information related to the portfolio credit quality. Senior management assesses the appropriateness of the allowance for credit losses on a monthly basis. The Supervisory Board receives a comprehensive risk report once a quarter which is designed to provide all the necessary information to assess and conclude on the risks of the Bank.

For all levels throughout the Bank, specifically tailored risk reports are prepared and distributed in order to ensure that all business divisions have access to extensive, necessary and up-to-date information.

The Bank actively uses collateral to reduce its credit risks (see below for more detail).

Notes to the 2009 Consolidated Financial Statements (Continued)

(Thousands of Azerbaijani manats unless otherwise indicated)

22. Risk management (continued)

Excessive risk concentration (continued)

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risks, the Bank's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

Credit risk

Credit risk is the risk that the Bank will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations. The Bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

The Bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. The credit quality review process allows the Bank to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

Credit-related commitments risks

The Bank makes available to its customers guarantees which may require that the Bank make payments on their behalf. Such payments are collected from customers based on the terms of the letter of credit. They expose the Bank to similar risks to loans and these are mitigated by the same control processes and policies.

The table below shows the maximum exposure to credit risk for the components of the consolidated statement of financial position, including derivatives. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements.

	Notes	*Maximum exposure 2009*	*Maximum exposure 2008*
Cash and cash equivalents (excluding cash on hand)	5	14,770	9,221
Amounts due from credit institutions	6	7,774	5,158
Loans to customers	7	129,030	132,624
Investment securities available-for-sale	8	14,369	15,756
Other assets	11	185	179
		166,128	**162,938**
Financial commitments and contingencies	18	7,930	10,962
Total credit risk exposure		**174,058**	**173,900**

Where financial instruments are recorded at fair value, the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

For more detail on the maximum exposure to credit risk for each class of financial instrument, reference should be made to the specific notes. The effect of collateral and other risk mitigation techniques is shown in Note 7.

Notes to the 2009 Consolidated Financial Statements (Continued)

(Thousands of Azerbaijani manats unless otherwise indicated)

22. Risk management (continued)

Credit risk (continued)

Credit quality per class of financial assets

The credit quality of financial assets is managed by the Bank's internal credit ratings. The table below shows the credit quality by class of asset for loan-related lines in the statement of financial position, based on the Bank's credit rating system.

		Neither past due nor impaired					
	Notes	*High grade 2009*	*Standard grade 2009*	*Sub-standard grade 2009*	*Past due but not impaired 2009*	*Individually impaired 2009*	*Total 2009*
Amounts due from credit institutions	6	5,657	2,117	-	-	-	7,774
Loans to customers	7						
Auto loans		3,499	41,388	-	5,427	-	50,314
Business loans		1,898	23,999	-	6,441	3,344	35,682
Consumer loans		602	25,019	-	2,986	-	28,607
Microloans		2	13,076	-	1,266	-	14,344
Cards		1,007	4,999	-	906	-	6,912
		7,008	**108,481**	**-**	**17,026**	**3,344**	**135,859**
Investment securities available-for-sale	8	14,020	349	-	-	-	14,369
Total		**26,685**	**110,947**	**-**	**17,026**	**3,344**	**158,002**

		Neither past due nor impaired					
	Notes	*High grade 2008*	*Standard grade 2008*	*Sub-standard grade 2008*	*Past due but not impaired 2008*	*Individually impaired 2008*	*Total 2008*
Amounts due from credit institutions	6	80	5,078	-	-	-	5,158
Loans to customers	7						
Auto loans		-	45,590	-	4,977	-	50,567
Business loans		2,853	27,948	-	885	6,668	38,354
Consumer loans		-	24,917	-	2,370	-	27,287
Microloans		333	11,845	-	893	-	13,071
Cards		427	4,707	-	3,068	-	8,202
		3,613	**115,007**	**-**	**12,193**	**6,668**	**137,481**
Investment securities available-for-sale	8	15,597	159	-	-	-	15,756
Total		**19,290**	**120,244**	**-**	**12,193**	**6,668**	**158,395**

It is the Bank's policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates focused management of the applicable risks and the comparison of credit exposures across all lines of business and products. The rating system is supported by a variety of financial analytics, combined with processed market information to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Bank's rating policy. The attributable risk ratings are assessed and updated regularly.

Aging analysis of past due but not impaired loans per class of financial assets

	Less than 30 days 2009	*31 to 60 days 2009*	*61 to 90 days 2009*	*More than 90 days 2009*	*Total 2009*
Loans to customers					
Auto loans	2,986	713	404	1,324	5,427
Business loans	3,558	248	171	2,464	6,441
Consumer loans	736	148	180	1,922	2,986
Microloans	263	93	80	830	1,266
Cards	446	65	30	365	906
Total	**7,989**	**1,267**	**865**	**6,905**	**17,026**

Notes to the 2009 Consolidated Financial Statements (Continued)

(Thousands of Azerbaijani manats unless otherwise indicated)

22. Risk management (continued)

Credit risk (continued)

Credit quality per class of financial assets(continued)

	Less than 30 days 2008	*31 to 60 days 2008*	*61 to 90 days 2008*	*More than 90 days 2008*	*Total 2008*
Loans to customers					
Auto loans	3,195	598	385	800	4,978
Business loans	-	-	266	619	885
Consumer loans	997	282	142	949	2,370
Microloans	374	153	87	279	893
Cards	1,420	471	208	968	3,067
Total	**5,986**	**1,504**	**1,088**	**3,615**	**12,193**

See Note 7 for more detailed information with respect to the allowance for impairment of loans to customers.

Carrying amount per class of financial assets whose terms have been renegotiated

The table below shows the carrying amount for renegotiated financial assets, by class:

	2009	*2008*
Loans to customers		
Auto loans	185	-
Business loans	1,478	-
Consumer loans	174	136
Microloans	16	-
Cards	11	-
Total	**1,864**	**136**

Impairment assessment

The main considerations for the loan impairment assessment are based on the information provided by the roll-rate model, which measures the movement of the past due amounts balances in various time brackets. The Bank addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances.

Individually assessed allowances

The Bank determines the allowances appropriate for each individually significant loan on an individual basis. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected dividend payout should bankruptcy ensue, the availability of other financial support and the realizable value of collateral, and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

Collectively assessed allowances

Allowances are assessed collectively for losses on loans to customers that are not individually significant (including credit cards, residential mortgages and unsecured consumer lending) and for individually significant loans where there is not yet objective evidence of individual impairment. Allowances are evaluated on each reporting date with each portfolio receiving a separate review.

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is no yet objective evidence of the impairment in an individual assessment. Impairment losses are estimated by taking into consideration the roll-rate model assessment. The impairment allowance is then reviewed by credit management to ensure alignment with the Bank's overall policy.

Financial guarantees and letters of credit are assessed and provision made in a similar manner as for loans.

Notes to the 2009 Consolidated Financial Statements (Continued)

(Thousands of Azerbaijani manats unless otherwise indicated)

22. Risk management (continued)

Credit risk (continued)

The geographical concentration of Bank's monetary assets and liabilities is set out below:

	2009				*2008*			
	Azerbaijan	*OECD*	*CIS and other foreign institutions*	*Total*	*Azerbaijan*	*OECD*	*CIS and other foreign institutions*	*Total*
Assets:								
Cash and cash equivalents	9,798	11,668	114	21,580	6,323	7,453	116	13,892
Amounts due from credit institutions	2,117	5,657	-	7,774	5,078	80	-	5,158
Loans to customers	129,030	-	-	129,030	132,624	-	-	132,624
Investment securities available-for-sale	14,369	-	-	14,369	15,756	-	-	15,756
Other assets	185	-	-	185	179	-	-	179
	155,499	**17,325**	**114**	**172,938**	**159,960**	**7,533**	**116**	**167,609**
Liabilities:								
Amounts due to banks and other financial institutions	31,814	9,547	10,332	51,693	28,047	1,958	26,977	56,982
Amounts due to customers	93,360	-	-	93,360	84,068	-	-	84,068
Debt securities issued	-	-	-	-	2,021	-	-	2,021
Other liabilities	549	10	-	559	2,609	-	-	2,609
Subordinated debt	-	-	2,871	2,871	-	-	2,868	2,868
	125,723	**9,557**	**13,203**	**148,483**	**116,745**	**1,958**	**29,845**	**148,548**
Net assets / (liabilities)	**29,776**	**7,768**	**(13,089)**	**24,455**	**43,215**	**5,575**	**(29,729)**	**19,061**

Liquidity risk and funding management

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has developed a sophisticated system for comprehensive assessment of expected cash flows. The methodology of the liquidity management tools and reports is approved by the Supervisory Board of the bank, prepared by the Assets and Liabilities Management department and reviewed on the monthly basis by ALMC.

The Bank maintains a portfolio of highly liquid and secure marketable assets that are primarily composed of the Central Bank notes that can be easily liquidated in the event of an unforeseen interruption of cash flow. Additionally, the Bank utilizes a highly effective cash management system across all its branches, ATMs and balances of the correspondent accounts.

The liquidity position is assessed and managed by the Bank primarily on a standalone basis, based on minimum liquidity ratio of 30% established by the CBA. As at 31 December, these ratios were as follows:

	2009, %	*2008, %*
Instant Liquidity Ratio	211	153

Analysis of financial liabilities by remaining contractual maturities

The tables below summarize the maturity profile of the Bank's financial liabilities at 31 December based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

Financial liabilities As at 31 December 2009	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
Amounts due to banks and other financial institutions	15,642	16,854	19,931	2,366	54,793
Amounts due to customers	41,202	38,762	23,977	215	104,156
Other liabilities	526	6	-	-	532
Subordinated debt	20	193	841	3,432	4,486
Total undiscounted financial liabilities	**57,390**	**55,815**	**44,749**	**6,013**	**163,967**

Notes to the 2009 Consolidated Financial Statements (Continued)

(Thousands of Azerbaijani manats unless otherwise indicated)

22. Risk management (continued)

Liquidity risk and funding management (continued)

Analysis of financial liabilities by remaining contractual maturities (continued)

Financial liabilities As at 31 December 2008	***Less than 3 months***	***3 to 12 months***	***1 to 5 years***	***Over 5 years***	***Total***
Amounts due to banks and other financial institutions	15,736	18,233	26,944	2,823	63,736
Amounts due to customers	32,669	32,437	28,854	1,500	95,460
Debt securities issued	2,021	-	-	-	2,021
Other liabilities	2,587	16	6	-	2,609
Subordinated debt	24	243	1,062	4,360	5,689
Total undiscounted financial liabilities	**53,037**	**50,929**	**56,866**	**8,683**	**169,515**

The table below shows the contractual expiry by maturity of the Bank's financial commitments and contingencies. Each undrawn loan commitment is included in the time band containing the earliest date it can be drawn down. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

	Less than 3 months	***3 to 12 months***	***1 to 5 years***	***Over 5 years***	***Total***
2009	824	2,005	4,581	520	7,930
2008	377	605	9,831	149	10,962

The Bank expects that not all of the contingent liabilities or commitments will be drawn before expiry of the commitments.

The Bank does not receive any significant funds from any one organization or private individual. The maturity analysis does not exhibit any significant negative gaps in any given period.

Included in due to customers are term deposits of individuals. In accordance with the Azerbaijan legislation, the Bank is obliged to repay such deposits upon demand of a depositor. Refer to Note 13.

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates and foreign exchanges. The Bank does not have any significant equity, corporate fixed income or derivatives holdings.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The risk is managed by the Bank by matching floating rate borrowings and assets. Additionally the ALMC on quarterly basis reviews the overall interest rate spreads by detailed analysis of the assets and liabilities interest rate structure. The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Bank's income statement.

The sensitivity of the income statement is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held at 31 December.

	2009			***2008***		
Currency	***Increase in % rate***	***Sensitivity of net interest income***	***Sensitivity of equity***	***Increase in % rate***	***Sensitivity of net interest income***	***Sensitivity of equity***
USD	1.0%	(100)	-	0.6%	(73)	-
EUR	1.0%	(29)	-	0.6%	(16)	-

	2009			***2008***		
Currency	***Decrease in % rate***	***Sensitivity of net interest income***	***Sensitivity of equity***	***Decrease in % rate***	***Sensitivity of net interest income***	***Sensitivity of equity***
USD	(0.3%)	25	-	(0.6%)	73	-
EUR	(0.3%)	7	-	(0.6%)	16	-

Notes to the 2009 Consolidated Financial Statements (Continued)

(Thousands of Azerbaijani manats unless otherwise indicated)

22. Risk management (continued)

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Supervisory Board of the Bank has set limits on positions by currency based on the CBA regulations. The Treasury Department monitors the currency position of the Bank on a daily basis.

The tables below indicate the currencies to which the Bank had significant exposure at 31 December on its non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the AZN, with all other variables held constant on the income statement). The effect on equity does not differ from the effect on the income statement. A negative amount in the table reflects a potential net reduction in income statement or equity, while a positive amount reflects a net potential increase.

Currency	***Increase in currency rate in % 2009***	***Effect on profit before tax 2009***	***Increase in currency rate in % 2008***	***Effect on profit before tax 2008***
USD	15.6%	(934)	4.4%	(269)
EUR	12.4%	(36)	18.1%	(599)

Currency	***Decrease in currency rate in % 2009***	***Effect on profit before tax 2009***	***Decrease in currency rate in % 2008***	***Effect on profit before tax 2008***
USD	(15.6%)	934	(4.4%)	269
EUR	(12.4%)	36	(18.1%)	599

Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Bank cannot expect to eliminate all operational risks, but a control framework and monitoring and responding to potential risks could be effective tools to manage the risks. Controls should include effective segregation of duties, access, authorization and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

23. Fair values of financial instruments

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2: techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

At 31 December 2009	***Level 1***	***Level 2***	***Level 3***	***Total***
Financial assets				
Investment securities – available-for-sale	14,220	149	-	14,369

Financial instruments recorded at fair value

The following is a description of the determination of fair value for financial instruments which are recorded at fair value using valuation techniques. These incorporate the Bank's estimate of assumptions that a market participant would make when valuing the instruments.

Investment securities available-for-sale

Investment securities available-for-sale valued using a valuation technique primarily consists of unquoted equity securities.

Notes to the 2009 Consolidated Financial Statements (Continued)

(Thousands of Azerbaijani manats unless otherwise indicated)

23. Fair values of financial instruments (continued)

Fair value of financial assets and liabilities not carried at fair value

Set out below is a comparison by class of the carrying amounts and fair values of the Bank's financial instruments that are not carried at fair value in the consolidated statement of financial position. The table does not include the fair values of non-financial assets and non-financial liabilities.

	Carrying value 2009	*Fair value 2009*	*Unrecognized gain/(loss) 2009*	*Carrying value 2008*	*Fair value 2008*	*Unrecognized gain/(loss) 2008*
Financial assets						
Cash and cash equivalents	21,580	21,580	-	13,892	13,892	-
Amounts due from credit institutions	7,774	7,774	-	5,158	5,158	-
Loans to customers	129,030	129,030	-	132,624	132,624	-
Financial liabilities						
Amounts due to banks and other financial institutions	51,693	51,693	-	56,982	56,982	-
Amounts due to customers	93,360	93,360	-	84,068	84,068	-
Debt securities issued	-	-	-	2,021	2,021	-
Subordinated debt	2,871	2,871	-	2,868	2,868	-
Total unrecognized change in unrealized fair value			**-**			**-**

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the financial statements.

Assets for which fair value approximates carrying value

For financial assets and financial liabilities that are liquid or having a short term maturity (less than three months) it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits and savings accounts without a specific maturity.

Fixed and variable rate loans

The fair values of loans are estimated by discounting future cash flows using rates currently available for loans on similar terms, credit risk and remaining maturities.

24. Maturity analysis of assets and liabilities

The table below shows an analysis of assets and liabilities according to when they are expected to be recovered or settled. See Note 22 "Risk management" for the Bank's contractual undiscounted repayment obligations.

	2009			*2008*		
	Within one year	*More than one year*	*Total*	*Within one year*	*More than one year*	*Total*
Cash and cash equivalents	21,580	-	21,580	13,892	-	13,892
Amounts due from credit institutions	7,774	-	7,774	5,158	-	5,158
Loans to customers	80,157	48,873	129,030	75,847	56,777	132,624
Investment securities available-for-sale	14,369	-	14,369	15,756	-	15,756
Property and equipment	-	9,290	9,290	-	11,918	11,918
Intangible assets	-	341	341	-	361	361
Other assets	395	-	395	313	-	313
Total	**124,275**	**58,504**	**182,779**	**110,966**	**69,056**	**180,022**
Amounts due to banks and other financial institutions	36,288	15,405	51,693	31,488	25,494	56,982
Amounts due to customers	74,046	19,314	93,360	61,136	22,932	84,068
Debt securities issued	-	-	-	2,021	-	2,021
Current income tax liability	30	-	30	1,629	-	1,629
Deferred income tax liabilities	-	1,433	1,433	-	1,933	1,933
Other liabilities	263	269	532	2,334	275	2,609
Subordinated debt	60	2,811	2,871	64	2,804	2,868
Total	**110,687**	**39,232**	**149,919**	**98,672**	**53,438**	**152,110**
Net	**13,588**	**19,272**	**32,860**	**12,294**	**15,618**	**27,912**

Notes to the 2009 Consolidated Financial Statements (Continued)

(Thousands of Azerbaijani manats unless otherwise indicated)

25. Related party disclosures

In accordance with IAS 24 “Related Party Disclosures”, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

The volumes of related party transactions, outstanding balances at the year end, and related expense and income for the year are as follows:

	Shareholders	*Entities under common control*	*Key management personnel*	*Total*	*Shareholders*	*Entities under common control*	*Key management personnel*	*Total*
Loans outstanding at 1 January, gross	-	2,882	88	2,970	-	3,056	70	3,126
Loans issued during the year	-	9,550	586	10,136	-	4,473	165	4,638
Loan repayments during the year	-	(8,839)	(480)	(9,319)	-	(4,677)	(148)	(4,825)
Other movements	-	(22)	(4)	(26)	-	30	1	31
Loans outstanding at 31 December, gross	-	3,571	190	3,761	-	2,882	88	2,970
Less: allowance for impairment at 31 December	-	(151)	(16)	(167)	-	(58)	(3)	(61)
Loans outstanding at 31 December, net	-	3,420	174	3,594	-	2,824	85	2,909
Interest income on loans	-	543	27	570	-	429	10	439
Impairment charge for loans	-	(93)	-	(93)	-	-	(3)	(3)
Deposits at 1 January	21	-	2,740	2,761	16	-	156	172
Deposits received during the year	481	-	2,551	3,032	2	-	6,438	6,440
Deposits repaid during the year	(158)	-	(3,297)	(3,455)	-	-	(4,066)	(4,066)
Other movements	23	-	235	258	3	-	212	215
Deposits at 31 December	367	-	2,229	2,596	21	-	2,740	2,761
Current accounts at 31 December	90	1,079	118	1,287	85	1,242	211	1,538
Interest expense on deposits	(16)	-	(133)	(149)	-	-	(187)	(187)
Borrowings at 1 January	841	2,998	-	3,839	-	633	-	633
Borrowings received during the year	-	1,720	-	1,720	889	5,995	-	6,884
Borrowings repaid during the year	(158)	(3,960)	-	(4,118)	(172)	(3,790)	-	(3,962)
Other movements	160	1,307	-	1,467	124	160	-	284
Borrowings at 31 December	843	2,065	-	2,908	841	2,998	-	3,839
Interest expense on borrowings	(158)	(924)	-	(1,082)	(84)	(103)	-	(187)
Guarantees issued	-	143	-	143	-	1,818	-	1,818

Compensation of key management personnel was comprised of the following:

	2009	***2008***
Salaries and other short-term benefits	2,684	2,417
Social security costs	590	529
Total key management personnel compensation	**3,274**	**2,946**

Notes to the 2009 Consolidated Financial Statements (Continued)

(Thousands of Azerbaijani manats unless otherwise indicated)

25. Related party disclosures (continued)

Subsidiary

The consolidated financial statements include the following subsidiary:

2009

Subsidiary	***Ownership, %***	***Country***	***Date of incorporation***	***Industry***
"Bob Broker" Ltd	100	Azerbaijan	28 February 2007	Securities brokerage

26. Capital adequacy

The Bank maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using, among other measures, the capital adequacy ratio established by the CBA in supervising the Bank.

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit ratings and healthy capital ratios in order to support its business and to maximize shareholders' value.

CBA capital adequacy ratio

The CBA requires banks to maintain a minimum capital adequacy ratio of 12% of risk-weighted assets. As of 31 December 2009 and 2008, the Bank's capital adequacy ratio was as follows:

	2009	***2008***
Tier 1 capital	21,379	13,026
Tier 2 capital	11,977	13,026
Less: deductions from capital	(492)	(518)
Total regulatory capital	**32,864**	**25,534**
Risk-weighted assets	**144,105**	**156,354**
Capital adequacy ratio	22.8%	16.3%

27. Event after the reporting period

On 10 March 2010, the General Meeting of Shareholders declared dividends of AZN 6,000 thousand to be paid from the earnings of 2008. The related amount per share is AZN 1.8 thousand.